

# **TOWN OF HANOVER TRUSTEES OF TRUST FUNDS**

## **Meeting Minutes**

**Tuesday, January 26, 2010 at 7:30 a.m.**

**In attendance: B. Doyle (Trustee), P. Gardent (Trustee), J. Pierson (Trustee); M. Wrenn (Bank of America); J. Wesson (Bank of American); B. McClain (Town Administration)**

### **Other Business**

Trustee Gardent moved to approve the minutes of the August 25, 2009 Trustees Meeting; Trustee Pierson seconded the motion, and the motion passed unanimously, with Trustee Doyle abstaining.

### **Investment Performance Review**

Mr. Wesson and Mr. Wrenn circulated a fee analysis of the Trustees' current investment holdings (all in Columbia Funds) and compared this to a fee analysis of a proposed enhanced portfolio which would include a mix of Columbia and other funds. It was noted that for the Columbia Funds, the fees are taken within the mutual funds only; for non-Columbia Funds, there is an internal charge taken within the mutual funds plus an explicit fee of 50 basis points. In broadening the fund selection for the portfolio, there may be a slight increase in fees, but using the "best in class" portfolio managers should render enhanced returns that more than offset the fees.

Mr. Wesson indicated that he would like to leave the meeting with a clear sense of how much discretion he has to restructure the portfolio to pursue a range of different funds. He noted that with all the organizational changes at Bank of America, their department (the Philanthropic Group) had dubbed last year the "year of transition," with this year being the "year of execution." His suggested change to the asset allocation strategy is to include emerging market equities and to include separate sections for Real Estate and Commodities. He hopes the Trustees are supportive of a new strategic allocation as outlined in the proposed enhanced portfolio to achieve more diversity. Mr. Wesson noted that he consults a "Papi" analysis developed by one of his colleagues that plots decreases in risk against increases in return to achieve an optimal portfolio mix, considering certain objectives.

Trustee Gardent noted that he did not have a problem with expanding the scope of investments to include Real Estate and Commodities, and he believed the Trustees were already invested in emerging markets. He indicated that the Investment Policy should be amended to reflect these investment classes and to provide guidance to the Town's investment managers. He did have a question on how the current returns on fixed income investments would overcome any increased fees. Mr. Wesson responded that he believes interest rates will be on the way up – although this will remain to be seen. He acknowledged that it has been challenging for bond investors looking to put money down in the fixed income market. Currently, he is focusing on short term bonds to reduce interest rate risk – they are definitely being more defensive in the fixed income space.

Mr. Wesson presented a review of the investment performance of the Trustees' holdings for the period ending December 31, 2009. The December 31, 2009 Performance Summaries for both of the Trustees' accounts have been attached to the minutes for the record. Mr. Wesson suggested transition to a 70/30 asset allocation vs. a 60/40. He also confirmed that if the Trustees pursue any changes in asset allocation strategy, there would be a custom benchmark developed for them as a better indicator of performance. However, Trustee Gardent noted that one of the standard benchmarks will also be of interest to see whether any of the enhancements in the asset allocation have improved performance over more standard allocations.

Trustee Doyle asked Mr. Wesson whether he was still recommending the PIMCO Total Return fund as an attractive fixed income investment option. There was some discussion of the unique nature of the PIMCO bond fund and its recent astronomical growth.

Mr. Wrenn and Mr. Wesson confirmed that Columbia Funds is being sold to Ameriprise; this sale will most likely be settled by the end of this quarter. The rebate of mutual fund fees for Columbia funds will continue to Bank of America customers for five years. There is an encouraging continuity of Columbia Funds senior staff: the CIO, President and Head of Equities all plan to stay on with Ameriprise. Mr. Wrenn and Mr. Wesson are still confident in using Columbia Funds.

There was a discussion on whether a decision had been made about moving funds out of the Columbia Intermediate Bond Fund. After some general discussion on this topic, Mr. Wesson agreed to develop a formal proposal for the construction of a new investment portfolio and an analysis of fixed income options.

### **Discussion of Investment Policy**

Mr. Wrenn highlighted the sample Investment Policies he provided earlier via e-mail. The sample policies show different sector ranges within the overall asset allocation, along with specifying a benchmark for each sector. Such specificity provides the most clarity to the investment manager. Mr. Wesson offered to send a proposed table of what a specific asset allocation for the Trustees' holdings would be. The Trustees were somewhat lukewarm to re-crafting Hanover's Investment Policy to include specific percentages for each type of equity and fixed income asset. However, the Trustees agreed that it would be helpful to add language to their Investment Policy making it clear that the Investment Manager is authorized to invest in emerging markets, real estate and commodities within prudent thresholds.

Mr. Wrenn was asked whether there was any progress in the Office of the NH Attorney General to roll out the Total Return Concept in the management of municipal trust funds. Mr. Wrenn remarked that he recently had lunch with Ms. Knowles from this office who is still making sure that the recent changes to implement the Prudent Investor Rule are implemented fully and seamlessly among all New Hampshire municipalities. From a personal perspective, she fully supports the Total Return Concept but is concerned for the less sophisticated municipalities and wants to give them some time under the Prudent Investor Rule before bridging the gap to the Total Return Concept. Trustee Gardent suggested that there be a "Frequently Asked Questions" document developed that could be shared with municipalities on why the transition over to Total Return makes sense and is something they should be actively seeking. Mr. Wrenn offered to draft such a document.

### **Transaction Authorization**

Trustees approved the following transactions:

- Withdrawal of \$1,284.76 from the Etna Library Expendable Trust Fund
- Withdrawal of \$25.00 from the Frank B. and Edith R. Tenney Trust Fund
- Withdrawal of \$140.00 from the Dagmar's Place Fund
- Withdrawal of \$25,000.00 from the Bridgman Fund on behalf of the Hanover School District
- Withdrawal of \$303,228.00 from the Hanover School District Tax Stabilization Fund
- Deposit of \$150.00 to the Pleasant Street View and Slope Maintenance Fund
- Deposit of \$1,148.25 to the Etna Library Expendable Trust Fund
- Deposit of \$10,042.47 to the newly created Elizabeth McCabe Thieme Family Cemetery Plot Perpetual Care Fund

### **Other Business**

There was a general discussion of further refining the ongoing role of the Trustees vs. the Investment Manager: how active should the Trustees be in making investment decisions? The Trustees agreed that they should not be making individual investment decisions, but, rather, they should be making sure the decisions of the Investment Manager are sound and are within the Investment Policy. Trustee Doyle noted that the stated goal of the Investment Policy (rate of inflation plus 3.0%) is not benchmarked on performance reports.

Ms. McClain will try to schedule the next Trustees meeting for sometime in early April 2010. The tentative agenda will include review of the draft Town Meeting warrant, Investment Policy revisions, upcoming Town Meeting election (Trustee Doyle's term expires May 2010), and other business.

### **Action Items**

- **Mr. Wesson** will send a formal proposal for construction of a new portfolio for the Trustees and an analysis of fixed income options.
- **Mr. Wesson** will send fund sheet(s) for interesting Real Estate investments to Ms. McClain for routing to Trustees.
- **Mr. Wesson** will send Zephyr analytics comparing PIMCO and Columbia Intermediate Bond Funds.
- **Mr. Wrenn** will work to craft an FAQ document that presents simple bullet points as to why the State should adopt legislation allowing for Towns to adopt the total return concept in the management of Town trust funds.
- **Trustees** will integrate language into their Investment Policy affirming that the Investment Manager has the ability to invest in emerging markets, real estate and commodities within the guidelines provided by the Policy.

# Investment Performance - As of 12/31/2009

	Market Value	Allocation (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)	Inception Date
<b>Total Portfolio</b>	\$1,074,876	100.0	3.63	22.71	22.71	-1.23	2.47	4.95	11/1997
Total-All Assets Net of Fees	\$1,074,876	100.0	3.63	22.71	22.71	-1.24	2.41	4.77	11/1997
41% S&P 500, 6% Russell Mid Cap Index, 4% Russell 2000, 9% MSCI EAFE, 36% Barclays Aggr, 4% Merrill Lynch High Yield	--	--	3.55	22.43	22.43	-0.45	3.23	--	--
60% S&P, 40% BC Agg	--	--	3.71	18.40	18.40	-0.66	2.52	4.80	--
<b>Equity</b>	\$599,241	55.8	5.48	33.44	33.44	-5.52	1.21	4.31	11/1997
Large Cap Funds	\$413,215	38.4	5.51	30.34	30.34	--	--	-6.09	03/2007
Dom EQ Funds Large Cap Growth Bank Managed	\$220,601	20.5	6.62	44.27	44.27	--	--	-5.32	03/2007
Russell 1000 Growth	--	--	7.94	37.21	37.21	--	--	-2.21	--
Dom EQ Funds Large Cap Value Bank Managed	\$192,614	17.9	4.27	20.86	20.86	--	--	-8.28	03/2007
Russell 1000 Value	--	--	4.22	19.69	19.69	--	--	-9.37	--
Mid Cap Funds	\$64,338	6.0	6.25	39.17	39.17	--	--	-9.39	03/2007
Dom EQ Funds Mid Cap Growth Bank Managed	\$39,076	3.6	6.65	43.89	43.89	--	--	-8.66	08/2008
Russell Mid Cap Growth	--	--	6.69	46.30	46.30	--	--	-6.55	--
Dom EQ Funds Mid Cap Value Bank Managed	\$25,262	2.4	5.63	32.51	32.51	--	--	-8.39	03/2007
Russell Mid Cap Value	--	--	5.20	34.20	34.20	--	--	-8.18	--
Small Cap Funds	\$33,791	3.1	5.24	32.16	32.16	-2.00	--	6.23	08/2005
Russell 2000	--	--	3.88	27.19	27.19	-6.06	--	-0.53	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.



# Investment Performance - As of 12/31/2009

	Market Value	Allocation (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)	Inception Date
Dom EQ Funds Small Cap Growth Bank Managed	\$20,275	1.9	6.97	37.68	37.68	-1.56	--	6.54	08/2005
Russell 2000 Growth	--	--	4.14	34.47	34.47	-4.00	--	0.28	--
Dom EQ Funds Small Cap Value Bank Managed	\$13,516	1.3	2.74	24.72	24.72	--	--	-5.67	03/2007
Russell 2000 Value	--	--	3.62	20.55	20.55	--	--	-8.77	--
International Equity Funds	\$87,897	8.2	4.47	41.35	41.35	-3.87	--	7.63	08/2005
International EQ Funds Bank Managed	\$87,897	8.2	4.47	41.35	41.35	-3.87	--	7.63	08/2005
EAFE (Gross Div)	--	--	4.80	35.80	35.80	-4.78	--	4.64	--
<b>Fixed Income</b>	<b>\$386,764</b>	<b>36.0</b>	<b>2.10</b>	<b>14.38</b>	<b>14.38</b>	<b>5.95</b>	<b>4.51</b>	<b>5.63</b>	<b>11/1997</b>
Dom Bond Funds Taxable Bank Managed	\$286,601	26.7	2.37	19.37	19.37	--	--	5.62	04/2007
Barclays Aggregate TR Bond	--	--	0.20	5.93	5.93	--	--	6.03	--
High Yield Bond Funds Bank Managed	\$35,060	3.3	4.69	43.26	43.26	--	--	5.04	05/2008
Merrill Lynch High Yield	--	--	6.04	57.51	57.51	--	--	8.63	--
Individual Bonds	\$65,103	6.1	0.87	4.33	4.33	4.52	3.66	4.74	07/2001
Barclays Govt/Credit Int	--	--	0.30	5.24	5.24	5.90	4.66	5.30	--
<b>Cash</b>	<b>\$88,871</b>	<b>8.3</b>	<b>0.04</b>	<b>0.43</b>	<b>0.43</b>	<b>2.77</b>	<b>3.21</b>	<b>3.46</b>	<b>11/1997</b>
Citigroup 3mo. TBill	--	--	0.03	0.16	0.16	2.22	2.88	3.21	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.

# Investment Performance - As of 12/31/2009

	Market Value	Allocation (%)	1 Month (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)	Inception Date
<b>Total Portfolio</b>	\$264,695	100.0	1.79	3.93	26.18	26.18	-0.92	2.78	3.58	04/1997
<b>Total-All Assets Net of Fees</b>	\$264,695	100.0	1.79	3.93	26.18	26.18	-0.94	2.69	3.40	04/1997
41% S&P 500, 6% Russell Mid Cap Index, 4% Russell 2000, 9% MSCI EAFE, 36% Barclays Aggr, 4% Merrill Lynch High Yield	--	--	1.35	3.55	22.43	22.43	-0.45	3.23	--	--
60% S&P, 40% BC Agg	--	--	0.53	3.71	18.40	18.40	-0.66	2.52	5.85	--
<b>Equity</b>	\$145,451	55.0	3.51	5.65	35.01	35.01	-4.86	1.56	3.38	09/2004
Dom EQ Funds Large Cap Growth Bank Managed	\$54,319	20.5	3.58	6.62	45.80	45.80	--	--	-4.96	03/2007
Russell 1000 Growth	--	--	3.09	7.94	37.21	37.21	--	--	-2.21	--
Dom EQ Funds Large Cap Value Bank Managed	\$47,314	17.9	1.99	4.27	23.41	23.41	--	--	-7.60	03/2007
Russell 1000 Value	--	--	1.77	4.22	19.69	19.69	--	--	-9.37	--
Dom EQ Funds Mid Cap Growth Bank Managed	\$9,119	3.5	5.55	6.65	43.89	43.89	--	--	-8.66	08/2008
Russell Mid Cap Growth	--	--	6.19	6.69	46.30	46.30	--	--	-6.55	--
Dom EQ Funds Mid Cap Value Bank Managed	\$5,970	2.3	5.93	5.63	32.51	32.51	--	--	-8.39	03/2007
Russell Mid Cap Value	--	--	5.23	5.20	34.20	34.20	--	--	-8.18	--
Dom EQ Funds Small Cap Growth Bank Managed	\$4,788	1.8	8.66	6.97	37.68	37.68	--	--	-2.99	03/2007
Russell 2000 Growth	--	--	8.56	4.14	34.47	34.47	--	--	-4.74	--
Dom EQ Funds Small Cap Value Bank Managed	\$3,194	1.2	7.30	2.74	24.72	24.72	--	--	-5.67	03/2007
Russell 2000 Value	--	--	7.57	3.62	20.55	20.55	--	--	-8.77	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.



# Investment Performance - As of 12/31/2009

	Market Value	Allocation (%)	1 Month (%)	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)	Inception Date
International EQ Funds Bank Managed	\$20,747	7.8	2.07	4.47	41.36	41.36	--	--	-5.36	03/2007
EAFE (Gross Div)	--	--	1.45	4.80	35.80	35.80	--	--	-5.56	--
<b>Fixed Income</b>	<b>\$96,107</b>	<b>36.3</b>	<b>-0.29</b>	<b>2.29</b>	<b>20.82</b>	<b>20.82</b>	<b>5.52</b>	<b>4.46</b>	<b>4.15</b>	<b>09/2004</b>
Dom Bond Funds Taxable Bank Managed	\$87,769	33.2	-0.49	2.06	19.19	19.19	--	--	5.61	04/2007
Barclays Aggregate TR Bond	--	--	-1.56	0.20	5.93	5.93	--	--	6.03	--
High Yield Bond Funds Bank Managed	\$8,339	3.2	1.88	4.69	43.26	43.26	--	--	5.04	05/2008
Merrill Lynch High Yield	--	--	3.13	6.04	57.51	57.51	--	--	8.63	--
<b>Cash</b>	<b>\$23,136</b>	<b>8.7</b>	<b>0.01</b>	<b>0.04</b>	<b>0.42</b>	<b>0.42</b>	<b>2.79</b>	<b>3.26</b>	<b>3.72</b>	<b>04/1997</b>
Citigroup 3mo. TBill	--	--	0.01	0.03	0.16	0.16	2.22	2.88	3.30	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.