

# Town of Hampton



## TRUSTEES OF THE TRUST FUNDS

September 15, 2015 4:15 p.m.

Selectmen's Conference Room

TRUSTEES: Norman Silberdick, Chairman  
William A. Hartley, Vice Chairman  
Stephen A. Falzone, Secretary/Clerk  
John Sovich  
John Troiano

ADMIN ASSISTANT: Ms. Joan Rice

ADVISORS: David Mayes, Mackensen & Company, Inc.  
Steven Stokes, Mackensen & Company, Inc.

AUDIENCE: Warren Mackensen  
Richard Nichols

The meeting was called to order at 4:15 p.m. by Chairman Silberdick.

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### **Discussion on the Response to Questions from the Board of Selectmen**

Chairman Silberdick said this special meeting had been called to review the response to questions from the Board of Selectmen prepared by David Mayes. Discussion was as follows:

1. For the last five years please show the income and the CPI on the Performance summary for each of the periods.

Mr. Mayes said that is covered in Attachment #1 which is the Performance Report through August 31, 2015. Mr. Mayes said the fund has generated returns well in excess of the CPI + 4% goal on a long-term basis. Since 11/28/10 the fund has distributed \$3,157,548 in net income to the Town of Hampton which has been used to offset the property tax rate and has seen an investment gain of \$1,667,601 despite the recent market declines.

2. Provide comment on why we would not want to move funds toward a less risk tolerance than where current funds are at.

The Real Estate Trust Fund has a long-term investment time horizon. This is a conservative diversified portfolio. There is no reason to change. The strategy is still appropriate.

Mr. Troiano said diversity gives less risk which is the Board's goal.

3. If investment strategy objective is to exceed CPI by 3% can you show on performance summary for each period reported that this objective is met.

Mr. Mayes said this is reflected in the Performance Report and the response to question 1.

4. Are equities currently at 45.76% of portfolio? Did we experience a loss as a result of not being within the investment parameters?

Mr. Mayes said the fund has never been at 45% equities. It is closer to the 40% equity target.

5. Who is responsible for rebalance? Was this done at the end of the quarter? If not did the market decline to take care of the asset allocation? If not rebalanced what safeguards are in place to make sure it does not happen?

Mr. Mayes said the fund's investment advisor, Mackensen & Company, reviews the portfolio's alignment with the asset allocation targets and is responsible for rebalancing the portfolio. There was no rebalance at the end of the quarter because the portfolio was not out of alignment with its strategy.

6. Is the copy of the Investment Policy filed with the State annually as required?

Mr. Mayes said the Investment Policy is filed with the Charitable Trust Unit of the Attorney General's office annually. In 2015, the Policy was provided to the AG's office at the same time the annual MS-9 and MS-10 were filed.

7. How much is in each sector weighting for the equities? Policy says that no more than twice the S&P sector weighting is allowed.

Because the fund is designed to generate income for the town, Mr. Mayes said he felt a revision should be made regarding this in the Investment Policy to allow heavier weightings to dividend-oriented sectors. Mr. Sovich said adjustments can be made as the market dictates.

The Trustees agreed to modify the Investment Policy under "Overall Constraints".

**MOVED** by Mr. Hartley to modify the Investment Policy for the Hampton Real Estate Trust Fund under "Overall Constraints" by removing the second sentence in the third

paragraph which reads “Further, equity investments in any one sector group will not exceed more than twice the sector weighting based upon the S&P 500 sector categories.”

**SECONDED** by Mr. Falzone.

**VOTE: 5-0-0**

**Motion Passed**

Chairman Silberdick said it should be noted in the Response to the BOS that this modification has been made.

8. Are mutual funds being placed on probation if it has underperformed its respective index for three years? After review if deemed to not be an appropriate investment is the fund eliminated?

Mr. Mayes said they do evaluate all client holdings on a monthly basis. Chairman Silberdick asked if anything is on a watch list. Mr. Mayes said no.

9. Provide an analysis of the respective mutual funds. Provide prospectus of each mutual fund.

Mr. Mayes said a prospectus for each mutual fund and exchange-traded funds will be provided to the BOS.

10. There is no restriction on Corporate or Municipal bond ratings...there are several bonds that do not have ratings provided by the various rating agencies. Is that a problem? Are they actively managing the fixed income or just letting the bonds mature?

Mr. Mayes said the Investment Policy clearly states on page 10 that individual fixed income securities must have an investment grade rating. All of the individual bond holdings met this criterion at purchase and continue to meet it. The NATC statement does not have ratings information for some of the holdings. This does not mean they are not rated. Individual bonds can be sold if it is the best thing for the portfolio.

11. Mutual funds will be compared to a benchmark highlighted on page 12 of the Investment Policy. They have only allocated 5% to the Vanguard International Stock Index Fund. Does that make sense as close to 50% of the worldwide market capitalization resides outside the US?

Mr. Mayes said they have been using this benchmark for years. It is a conservative measuring stick.

12. Objectives were signed off on 4/24/14. Did the investment advisors challenge that thinking? If not, why not?

Mr. Mayes said the Investment Policy was reviewed and reaffirmed in January 2015, at which time the investment objectives were reaffirmed. The investment advisor

had no reason to challenge that thinking because the objectives are appropriate for the fund.

13. What safeguards were in place before crash in 2008 and what safeguards are in place now?

Mr. Mayes said the only really effective safeguard is having a diversified portfolio. Mr. Hartley said downturns are an opportunity. You can re-allocate and be ahead of the game. The market always comes back.

14. How often do Trustees go out with RFP for services provided by the current advisor?

Mr. Mayes said the Trustees pursue an RFP for services when they deem such an effort to be appropriate. Mr. Sovich said this is only done when you are not satisfied with present services.

15. Please provide the 4 reports that were provided after your last meeting for the month ending 8/31/15 with the appropriate redactions of the account number/information.

Mr. Mayes said these reports were provided to the BOS on September 1<sup>st</sup>.

Chairman Silberdick said he was satisfied with the responses to the BOS questions. All Trustees agreed. Chairman Silberdick said he would authorize Mr. Mayes to release these responses to the BOS. All Trustees agreed.

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### **Meeting Date with Board of Selectmen**

Chairman Silberdick said he would send out some possible dates for a meeting with the BOS. Mr. Sovich suggested the Trustees invite the BOS to meet with them at the Trustees' October 19<sup>th</sup> meeting. Chairman Silberdick said he would issue the invitation and offered to see if Channel 22 would broadcast the meeting if the BOS agree.

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### **Letter to Editor – Hampton Union**

Chairman Silberdick said Mr. Sovich had helped with a draft of a Letter to the Editor of the Hampton Union regarding the issues raised by the BOS. He will forward this draft to the Trustees for review and approval.

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### **Letter from Town**

Chairman Silberdick said the Trustees have received a letter from the Town with a list of ideas they would like to discuss regarding the Trust Funds. He said Mr.

Mayes has prepared a rebuttal explaining that the Trustees are responsible for the Trust Funds, not the Board of Selectmen.

Mr. Sovich said he did not feel a response to this letter was necessary. Chairman Silberdick said he would be happy to talk to them, but they do not run the Trust funds.

Mr. Mayes cited the Quincy case in Massachusetts. This shows clear case law backing up the Trustees' fiduciary duty to invest with inflation in mind.

Chairman Silberdick asked if anyone from the audience wished to speak.

Mr. Nichols said he thinks the Trustees and Mackensen & Company have done a very good job. He said he has confidence in their collective wisdom.

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### **Next Meeting**

The next meeting of the Trustees is scheduled for Monday, October 19, 2015, at 4:15 p.m. in the Selectmen's Meeting Room.

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### **Adjournment**

**MOVED** by Mr. Hartley to adjourn the meeting at 5:10 p.m.

**SECONDED** by Mr. Falzone.

**VOTE: 5-0-0**

**Motion Passed**

Respectfully submitted,

Joan Rice  
Secretary