Town of Swanzey, New Hampshire
TRUSTEES OF TRUST FUNDS
Meeting Minutes – April 24, 2014

Note: Draft Minutes are subject to review, correction and approval by the Trustees. Review and approval of Minutes generally takes place at the next regularly scheduled meeting of the Trustees.

CALL TO ORDER: As appropriate to Trustee of Trust Funds policy, the 3rd year Trustee, Ed Morenz, assumed the Chair.

The meeting was called to order by Chairman Ed Morenz at 9:05 a.m. Present were Chair Morenz, Steven Bittel, Richard Scaramelli and Recording Secretary Beverly Bernard.

OTHERS PRESENT: Warren Mackenson from Mackensen & Company, Bookkeeper Theresa Lounder and North Swanzey Water & Fire Precinct Superintendent Sylvester Karasinski.

MINUTES:

- Minutes of January 29, 2014 were considered. Bittel **moved** to accept the Minutes, seconded by Scaramelli, and all were in favor. ***Motion passed.***
- Minutes of February 27, 2014 by Bittel moved to accept the Minutes and second by Scaramelli and all were in favor. ***Motion passed.***

REPORT OF BOOKKEEPER - Bittel

a. Transactions and Balances, Q1 Review – Bittel said there were no market security transactions. All the statements were correct. This is the first quarter using Lori Belletete keeping the journals for Capital Reserves/Expendable Trusts and Non-Restricted Funds.
b. Capital Reserve and Expendable Trusts were discussed. Bittel reviewed the cash journal said there were a few disbursements and receipts.
c. School District had no transactions except interest earned.
d. Non-Restricted Funds were discussed – there were transactions here that the Trustees reviewed. Eighteen checks were deposited into the Sciuto Scholarship fund, representing $4,080. Equity Income Fund did fairly well, invested $88,000 and now worth $91,000. Equity fund is classified as a Large Cap Fund. No trades. Two capital gain distributions.
e. Cemetery Trust Fund – was discussed. No transactions occurred. MS-10 was considered. There were no trades, and some income. Total investment invest gain is nearly $30,000 and majority of it is Chubb ($16,305.60).
f. Common Fund – Investments – Fairly good returns. Bittel referred to the Vanguard statements as well as the MS-9 and -10's to review investments. Currently have 65/35 split of bonds to stocks. Rest was in dividends. Receipts

included shares of Royal Dutch common stock. Everything balanced out. Most income was dedicated Carpenter Home Timber Harvest receipts. Timber Harvest receipts go directly into Lucy Carpenter Trust.

Motion by Scaramelli to approve and adopt the Bookkeeper's Report with a copy of the Bookkeeper's report to be maintained with the minutes, second by Morenz, and all were in favor. ***Motion passed.***

NEW BUSINESS

Warren Mackenson Financial Advisor from Mackenson & Company
Mackenson was introduced by Scaramelli. Mackenson provided a brief biographical summary to the Trustees. He has served as a Trustee for the Town of Hampton, NH and his company works with 24 municipalities.

He provided an assessment of the Town's Trust Fund activity based on the Trustee of Trust Fund Minutes and portfolio. A brief discussion was held regarding income and principal funds.

Mackenson passed out a proposal booklet to the Trustees. Discussion occurred regarding unrealized Capital Gain. Mackenson said that a Town portfolio could have up to 15% equities in Capital Reserves under Prudent Investor Rule and Prudent Man Rule. Discussion regarding policy to managing the money as suggested at conferences.

Title III (Chapter 387) – discussion on what is allowed and what is relevant for Towns (Trust Funds): 15% preferred common stock. Question regarding Assistant Director at Office of Attorney General New Hampshire Terry Knowles response. Section 387:6-a. was referred to definition of corporate securities specifying the three highest rating rating catagories (AAA/AA/A). Prudent Investor Rule was referred to (Section 31:25-d).

Mackenson reviewed a summary of the proposal with the Trustees, covering the contents of the document. He noted that they uses proprietary software. Low transaction fees applied by the custodian which is National Advisor's Trust Company. He reviewed the arrangement his firm would have with the Town if his firm was retained. All holdings are mutual funds. He referred to their investment policy for Capital Reserve Funds. Scaramelli asked about turnover on the funds. Mackenson said there is very limited turnover but not married to the funds.

Mackenson said his firm handles the required MS-10 and -9 Reports by referring to an attached December 31st (end of year) statement which appears to be sufficient for the State of NH purposes.

Mackenson provided and reviewed with the Trustees Morningstar portfolio snapshots as to fund performance. Questioned by Morenz, he mentioned bonds have a duration of 3.47 year.

Town of Swanzey fee would be approximately $17,000 the first year, plus $20,000 in the future for a total of $37,000 annual fee.

Mackenson said the target is 25% equities and 3% income each year. Morenz asked if the Town could choose from funds and amend asset allocations. Mackenson said that higher risk portfolios are not attractive to most Towns. Morenz noted that market risk versus interest rate risk is considered by many Trustees. Morenz spoke about the focus of the Trustees based on the current market conditions.

Scaramelli asked why Mackenson was interested in the Town of Swanzey and Mackenson said that the numbers are bigger than $1,000,000 and the Town's fund management is complicated. He said it could be a lot simpler for the Town and the Trustees. Discussion ensued regarding nearby Towns use of Mackenson for managing their funds. Mackenson said the Vanguard Funds are good ones but the law says that the Trustees are not allowed to manage the funds themselves.

Scaramelli thanked Mackenson for his presentation.

OLD BUSINESS

Review of Investments

Discussion of news from Apple – there will be a Buy Back and a split 7 for 1, among other announcements including a record sales quarter for the company. Apple is up 7.93% ($41.51) intraday.

Royal Dutch Shell – continues to provide a dividend for the portfolio. The Town has over 100 shares taken in lieu of cash from dividends. Scaramelli said his caveat is that Royal Dutch maintains a substantial investment in Russia, which is subject to political strains.

It was noted that Johnson & Johnson had a little surge, and is now up to $100 per share.

Qualcomm is setting new highs. Scaramelli noted that the Town is down to one utility.

Scaramelli reviewed sector allocations: industrial holdings now at 20%. Financials are down to two funds representing 12% of portfolio. Healthcare is maintaining position of 13.6% of our portfolio. Technology is 11.6% of portfolio while the Technology sector represents 19% of S&P 500.

There is $63,000 in Qualcomm (QCOM) who recently made an announcement that they have succeeded in improving Wi-Fi transmission to three times as fast as previously. Morenz said he wouldn't mind adding to Qualcomm position. Discussion occurred regarding Intel (INTC) being

priced at $26.87 today with a P/E of 14.3. IBM discussion noted their yield is not generous and the stock is down today.

Phillip Morris yield is 4.59%. Verizon, ATT and Phillip Morris and Royal Dutch yield in the neighborhood of 4%. Discussion ensued regarding the possibility of shift of money from income and towards growth. Total bonds percentage of the portfolio currently is 13.3%, but Wellington Fund and DNP hold significant bond positions. Vanguard statement of the Common Fund has allocation of bonds in the Wellington Fund. Cash added to bonds makes it approximately 28% of the portfolio. Morenz suggested not taking any money from bonds or cash for purchase of growth funds.

Bittel suggested selling IBM to buy Qualcomm. Holdings in IBM, $38,500 with 200 shares. Dividend is being shown at 3.8% currently. It is at $180 or so per share. Selling IBM shares would give the Trustees approximately $38,000 to purchase Qualcomm. It was decided that today was a good day for a trade since both IBM and Qualcomm were down.

> Scaramelli **moved** to liquidate 200 shares of IBM (IBM) stock and to purchase, with the proceeds, Qualcomm (QCOM) stock at today's price of approximately $77.00. Motion was second by Bittel and all were in favor. ***Motion passed.***

The transaction was completed in real-time online by Morenz. Bittel will manage the Sweep remaining after the transaction and adjust any excess in the prime money market fund through an exchange with the Short Term Bond Index Fund.

Discussion on Mackenson Proposal

Discussion was held regarding the cost of Mackenson proposal, using Lynn Rust's services and use of Lori Belletete for bookkeeping activity. Discussion occurred regarding holding cash ($255,000 at Vanguard). Morenz asked about how much money the funds managed by Mackenson made last year, and it was noted that they made 10% growth before fees. The Trustees did better than that for the Town's Trust Funds with double digit returns for last year, without paying a fee to someone else.

Bittel said that he suspects the Monadnock District School Board and the Town of Swanzey Board of Selectmen would balk at the fees that Mackenson would charge. Scaramelli agreed. The cpnversation turned to respective returns and asset allocations, especially to bonds. In any event, should the Trustees consider Mackenson it would have to be after all options were considered and then via an RFP.
Scaramelli suggested meeting in a month to respond to Mackenson. All agreed.

OTHER BUSINESS

Review of Estimated Balances in Accounts Held by Trustees of Trust Funds

Town Bookkeeper Theresa Lounder reviewed a list of authorized/expected expenditures for 2014 to make the Trustees aware of what has been authorized and the funds that are available. The report entitled "Estimated Balances in Accounts Held by Trustees of Trust Funds" was created by Lounder using the Minutes from the Board of Selectmen through April 8, 2014 as a source.

It was noted by Lounder that the Whitcomb Hall committee is aware of their balances. Bittel pointed out Town roads and rehab is going to expand in expenditures. Discussion of the dams and the work needed for them which will cost money. Lounder said the bulk of the report shows the appropriations made from the Warrant Articles.

North Swanzey Water & Fire Precinct Matters
Superintendent Sylvester Karasinski joined the meeting at 11:00 p.m. He told the Trustees that their auditor pointed out there is not an investment policy for the Precinct. He was informed by the Trustees that the Trustees of Trust Funds Investment Policy would be operative for the North Swanzey Water & Fire Precinct and it was pointed out that he can find a copy of the Policy on the Town's website under Trustees of Trust Funds.

Municipal Consultant Overview
Scaramelli said that Town Administrator Shane O'Keefe asked Scaramelli to meet with Municipal Resources Inc. Mike Everngam and Kevin Clougherty to review business and financial management practices.
From that meeting came three observations:

1. Check RSAs for compatibility of Tax Collector also serving as Trustee of Trust Funds bookkeeper
2. Confirming FDIC insurance for each of the depository institutions, with the Trustees performing due diligence on any/all depository institutions used by CRB ICS for the Town's money and have CRB notify the Trustees of any changes to the roster of eligible institutions. Bittel said the ICS website covers this concern.
3. Belletete should have Trustee letter of authorization to make deposits at CRB.

Scaramelli also noted the men from Municipal Resources Inc. did affirm the work of the Trustees and the management of the funds. There will be another meeting scheduled with them.

ADJOURNMENT: Bittel **moved** to adjourn, seconded by Scaramelli. Adjournment occurred at 11:41 a.m.

Next meetings scheduled for 9:30 a.m. at Swanzey Town Hall:
Q2 Review, July 10, 2014

Respectfully Submitted,

Beverly Bernard, Recording Secretary