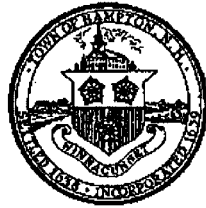


# **Investment Policy**

## **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

**Client:** Town of Hampton, New Hampshire

### Account Information:

Investment Account: Hampton Real Estate Trust Fund (the "Fund")

Authorized Decision Maker: Trustees of the Trust Funds, Hampton, NH

### Assets to be Considered Under this Investment Policy:

Equities, fixed income, and cash equivalents

## **INVESTMENT OBJECTIVES**

The first objective of this Investment Policy is to maintain the principal of the Fund intact.

The second objective is to provide income to the Town of Hampton to offset the tax rate.

The third objective is to produce an annual income amount greater than the prior year amount.

The fourth objective is to grow the portfolio of the Fund annually by 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.

The Trustees may delegate investment management responsibility to one or more investment managers (collectively, the "Investment Manager") or serve as the Investment Manager themselves.

The Investment Manager shall maintain sole investment authority of the portfolio, subject to quarterly review by the Trustees. Operating within the parameters set forth, the Investment Manager shall have the discretion to allocate and rebalance funds to equities, fixed income investments or cash reserves based on the provisions of the Investment Policy stated herein.

The Trustees may hire investment consultants or investment advisors (collectively, the "Investment Advisor") to consult to the Trustees on investment management matters.

## **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. Thus, higher returns involve some volatility and declines in the value of this Fund could range between 0% and 10% in a given year. Acceptable losses could occur as often as two out of ten times to achieve higher returns.

## 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 Manager 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, every year the Trustees and the Investment Manager and/or 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 an annual review of the Investment Policy and the investment accounts in January of each year, or more frequently. 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 quarterly, or more often, to the Town as distributions are received from the individual security holdings.

# **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)

## **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 30.

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. 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.

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**

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 Manager or 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.

Mutual fund portfolio performance shall be measured against a conservative benchmark comprising:

- 30% Vanguard S&P 500 Index Fund
- 5% iShares Russell 2000 Index Fund
- 5% Vanguard International Stock Index Fund
- 60% Vanguard Total Bond Market Index Fund

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. All transactions shall be approved by the Investment Manager prior to being executed.

## **DUTIES AND RESPONSIBILITIES: INVESTMENT MANAGER**

The Investment Manager is expected to manage the Fund in a manner consistent with this Investment Policy and in accordance with State and Federal law and the Uniform Prudent Investor Act.

The Investment Manager shall be responsible for:

1. Designing, recommending and implementing 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. Ensuring that the custodians provide a current prospectus, where applicable, for each investment proposed for the Fund.
5. Monitoring the performance of all assets.
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. 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.

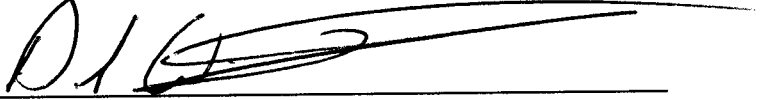
## **INVESTMENT ADVISOR EVALUATION**

Every year the Trustees shall conduct a review of the Investment Advisor. The Trustees may solicit proposals from alternative investment advisors to compare investment strategies, historical performance and fees. The criteria for this review will be set by the Trustees.

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

## ADOPTION

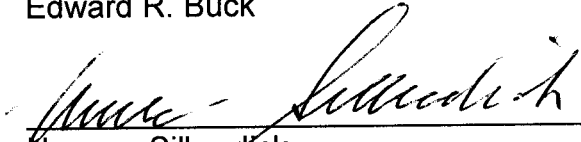
Adopted by the below signed:



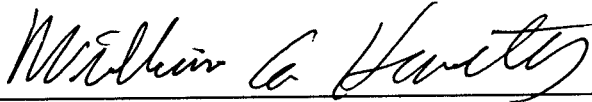
David W. Hamilton



Edward R. Buck



Norman Silberdick



William A. Hartley



Warren J. Mackensen

Adopted November 22, 2010