

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

MARCH 16, 2009 3:00 p.m.

TRUSTEES: Robert (Vic) Lessard, Chairman
Norman Silberdick
Warren J. Mackensen, Bookkeeper
David Hamilton, Clerk
Edward (Sandy) Buck

ADVISOR: John O'Dowd, TD Wealth Management
David L. Murphy, TD Wealth Management

PUBLIC: Richard E. Nichols, Selectman

The meeting was called to order at 3:00 p.m. by Chairman Lessard, followed by the Pledge of Allegiance.

Chairman Lessard, Mr. Hamilton and Mr. Mackensen welcomed newly-elected Trustees Sandy Buck and Norman Silberdick to the Board.

Real Estate Trust Fund

Chairman Lessard opened the floor to Mr. O'Dowd and Mr. Murphy, representatives of TD Wealth Management.

Mr. O'Dowd apprised the Trustees of the difficult market conditions that persist. His complete Market & Economic Review is attached to these minutes. He pointed out that the supply of new and existing homes is stabilizing. Wages are under pressure in this economy, but that there is no hyperinflation. Consumer spending is starting to turn in a positive direction, which bodes well for the U.S. economy. There is a world-wide coordinated effort to stem the economic issues, especially credit issues, by the major banks.

Forecasted Gross Domestic Product (GDP) is now -3.1% for 2009, and 1.4% for 2010. There may be another quarter of contraction due to the massive decline in

consumer spending in the 4th quarter of 2008, but GDP looks more favorable at the end of 2009 and a recovery is likely in early 2010.

Mr. Silberdick asked how stocks are picked for the Real Estate Trust Fund portfolio. Mr. O'Dowd responded that TD Wealth Management has analysts whose job it is to select securities for the firm's clients.

Chairman Lessard questioned the circumstances around the sale of the Royal Bank of Scotland sale where the portfolio had to recognize a capital loss in excess of \$200,000. Mr. O'Dowd indicated that the drop in price of this security was very quick and very steep. When the outlook for the stock turned negative, the bank's investment procedures and the internal controls required an immediate sell.

Mr. Hamilton inquired about the projected income from the Real Estate Trust Fund for 2009. Mr. O'Dowd pointed out that the forward-looking projected income for the next 12 months is \$640,229, before fees, per the report dated March 13, 2009. This is a portfolio yield of approximately 5.0%.

The trailing twelve-month total return of the portfolio is -15.04%. The Income/Growth Index benchmark was -16.77% for the trailing twelve months.

Mr. Silberdick asked Mr. O'Dowd about the continuing presence of financial stocks in the portfolio. Mr. O'Dowd explained that dividend-paying equities were introduced into the portfolio in August 2007 to provide income and offset inflation over the long term.

Mr. O'Dowd will facilitate getting Mr. Silberdick and Mr. Buck online access to the portfolio.

Monthly Portfolio Statement on Trustees Web Site

At the Selectmen's Meeting on February 9, 2009, Selectman Nichols requested that the Trustees of the Trust Funds post the monthly portfolio statement for the Hampton Real Estate Trust Fund on the Trustees' web site (www.hamptontrustfunds.org).

The Trustees asked the TD Wealth Management representatives for their opinion regarding posting the portfolio statement on the Trustees web site. Mr. Murphy did not recommend posting the statement on the world wide web because of security concerns, in particular, unscrupulous individuals throughout the world who could modify the document electronically to appear as their own, and then use the modified document to obtain credit cards and loans fraudulently.

The Trustees went on to discuss this matter at length. There was no dispute that the monthly portfolio statement of the Real Estate Trust Fund is a public document

under RSA 91-A:4, and that the public has the right to review the monthly portfolio statement upon request.

However, RSA 91-A:4 does not require that any documents be made available to the public on a web site (also known as the "Internet"). Further, RSA 91-A does not require any public body to have a web site.

Mr. Mackensen pointed out that the monthly portfolio statement has sensitive investment information that should not be publicly disseminated on the Internet, viz., custodian name, portfolio account number, portfolio size, current investment positions, current investment income, and current investment strategy. Although certain of this information may be redacted, the overarching reason to avoid putting the monthly portfolio statement on the Internet is that placing sensitive financial information on the Internet is extremely risky with little public benefit.

Mr. Mackensen emphasized that posting sensitive financial information on the Internet is foolhardy from a security standpoint. There are hackers throughout the world who would like to see sensitive information about a financial account posted on the web so that they can attempt to hack the account.

Mr. Mackensen stated that future citizen requests for the monthly portfolio statement should be made to the Bookkeeper or the Board of Trustees. The request will be honored promptly in accordance with RSA 91-A:4. The Bookkeeper's home email address and work email address are listed on the Trustees web site on the "Contact Us" page. The monthly portfolio statement will be forwarded as an attachment to an email when so requested. It is expected that citizens will treat the monthly portfolio statement information as confidential, and that they will shred or permanently delete the information when they have completed their review of the monthly portfolio statement.

Mr. Mackensen read the U. S. Securities and Exchange Commission requirements regarding the destruction of sensitive client information, in particular, Regulation S-P, as follows:

The safeguards rule, Section 30(a) of Regulation S-P, currently requires institutions to adopt written policies and procedures to safeguard customer records and information. The safeguards are required to be reasonably designed to meet the objectives of the Gramm-Leach-Bliley Act ("GLBA"). The disposal rule, Section 30(b) of Regulation S-P, requires institutions to protect against the improper disposal of consumer report information.

Mr. Mackensen recommended that the monthly portfolio statements be handled in accordance with the intent of SEC Regulation S-P.

Mr. Silberdick suggested adding a small table to the Real Estate Trust Fund page on the Trustees web site showing the quarter-end market value and the income for the quarter. Mr. Mackensen responded that this was feasible, practical and a good idea.

Mr. Silberdick asked the TD Wealth Management representatives how they secure their transactions. Mr. O'Dowd briefly described the bank's multiple layers of firewalls, logins, and passwords. Further, there are extensive compliance policies and procedures that employees are required to follow. Overall, there are numerous layers of protection to safeguard the portfolio.

Chairman Lessard asked Selectman Nichols to comment about these security measures. Mr. Nichols replied that posting the high-level summary information on the web quarterly was fine and that an annual appearance by the Trustees at a Selectman's Meeting was often enough.

MOVED by Mr. Mackensen to:

- Not post the monthly portfolio statement of the Hampton Real Estate Trust Fund on the Trustees' web site for security reasons.
- Add a table to the Real Estate Trust Fund page of the Trustees web site showing the quarter-end market value and the income for the quarter. The information will be derived from TD Wealth Management statements.
- Promptly provide any citizen of the Town of Hampton with a PDF copy of the portfolio statement by email upon confirmation of the citizen's Hampton identity.

SECOND by Mr. Buck.

VOTE: 5-0-0

Motion Passed

The TD Wealth Management representatives left the meeting at 4:02 p.m.

The Trustees further discussed the Real Estate Trust Fund after the representatives left. Everyone agreed with the importance of the Trustees' role in evaluating the ongoing performance of the appointed investment advisor.

Real Estate Trust Fund Income

Mr. Hamilton asked that the Trustees project the income for 2009 and provide Town Finance Director Michael Schwotzer with a figure for the first quarter of 2009. Based on 2008 income figures and the portfolio statement dated March 13, 2009, the projected income to be distributed to the Town for the first quarter, after fees, will be \$125,000.

Election of Officers

MOVED by Mr. Mackensen to have Mr. Lessard serve as Chairperson for the coming year.

SECOND by Mr. Hamilton.

VOTE: 4-0-1

Motion Passed

MOVED by Mr. Buck have Mr. Hamilton serve as Clerk and Vice Chairman for the coming year.

SECOND by Mr. Silberdick.

VOTE: 4-0-1

Motion Passed

MOVED by Mr. Silberdick to have Mr. Mackensen serve as Bookkeeper for the coming year.

SECOND by Mr. Hamilton.

VOTE: 4-0-1

Motion Passed

Results of the voting on the Town Warrant

The Trustees discussed the outcome of the March 10, 2009, Town Meeting.

- Article 16: Transfer \$38,650 from sales of cemetery lots to Cemetery Burial Trust Fund. Article PASSED: Yes 2,377; No 277.
- Article 20: Town Roads Capital Reserve Fund, withdraw \$300,000 for repairs/improvements to specific Town roads. Article PASSED: Yes 2,230; 406 No.
- Article 25: Department of Public Works Equipment Capital Reserve Fund, \$340,000. Article Failed: 953 Yes; 1,692 No.

There were no articles on the Hampton School District Warrant that affected the Trustees.

The Trustees reviewed the outcome of the voting on the Winnacunnet Cooperative School District Warrant.

- Article 4 proposed adding an additional \$50,000 to the expendable trust fund for the Winnacunnet Cooperative School District Special Education Fund Trust Fund. The Article FAILED: 1,169 Yes; 1,364 No.
- Article 5 proposed creating an expendable trust fund to be known as the School Building Maintenance Fund for the purpose of repairing and maintaining Winnacunnet High School. The Article FAILED: 1,224 Yes; 1,328 No.

Trustees Meeting with Selectmen, February 9, 2009

Four of the Trustees of the Trust Funds appeared before the Selectmen at the Selectmen's Meeting on February 9, 2009. They were: Chairman Lessard, Ted Atwood, David Hamilton and Frances Quinn.

Mr. Atwood provided an analysis of the Hampton Real Estate Trust Fund on a cash basis for 2008. The analysis was read by Mr. Atwood and accepted by the Selectmen.

Smaller Trust Funds and Capital Reserve Funds

The Bookkeeper explained to the two recently-elected Trustees the difference between a trust fund and a capital reserve fund. The latter must remain liquid at all times and cannot shoulder any risk. He went on to explain that the smaller trust funds and capital reserve funds are invested in the Vanguard Prime Money Market Fund.

The Trustees reviewed the February 2009 Vanguard Prime Money Market web-based statement showing detail for the first two months of 2009. Spreadsheets were provided by the Bookkeeper showing how the January and February dividends were allocated among the 12 smaller trust funds and capital reserve funds.

The Bookkeeper also provided portfolio management statements for January and February 2009 showing how the dividend allocations were posted. The resulting portfolio statements reported the month-end balance in each trust fund and capital reserve fund.

Minutes of the last meeting

The minutes from the meeting of February 9, 2009, were reviewed.

MOVED by Mr. Mackensen to approve the minutes.

SECOND by Mr. Hamilton.

VOTE: 3-0-2

Motion Passed

MS-9 and MS-10 Reports

The Bookkeeper reported that he filed the MS-9 and MS-10 reports with the Charitable Trusts Unit in Concord, along with approved copies of the three Investment Policies (Real Estate Trust Fund, Non-RETF trusts and capital reserve funds, and the Library trusts).

2008 Town Report

The 2008 Town Report was erroneously printed with the 2007 Trustees spreadsheet rather than the 2008 spreadsheet. See Page 67.

MOVED by Mr. Mackensen to approve a letter to be sent to the Board of Selectmen requesting that the electronic copy of the Town Report on the Town web site be corrected to reflect the 2008 spreadsheet.

SECOND by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Chairman Lessard signed the letter on behalf of the Trustees, which he will deliver to the Town Manager.

Trust Funds 2008 Audit

The Bookkeeper provided the audit papers for 2008 to the Trustees for review prior to submitting them to Town Finance Director Michael Schwotzer for transmittal to Plodzik & Sanderson.

Cemetery Burial Trust Fund

The Trustees tabled discussion about investing the Cemetery Burial Trust Fund differently until the next meeting.

Letters of Thanks

The Trustees endorsed sending letters of thanks to former Trustees Frances Quinn and Ted Atwood for their past service on the Board of Trustees. Chairman Lessard will sign the letters on behalf of the Trustees.

Library Trust Funds

The Trustees were apprised that the Library Trustees met on February 19, 2009. The following is an excerpt from the Library Trustees' meeting minutes.

VI. New Business

A. The annual report from the Trustees of the Trust Funds was reviewed. Following a discussion on the different investment options, Kris Sawyer moved we accept the proposed investment policy. Debra Perry seconded the motion. Once that was approved, Linda Sadlock moved we transfer the money from the Public Deposit Investment Pool (PDIP) to the Fidelity Balanced Fund. Her motion was seconded by Debra Perry and approved by all. Bridgit Valgenti will send a letter to the Trustees of the Trust Funds regarding our decisions.

The Trustees of the Trust Funds will await the receipt of the letter before taking action.

Next Meeting

The next meeting of the Trustees is scheduled for Monday, April 20, 2009, at 2:00 p.m.

MOVED by Mr. Silberdick to adjourn.

SECOND by Hamilton.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at 4:57 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper



Wealth Management

Market & Economic Review

Fourth Quarter:

The U.S. economy contracted by an extraordinary 6.2% in the fourth quarter of 2008. A significant revision from the -3.8% reported earlier. Since the close of 2008 there has been significant broadening of economic weakness across the global stage.

Throughout many other countries, many economic data points are at record lows. Europe business confidence in the services and manufacturing sectors is at historic bottoms; Chinese imports and Korean exports have fallen by record amounts, just a sample of the dramatic and broadly based collapse in global economic conditions.

The massive drop in U.S. consumer demand at the end of 2008 has been sharper than anticipated. This has been a key catalyst for causing the year-over-year decline in global trade to double and distribute the economic shock around the world.

Deflationary pressures continue with global governments and central banks providing swift monetary responses to address the issue.

The U.S. economy continues to shed jobs, bring the total loss to over 3.6 million since the recessions began at the close of 2007.

2009 Outlook:

A deeper and more extended recessions is likely both in the U.S. and globally. The U.S. economy is forecast to contract 3.1%, in 2009 revised down from the earlier estimate of -1.6%.

We expect a budding U.S. recovery to materialize at the very end of 2009, however the recovery will be shallower than originally expected for 2010. We now expect real U.S. GDP growth of only 1.4% in 2010.

We look for the following criteria to provide recovery for the economy:

The U.S. real estate market must stabilize. Credit conditions must continue to improve. Related systematic risk in the global financial system must diminish. Restructuring of the auto sector must continue to make progress and the U.S. fiscal stimulus package must be in the realm of current expectations.

Town of Hampton Real Estate Trust Portfolio Review:

The Real Estate Trust Fund remains invested in accordance with the Real Estate Trust Fund Investment Policy. The portfolio's asset allocation is approximately 31% in equities and 69% in fixed income and cash. The estimated portfolio yield is 5.01%.

The portfolio's total return for the 12 month period ending February 28, 2009 was -15.04% versus the performance benchmarks which returned -16.77% for the same period.