

Town of Swanzey, New Hampshire
TRUSTEES OF TRUST FUNDS
Meeting Minutes – November 13, 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: The meeting was called to order by Chairman Ed Morenz at 9:35 a.m. Present were Chair of the Trustees Ed Morenz, Trustee Steven Bittel, Trustee Richard Scaramelli, and Recording Secretary Beverly Bernard.

OTHERS PRESENT:

OLD BUSINESS

Claw back of Un-awarded Scholarship Funds – Scaramelli said he has been in touch with Guidance Counselor Lorna Watkins-Barth who has administered the scholarship funds managed by the Trustees. He also said he has a printout of scholarship recipients back to 2001. There were a number of years when no recipient was listed. Discussion was held regarding how far back to consider for investigating the whereabouts of the un-awarded funds. Scaramelli suggested going back five years. Bittel asked where are excess funds, and said he is more concerned about the apparent internal accounting control issue at Monadnock Regional High School. Scholarships amount to about \$5,500 per year. There was a brief discussion regarding the criteria for awarding a scholarship. The Trustees agreed that it is the duty of the Trustees to receive a list of awarded scholarships. Bittel repeated that his concern is there appears to be little internal control over the funds in question. The Trustees agreed to meet with Jane Fortson, Business Manager for SAU 93, Monadnock Regional School District to determine what happens to un-awarded funds.

Cemetery Fund Distribution – A discussion on the Cemetery Fund Distribution was deferred until next meeting per request of Bittel.

Carlton Cy-Pres – Scaramelli began the discussion on the status of the *Cy-Pres* issue with a copy of a letter which he sent to Town Counsel Homer S. Bradley, Esq., saying that Bradley responded to the letter stating he agreed to meet with the Trustees to discuss the legal implications. Scaramelli questioned whether the Board of Selectmen should be asked to comment as to where the funds should go. The Trustees prefer to pass the funds to Mt. Caesar Union Library since they were originally intended for library use. Moreover, the books and other records are now held by MCUL, However, Scaramelli noted that Chairman Fred Peters would like to see the funds turned over to the Swanzey Community House, whose now closed library was the beneficiary of the Carlton funds. Scaramelli said he would recuse himself from the eventual decision since he is a Trustee for the MCUL. It was decided that not all the Trustees need attend a meeting with Counsel as Bittel cannot attend. Morenz and Scaramelli

will meet with Attorney Bradley at 10:00 a.m. on Friday November 14, 2014 at Bradley's office. This meeting is considered a professional legal consultation.

Review of Investments

1. **Sell Wellesley Fund** - Bookkeeping adjustment of \$1,111.74 dividend reinvestment vs. cash receipts was made at last meeting.
2. **Bookkeeping adjustment to RDS.A** (Royal Dutch) for fractional share. Sell Income Fund PMMF; Buy Principal Fund ST Bond Index Fund for \$68.86. Scaramelli said he recently read in a Kiplinger publication that B shares are not subject to withholding. Assumption is that the B shares are the non-voting shares. Discussion was held regarding fractional shares. Capital gain was \$3.10. Bittel said he would like to make a trade for \$68.86 to sell prime money market fund (Income Fund PMMF) and buy PF ST (short-term) Bond Index fund for \$68.86 to balance the Principal Fund account.

Motion was made by Bittel to sell \$68.86 of Income Fund's Prime Money Market and buy the Principal Fund's Short-term Bond Index Fund and second by Scaramelli. All were in favor and the ***motion passed.***

3. **Authority of a Trustee Bookkeeper to make accounting trades** – The purpose would be to correct Vanguard and other procedural errors. Discussion occurred regarding the possibility of Bittel's execution of trading fractional shares without a meeting of the Trustees to correct bookkeeping errors up to \$250.00 maximum. A comparison occurred regarding the unknown factor for school system accounting controls versus what the Trustees have in place for accounting of funds. Discussion included dealing with fractional shares and an agreed process to manage those shares. Scaramelli noted that any policy set by the Trustees should apply to whoever might take over the bookkeeping function. It was agreed to defer a decision to the next meeting
4. **Discuss Vanguard Fiduciary Services** – there was a discussion regarding the possible use of this service. Scaramelli said he went to a workshop sponsored by Charter Trust and there was a recommendation to initiate a Request for Proposal (RFP) for these services. Scaramelli learned that the service is competitive. A sample RFP was provided. Bittel proposed a discussion with the Board of Selectmen on this matter. The idea would be to move Capital Reserves and Expendable Trusts (CR/ET) from "Prudent Man" to "Prudent Investor" scenario. Bittel pointed out that the prime example would be the Non-Restricted Funds account where with minor conservative Vanguard investments the Trustees were able to significantly increase yields as well as achieve small unrealized appreciation. However, CR/ET are publically appropriated funds and are subject to different rules that would require engaging an independent registered co-fiduciary. Discussion occurred regarding charges/fees for the fiduciary services based on the value of the managed accounts. Discussion ensued regarding bonds versus stock allocation of funds. It was noted that the Town's investments are quite conservative at the moment. Morenz said he

would be in favor of using Vanguard Fiduciary Services. Scaramelli said the fees seem to be appropriate. Discussion occurred about how the funds would be added up to determine fees pertinent to the Town's CR/ET funds versus the MSRD School District's funds. Discussion occurred regarding funds that will be drawn down during the year. The Trustees agreed to go to the Board with a proposal to place at least a portion of the CR/ET funds into Vanguard Advisory Institutional Services (VAIS) as investment manager allowing the Town to operate using the "Prudent Investor" standard as opposed to the "Prudent Man" standard. Bittel will create a chart showing investment yield to share with the Board. VAIS charges approximately 0.50%.

Discussion was held regarding balances in some of the Non-Restricted Funds and transferring \$50,000 from the Connecticut River Bank (CRB) account to the Vanguard account.

Motion was made by Bittel to move \$50,000 from the Non-Restrictive Trust CRB account to Vanguard, and there was a second by Scaramelli. All were in favor. ***Motion passed.***

Discussion continued regarding the investment allocation to be made and which fund might be appropriate for the highest and safest returns. Trustees agreed that the Equity Income Fund would be an appropriate place for the funds.

Motion was made by Morenz to invest the \$50,000 Non-Restrictive Trust transferred from CRB in the Vanguard Equity Income Fund (VEIRX). There was a second by Scaramelli and all were in favor. ***Motion passed.***

5. **Review Stock and Bond Allocations** – discussion was held reviewing the current allocation of stocks and bonds in order to achieve maximum yield for the Town while maintaining an appropriate balance for reducing risk. After consideration of current allocation, it was agreed to maintain the allocation for the time being.

Motion was made by Morenz to maintain the allocations as appropriate at this time; there was a second by Bittel.

Discussion ensued: Scaramelli said he felt the Town is under-represented in three sectors: Technology, Finance, and Consumer Staples). Scaramelli said there aren't many technology stocks that pay generous dividends, but Microsoft and Cisco are paying over 3%, which would be acceptable. It was noted that Vodafone Group, LLC (VOD) is yielding 6.64%. Scaramelli suggested that he would like future technology acquisitions to include Microsoft and Cisco. Bittel said that the issue with buying additional stocks means that something would have to be sold. As far as finance stocks, Scaramelli said appropriate finance stocks would be VISA and American Express, Mastercard, and Wells Fargo, among others. Phillip Morris and McDonalds would be among those recommended for purchase of consumer staples stocks. Bittel said he

would consider selling TD Bank and shifting that money into Wells Fargo or US Bank stock. Scaramelli said he would like to defer a decision to a later meeting so the Trustees can consider which stocks or bonds might be sold to accommodate purchase of recommended stocks. The Trustees agreed.

The Chair called for the vote. All were in favor. ***Motion passed.***

OPEN DISCUSSION

Alternate Trustee candidates – Scaramelli mentioned a few names for consideration and there was a brief discussion about the availability and interest of these individuals to serve.

New Hampshire State Bonds - Scaramelli said that at the Charter Trust workshop, it was noted that New Hampshire State Municipal bonds, which are tax exempt, are being recommended. Morenz said there are very few New Hampshire bonds available.

Year-end schedule re Investment Review - Ratification of Investment Policy, Internal Controls and MS filings and other items – tentative date is Thursday, December 11, 2014. Trustees will confirm a date after checking calendars.

ADJOURNMENT: Bittel **moved** to adjourn, seconded by Scaramelli. Adjournment occurred at 11:37 a.m.

Next meeting tentatively scheduled for 9:30 a.m. at Swansey Town Hall on December 11, 2014. Jane

Respectfully Submitted,



Beverly Bernard, Recording Secretary