

**Minutes of Trustees of the Trust Funds Meeting
July 24, 2023**

Wheelwright Room, Exeter Town Offices, Exeter, NH, 9:00-10:52 am

Attendees: Peter Lennon, Leone Atsalis, Pat Curtis, Trustees; Warren Mackensen, Chair, Hampton Trustees of Trust Funds; Russ Dean, Exeter Town Manager, Corey Stevens, Exeter Finance Director; Clerk for the Meeting, Mr. Lennon

Agenda:

I. Approval of May 22, 2023 Trustee Meeting Minutes. The Trustees approved the Minutes by a 3 - 0 vote.

II. Discussion of Trustees Outreach to other NH Trustees of Trust Funds, including in person with Warren Mackensen, Chair, Hampton Trustees of Trust Funds.

The Trustees discussed the results of their initial outreach efforts to obtain guidance and lessons learned from Trust Fund Trustees from other NH towns and cities similar in population size to Exeter. Ms. Atsalis and Mr. Mackensen discussed Trustee operations in Hampton. Mr. Curtis discussed those in Durham, and Mr. Lennon discussed those in Lebanon.

Hampton -- Ms. Atsalis attended the Quarterly (2nd) Meeting of the Hampton Trustees the week before the Exeter Trustees met, and, in addition to her comments, provided copies of the 23 detailed briefing charts used by the Hampton Trustees for their meeting and the draft minutes from that session.

The charts and draft minutes indicated that a major segment of the meeting was a detailed quarterly investment review and discussion among the Trustees and their Investment Advisor, Three Bearings Fiduciary Advisors of Hampton. The Hampton Trustees also examined the 2023 Town Warrant Results that added funds to three capital reserve funds (CRF) and decided four CRF distribution requests. Before acting on the requests, the Trustees were informed that the Selectmen had approved the expenditures and invoices were received from the Town Finance Director and verified by the Trustees Chairman as paid. Thus, Hampton's Trustees were in the position of approving reimbursements **after** the Town had spent the money on the activities.

Mr. Mackensen stressed that the Hampton Trustees meet quarterly, and that the Town Finance Department was requested to comply with that schedule in terms of submitting requests for distributions from any Trust Funds.

Ms. Atsalis reported that the Hampton Trustees summarized their investment policy as:

- Minimize financial losses.
- Diversify assets.
- Maintain funding liquidity for paying vouchers by timing cash flows to meet cash needs, all while trying to grow the Trust Funds
- Keep the purpose of the Trust Funds in mind always.
- Monitor investments and rebalance them from time to time.
- Minimize fees.

Mr. Mackensen reported that the Hampton Trustees relied on Three Bearings Fiduciary Advisors to conduct a monthly internal audit by using monthly data in the MS-9 “Report of Trust and Capital Reserve Funds” format to reconcile with the account amounts reported by Fidelity. (The MS-9 is a report required to be filed annually from municipal Trust Fund Trustees to the NH Department of Revenue Administration and the NH Attorney General’s Charitable Trust Unit.)

Mr. Mackensen also indicated that the Hampton Trustees monitored the transactions of all their trust funds quarterly using the Combined Transactions Listing provided by Three Bearings’ proprietary TrustTrak accounting system.

He also said that the Hampton Trustees did not deposit funds or write reimbursement checks, and that function was carried out by their Financial Advisor and the Town Finance Department.

Hampton’s Trustees met their quarterly meeting public notice requirement under NH RSA 91-A by posting the notices on the Town and Library bulletin boards, and on the Town and Trustees of Trust Funds websites, he said.

Mr. Mackensen provided several documents from the Hampton Trustees that will assist the Exeter Trustees in charting a way ahead for their future operations. These documents included:

- (a) an Investment Policy (discussed in the next section of these Minutes) for the Common Trust Fund, the Common Capital Reserve Fund, and the Cemetery Maintenance Trust Fund,
- (b) an Internal Controls Policy that explains the Fiduciary Responsibility of the Hampton Trustees, classifies the various Hampton Trust Funds, and sets out operational procedures for the receipt and disbursement of funds,
- (c) the Hampton MS-9 for the first six months of 2023,
- (d) draft Meeting Minutes for the July 18, 2023 meeting, and
- (e) a Trustees checklist for the July meeting and a Table of Contents for the Chairman’s Binder.

Durham – Mr. Curtis reported that Durham’s Trust Fund Trustees for the most part meet monthly, and that among their regular agenda items is a review of monthly MS-9 data.

He said that Durham’s Trustees act on funding requests **before** the Select Board meets to consider them, and that the Trustees have stated in detail what documentation they require with each funding request.

He said that Durham’s Investment Advisor since mid-2022 has been Cambridge Trust of Massachusetts and New Hampshire, and he outlined its fee structure.

He stated that the Durham Trustees, in anticipation of M&T Bank’s acquisition of People’s United Bank, conducted a search for a new investment advisor in late 2021 through mid-2022. He provided a copy of the April 22, 2022 Durham Trustees Memorandum for the Record explaining its decision process for the “Investment Advisor Search/Selection Process – 2021-22.”

The Memorandum also included the detailed “Request for Statement of Qualifications (RFQ) as Financial Advisor” Durham used and a copy of the Trustees’ Investment Policy.

Mr. Curtis suggested that the Exeter Trustees consider the Durham process as a template they could modify as they decided whether to explore banking and investment alternatives to M&T Bank, which they inherited upon the merger with People's United, the Exeter Trustees' bank for at least the past seven years.

Mr. Curtis volunteered to create a draft RFQ based on the Durham template as soon as possible after the Exeter Trustees revised their Investment Policy.

Mr. Curtis also reported that Durham's Town Accountant maintained the books for the Trust Fund Trustees, and that the Trustees meet annually with the Town Council to provide an update on activities and accomplishments for the year.

Lebanon – The Lebanon Trust Fund Trustees receive funding requests from the City and authorize any expenditures **before** any funds are spent and a Trust Fund check is issued. Any expenditure requires the approval of at least two of the three Trustees.

The trustees have a specific withdrawal form that they use for funding requests, which may be accompanied by vouchers for the work to be done and any City Council meeting minutes.

The Lebanon Trustees hold semi-annual public meetings where the major agenda items are to review the Trust Fund balances, deposits and withdrawals, the performance of the investment portfolio, and the asset allocations within the portfolio. They also review the Trustees' Investment Policy to determine if the portfolio tracks with that Policy, and whether any changes are needed.

The Trustees do not meet with the City Council but do deal directly with the City Manager and Finance Director.

The Finance Director is responsible for depositing funds into trust funds, but the Trustees Chair signs the deposit slips. The Finance Director also serves as the Trustees' Clerk and takes and produces Meeting Minutes.

Lebanon Trustees have used Citizens Bank Wealth Management as their Investment Advisor for at least 10 years.

III. Discussion of Investment Policies.

Among other topics, the Hampton Trustees' Investment Policy discusses general investment principles, investment risks, the desirability of mutual funds and exchange-traded funds over individual securities in municipal portfolios, investment time horizons and liquidity needs, and asset allocation and rebalancing (including specific percentage allocations for the different Hampton Trust Funds).

Mr. Curtis and Mr. Lennon stated they had access to the Investment Policies for the Trust Fund Trustees of the Town of Durham, NH and the City of Lebanon, NH.

Many of these same topics are contained in the Durham and Lebanon Investment Policies.

The Exeter Trustees' Investment Policy currently is based on the "Prudent Man" rule defined by state statute. Under that standard, the risk of preserving principal and the amount and regularity of income is considered in determining whether *each* investment is "prudent," according to the NH Attorney General's (AG) office.

The Investment Policies of the three other municipalities operate under the "Prudent Investor" rule in which the investment portfolio is judged in its entirety, considers diversification, and the purposes and terms of the trusts, according to the NH AG. A Trustee for one of the other municipalities indicated that this permitted a risk assessment across an entire portfolio, not just against every single investment.

Exeter Finance Director Stevens asked whether the Town's overall Investment Policy, as approved by the Select Board, was the same as the Trustees' Investment Policy. Other than serving a similar purpose, he was told that the two are different.

Under NH statutes, it was stated that Trust Fund Trustees deciding to adopt the "Prudent Investor" rule must obtain professional banking or brokerage assistance in managing the Trust Funds in their care.

The Exeter Trustees voted 3-0 to use the Hampton, Durham, and Lebanon Investment Policies as a template for updating their Investment Policy. Ms. Atsalis volunteered to create a draft Exeter Investment Policy from these three policies.

IV. Role and Costs of an Investment Advisor.

Ms. Atsalis pointed out that Exeter appears to be in the minority among NH municipalities by not using an Investment Advisor.

Mr. Lennon stated that his contact in Lebanon indicated that a major function of any investment advisor was to accomplish the several monthly and annual, complicated reporting requirements that exist. These include the monthly investment account statements, the annual Trustees Report to the municipality, the monthly and annual MS-9 reports, and the annual MS-10 Report ("Report of Common Trust Fund Investment").

Fulfilling those reporting requirements might be more important than any investment advice provided by the Advisor, Mr. Lennon's source said.

Hampton Trustees Chair Mackensen agreed with these two observations.

Investment Advisors for the other municipalities were also involved in tracking or making Trust Fund deposits and issuing Trust Fund disbursements.

Mr. Lennon said that, if approved by the voters at the annual Town and School elections, Exeter's Capital Reserve Funds could be charged for the fees of any Investment Advisor.

Mr. Mackensen said that the Investment Advisor fees are allocated across all Hampton Trust Funds.

Town Manager Dean questioned whether hiring an Investment Advisor for Exeter's Trust Funds was a "good idea," especially with the need to seek Town and School warrant article approval.

Finance Director Stevens asked if Mr. Dean was concerned about the costs and said that the voters would need to know why such a hire "is a good thing to do, what tasks need to be done, and what fees would be charged." He also said the Exeter Trustees would need to "decide what kind of bookkeeping you need and compare its cost with the costs of using the Town Finance Department."

Mr. Lennon said the Trustees were considering issuing an RFQ or a Request for Proposals (RFP), perhaps with a list of at least some potential bidders. Mr. Dean said the Trustees could issue a hybrid RFQ/RFP.

Mr. Mackensen said that, when Hampton looked for an Investment Advisor, it sent an RFP to 16 firms, of which eight applied, and five were selected for public interviews.

Ms. Atsalis said that Hampton's Investment Advisor, Three Bearings Fiduciary Advisors, also worked for 34 other Towns in NH, and that the Exeter Trustees "should talk to some of the Towns that use them." Mr. Curtis and Mr. Lennon agreed.

Mr. Dean emphasized that, as the Exeter Trustees moved forward on this and other actions, a "partnership among the Trustees, the Town Manager, the Select Board, and the Finance Department is important. We should keep building bridges, especially since public money is involved."

The Exeter Trustees agreed with his sentiments.

The Trustees unanimously thanked Hampton Chairman Mackensen for sharing his insights and observations, all of which were extremely helpful.

V. Consideration of Town Reimbursement Request from Parks Improvements Fund. The Trustees considered a reimbursement request that was postponed from prior meetings. On February 28, 2023, the Town requested \$3,261.50 from the Parks Improvements Fund for tree trimming around the lower tennis courts at the Recreation Park.

Mr. Lennon said the Parks Improvements (Capital Reserve) Fund (CRF) was approved by the voters in 2019, "for the purpose of making capital improvements to town parks."

Mr. Curtis said he was "disinclined to approve the request since the work doesn't look like a capital improvement, and it has not been included in the projects listed for this fund in the last four annual Town Capital Improvement Programs" submitted since the fund was created.

Ms. Atsalis asked if there was any discussion of maintenance accompanying the original warrant article, and Mr. Lennon indicated that the Town's Fact Sheet in 2019 on the proposed warrant article did not contain any mention of maintenance.

Mr. Lennon did say that one or two Town Fact Sheets accompanying warrant articles seeking additional funds for the CRF did mention maintenance, but that there were no changes to the original warrant article's wording by the ensuing warrant articles.

Ms. Atsalis said she was told during an early June 2023 Municipal Trustees Training Workshop sponsored by the NH Municipal Association that the Trustees must follow the words in a warrant article.

Finance Director Stevens stated that the legislative record on the Parks Improvements Fund warrant article was not clear, and he urged the Trustees to meet with a Select Board Representative to explore an agreement about the words and definitions relevant to the warrant article.

Ms. Atsalis asked “how onerous it would be for the Town to get a new warrant article” that was clearer on the purposes of the Parks Improvements Fund. Mr. Stevens replied it was “not onerous to draft a new article, however, whether it passes depends on the mood of the voters.”

The Trustees voted 3-0 to disapprove the tree trimming reimbursement request and approved sending a disapproval letter that said they “look forward to working with you to address any ambiguities that might exist in voter approved warrant article language that might impede our approving future reimbursement requests.”

Mr. Stevens said that another Parks Improvements Fund reimbursement request is being developed and he would informally send the list of items to the Trustees to understand the prospects for approval.

VI. Voucher Requirements for Reimbursement Requests. The Trustees discussed that state law requires that reimbursement requests from Town, School, and Cemetery Trust Funds be submitted with a voucher showing the purpose of the request. State law does not require a voucher for Library Trust Fund disbursements.

As a matter of prudent financial oversight and management and of fairness among all Trust Fund claimants, the Trustees unanimously decided also to require vouchers for Library Trust Funds.

VII. Upgrading/Expanding the Trustees website. Mr. Lennon briefly mentioned the efforts to upgrade and expand the Trustees’ web page on the Town’s website, and he thanked Mr. Dean and Select Board Chair Niko Papakonstantis for their support with this project. Among the additional information to be added or linked to the Trustees webpage would be their 2023 Goals and Objectives, Meeting Agenda/Minutes, decision documents, Investment Policy, a Warrant Article Library, and Trust-related NH statutes, he said.

VIII. New Business: Investment Advisor Warrant Articles. Mr. Curtis proposed that the Trustees, in anticipation of the possibility of hiring an Investment Advisor, adopt the objective of preparing any necessary warrant articles well enough in advance of the March 2024 Town and School elections.

He pointed out that the Trustees needed to work expeditiously to develop the Investment Policy and the Investment Advisor RFQ/RFP, with the view toward complying with the Town and School warrant article schedules and deadlines leading up to the March 2024 ballots.

Mr. Lennon speculated that the warrant article process might begin soon, and that he would consult with the Town Manager, Select Board Chair, and School Departments about such timing.

The Trustees unanimously approved Mr. Curtis’ proposal for warrant article preparation.

IX. Adjournment. Meeting adjourned at 10:52 am.