

Report of the Trustees of Trust Funds

In 2023, the Trustees of Trust Funds met four times in person.

Three Bearings Fiduciary Advisors, Inc., an investment advisor in Hampton, managed the trust funds and capital reserve funds. Five accounts were custodied with Fidelity Investments in Boston.

Real Estate Trust Fund

The largest trust fund in Hampton is the Real Estate Trust Fund, whose primary purpose is to generate income to reduce the local tax rate. The Fund's investment policy 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 both income and an opportunity for the principal of the Real Estate Trust Fund to grow to offset the eroding effects of inflation.

The Trustees distributed income from the Real Estate Trust Fund to the Town each month to reduce the tax rate. The total income distributed (after investment management fees) was \$955,336, an increase of 6.9% from the 2022 income distribution of \$893,710. The Fund's current income yield, net of investment management fees, was approximately 4.4% as of year-end.

The Real Estate Trust Fund remains invested in a broadly diversified portfolio of low-cost mutual funds, exchange-traded funds, and individual bonds. The book value, i.e., the cost basis, of the Real Estate Trust Fund's principal and income, increased from \$20,944,899 to \$20,958,652 during the year after accounting for net realized capital gains of \$3,326. There were no deposits to the Fund from sales of leased land at Hampton Beach during 2023. The Fund's market value increased to \$22,070,314 from \$21,206,744 in 2022, representing an increase of 4.1%.

The time-weighted total return (income and capital appreciation, including income accrued at year-end) net after fees was a gain of 8.9% for 2023. Over the past three years, the Fund's total return has averaged 2.8% annually, and it has distributed about \$2.6 million in income to the Town to offset the property tax rate. Over the past five years, the fund has achieved an average annual return, net of fees, of 5.4% and distributed about \$8.4 million in income to the Town's general fund.

At year's end, the Real Estate Trust Fund allocation to equities was approximately 38%, which was within the allowable range of 25% to 45% specified by the Investment Policy. The allocation to fixed income was 61%, which was within the permissible range of 35% to 70%. The fund's cash allocation was approximately 1%.

Cemetery Maintenance Trust Fund

The Cemetery Maintenance Trust Fund's target asset allocation was 50% equities and 50% fixed income, which aligns with the long-term time horizon for cemetery real estate.

The Cemetery Maintenance Trust Fund received \$10,407 of income in early 2023, representing income earned in 2022. The 2023 income of \$13,667 will be distributed to the Town in early 2024. The Town added \$55,200 to this Fund from cemetery lot sales in 2023. The Town withdrew \$24,265 for cemetery maintenance and grave buybacks. The principal and income balance in the Cemetery Maintenance Trust Fund at the end of 2023 was \$702,545.

Common Trust Fund

The Trustees manage several smaller trust funds: 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, and the Poor Trust Funds (three trust funds).

The smaller trust funds are invested in a common trust fund account at Fidelity Investments. Sub-accounting for each of the trust funds was maintained by the investment advisor and reported to the Trustees at each meeting. The common trust fund's market value at year-end was \$48,230, and the total return, net after management fees, was 7.7%. The Fund generated \$1,825 of distributable income (net of fees) during the year, representing an income yield of 3.8%.

Per the Campbell Sports Scholarship Trust Fund document's provisions, half of the income from the Fund (\$144) was added to the Fund's principal. The other half was distributed to the Recreation and Parks Department. The principal and income balance in the Campbell Sports Scholarship Trust Fund at the end of 2023 was \$7,486.

The four library trusts earned an income of \$478 on a year-end principal and income balance of \$11,407.

Common Capital Reserve Fund

The Trustees manage several capital reserve funds and expendable trust funds. These funds are invested in a common capital reserve fund account at Fidelity Investments. The investment advisor maintained sub-accounting for each capital reserve fund and expendable trust and reported to the Trustees at each meeting.

The common capital reserve funds and expendable trust funds are conservatively invested in US government securities, US government-backed agency bonds, investment-grade bonds, and up to 20% in high-quality equities.

The market value of the common capital reserve fund at year-end was \$4,381,345. The fund's total return for 2023, net after fees, was a gain of 7.9%.

The Hampton School District did not add funds to the Special Education Expendable Trust Fund in 2023. There were no withdrawals from the Special Education Trust Fund during the year. The principal and income balance in the Hampton Special Education Fund at the end of the year was \$177,380.

There were no deposits into, or disbursements from, the Management Information Systems Expendable Trust Fund. This fund's principal and income balance at year-end was \$35,252.

The Town Roads Capital Reserve Fund received a deposit of \$500,000. There were withdrawals of \$146,544 from the Town Roads Capital Reserve Fund for civil engineering and road improvements during the year. The ending principal & income balance was \$2,939,221.

There were no deposits or withdrawals from the Town's Compensated Leave Trust Fund. This Fund's principal and income balance at the end of 2023 was \$799,040.

The Town added \$27,500 to the Firefighter's Turn Out Gear Expendable Trust Fund per the Town Meeting vote. Disbursements of \$3,103 were made. The Fund ended the year with a principal and income balance of \$173,765.

No disbursements were made from the Hampton Cemetery Association Trust during the year. The Trust ended the year with a principal and income balance of \$25,216.

The Town added \$50,000 to the Pedestrian & Traffic Safety Capital Reserve Fund at the March town meeting. During 2023, withdrawals of \$20,754 were made for safety improvements. The Fund ended the year with a principal and income balance of \$55,508.

Winnacunnet School District Common Capital Reserve Funds (CRFs)

The Winnacunnet School District Common Capital Reserve Fund account ended the year with a market value of \$957,174. The Fund's total return for 2023, net after fees, was a gain of 7.9%.

The ending principal and income balance for the Special Education Expendable Trust Fund was \$421,895.

The ending principal and income balance for the Winnacunnet High School Building Maintenance Expendable Trust Fund was \$207,877. There were no disbursements.

A disbursement of \$71 was made to the school district general fund, which closed out the Technology Expendable Trust Fund per the school district vote.

No additions were made to the Health Care Expendable Trust Fund. There were no disbursements. The ending principal and income balance for the Health Care Expendable Trust Fund was \$298,050.

Trustees of Trust Funds Website

The Trustees of the Trust Funds website keeps the citizens of Hampton informed about the trust funds and the capital reserve funds. The website address is 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 are listed on the website for easy reference.

Respectfully submitted for the Trustees of Trust Funds,

Warren J. Mackensen
Chairman