

**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.  
(January 5, 2024)**

- (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 or 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 were 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.**

- (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.**