Minutes of Trustees of the Trust Funds Meeting
November 17, 2023
Wheelwright Room, Exeter Town Offices, Exeter, NH, 9:30 - 10:25 am.

Attendees: Peter Lennon, Leone Atsalis, Trustees; Russ Dean, Exeter Town Manager, Corey Stevens, Exeter Town Finance Director. Clerk for the Meeting, Mr. Lennon.

Agenda:

I. Discuss Draft Ballot Warrant Article Language Seeking Voter Approval to Pay Investment Advisor Fees from the Annual Income of the Town's Publicly Funded Trust Funds including Capital Reserve Funds and Expendable Trust Funds. Also, to Discuss any Questions Senior Town Staff Might Have about the Warrant Article Proposal.

Town Manager Dean and Finance Director Stevens posed several questions that the Trustees asked their prospective Investment Advisor, Three Bearings Fiduciary Advisors of Hampton, NH to answer. Those questions and answers are attached to these Minutes.

Mr. Dean also asked what the general risk is associated with moving the trust funds to an investment advisor arrangement, and Ms. Atsalis indicated that the Trustees intended to invest conservatively to manage and limit risk.

In asking about the liquidity/reimbursement timeline (See Question 2 in the Attachment.), Mr. Stevens was assured by Mr. Lennon that the Trustees would work closely with the Finance Department to anticipate spending needs and to arrange the availability of funds to meet those needs.

Mr. Stevens asked if investment advisor fees could be funded in the Town budget and what state law authorized paying such fees in that manner. Mr. Lennon said he was aware that some other Towns have included such fees as a line item in their budgets, but that he would have to research the exact citation for that process.

Without taking a final position pending the responses to the attached questions, both Mr. Dean and Mr. Stevens indicated they were comfortable with the proposal as explained in the meeting by the Trustees. They both indicated that they regarded the proposal as a positive step forward.

Mr. Dean also agreed that it would be helpful for the Trustees to write a Letter to the *Exeter New-Letter* newspaper before the March 12, 2024 election when the Town's citizens would vote on the warrant article.

Mr. Dean also recommended changes in the proposed warrant article language to follow the Town's accepted format.

II. Adjournment. Ms. Atsalis made a motion to adjourn at about 10:25 am. Mr. Lennon seconded the motion, and the meeting was adjourned.

ATTACHMENT:

Follow-Up Questions from Exeter Town Manager Russ Dean and Finance Director Corey Stevens Regarding Proposed Investment Advisor Fees Warrant Article. Answers Drafted by Three Bearings Fiduciary Advisors, Hampton, NH.

(1) If the trust funds fail to earn any income in any particular year, how will the fees be paid? From trust fund principal?

Neither portfolio (trust nor capital reserve fund) is invested in securities that pay no income. The equity positions will generate dividend income and the bond holdings will generate interest payments. Even in the low interest rate environment that we experienced up to 2022, the income yield of the portfolios was well above even the highest annual fee tier of 0.50% per year. The only scenario I can think of that would produce zero income would be a portfolio of zero-coupon bonds. This is not appropriate for either the trust funds or capital reserves.

(2) In the most extreme worst case, is there any possibility that liquidity for the publicly funded trust funds will ever exceed 2-5 days including all steps in the withdrawal process? Are there any productive investments that would have only 1–2-day liquidity, including all steps in the withdrawal process?

The sweep money market fund at Fidelity will earn a competitive interest rate compared to other money market vehicles. When we have cash already in this vehicle, the need to trade is eliminated, shortening the time to transfer funds electronically by the 1-2 days settlement time that applies when mutual funds or ETFs have to be sold to raise cash. This would reduce the time needed to get funds transferred.

(3) RSA 35:9 also discusses making available to the Trustees and Town and School Districts the option of having such funds to be invested secured by collateral having a value at least equal to the amount of such funds. Here are questions related to that specific provision:

Collateralization only applies to bank deposits that exceed the FDIC limit at a particular bank. With Fidelity acting as the custodian of the municipality's securities, no lending is taking place. That is, Fidelity does not take the town's securities and lend them out. Consequently, collateralization is not an option.

(a) What are the pros and cons of exercising this or any other collateralization option?
(b) Is there any other RSA provision that refers to collateralization as an option for investing the publicly funded trust funds?
(c) Is it the standard practice for NH Trustees of Trust Funds to exercise this or any other type of collateralization?
(d) What is the strongest argument to not pursue collateralization?
(e) What is the strongest argument as to how the Trustees and their Investment Advisor can secure the publicly funded trust funds without collateralization?
(f) Which RSA allows the Trustees to forgo collateralization?

(4) Does the portfolio rebalancing software used by Three Bearings run continuously, or is it only employed on a quarterly or annual basis?

The rebalancing and trading tool is updated daily. The tool quickly identifies portfolios that need cash, have cash to invest, or have drifted from their strategic investment targets.

(5) Is there a jargon-free way to explain the basis of fees paid to the Investment Advisor and how those fees are assessed against the separate publicly funded and privately funded trust funds, including how the fees are assessed on the average daily balance of the portfolio during a quarter and then proportionately charged against each trust fund?

The fees are assessed at the end of the billing quarter based on the quarter-end balance in each account. Average daily balance is not applied in determining the fee. Each account then pays its proportional share of the quarterly fee. The fee is further allocated across each individual private trust, capital reserve and expendable trust in the same way that income and capital gains are allocated. In effect, the fee is just reducing the income each sub-account earns in the months in which the fees are billed to the portfolios. This approach does use average daily balance to determine how income and capital gains are shared among the individual trust and capital reserve funds.