

EXETER TRUSTEES OF TRUST FUNDS WARRANT ARTICLE REQUEST POINT PAPER
(January 8, 2024)

- The Trustees have asked the Exeter Select Board, the two School Boards, and the voters to support a warrant article approving payment of investment advisory fees from the income of publicly funded trust funds, which include both capital reserve and expendable trust funds.
- The Select Board and both School Boards (Exeter Region Cooperative School District and Exeter (Elementary School District) voted unanimously or by voice vote in December 2023 to approve the warrant articles and place them on the ballot for their respective Deliberative Sessions in February 2024 and for the March 12, 2024, election.
- Why is this warrant article necessary?
- **First**, the Trustees unanimously decided to update the investment policy inherited from our predecessor trustees. Instead of investing only in low-paying money market and other low-paying bank accounts we will invest in a more diversified range of assets -- such as mutual funds, stocks, bonds, exchange traded funds, and treasury bills – that have a greater potential for growth and stronger protection against inflation.
- Under state law, this type of policy change requires us to hire an investment advisor.
- **Second**, although money market interest rates have risen as the Federal Reserve has raised interest rates, this trend is not expected to continue, and we are unable to earn even those rates with our current bank.
- Less than two years ago, Exeter’s trust funds were earning 0.05%. The Trustees negotiated higher rates, but now the rate is only 3.5%.
- Historically, over time, money market accounts regularly under-perform almost any other type of investment asset. Indeed, Exeter’s trust funds have lost buying power of the principal in the trust funds due to inflation.
- **Third**, the revised investment policy takes a **relatively conservative approach** to investing the trust funds.
- Its fundamental goals are safety and the preservation of principal, maintaining liquidity to reimburse the Town and Schools on a timely basis and when needed, and maximizing to the extent achievable total portfolio return.
- Investment fees will be paid from annual income and not principal, and a conservatively oriented, diversified portfolio is the best way to reduce investment risk.
- The investments will be structured to provide 2-5-day liquidity, which in the recent past the Town and Schools have never needed. The Trustees will work closely with the Town Finance Department and the Schools’ SAU-16 staff to achieve even faster liquidity.
- **Fourth**, hiring an investment advisor is nothing new or radical in NH, and the practice is widespread. According to the Attorney General’s office, of about 280 towns and cities in NH,

Trustees of Trust Funds have hired investment advisors in about one-third (92) to one-half (140) of those municipalities.

- The Trustees' prospective investment advisor, Three Bearings Fiduciary Advisors of Hampton, was selected through a competitive source selection process that included submitting detailed responses to the Trustees' stated requirements, personal interviews, and consultations about past performance with other municipalities' Trust Fund Trustees.
- Three Bearings already has 35 municipal clients, among which are the Trust Fund Trustees of 12 nearby towns and cities: Hampton, Brentwood, East Kingston, Kingston, Kensington, Newfields, Seabrook, South Hampton, Raymond, Plaistow, Newington, and Somersworth.
- The Trustees of Trust Funds in at least five other Seacoast NH towns and cities – Stratham, Durham, New Castle, Portsmouth, and Dover -- also have Investment Advisors.
- Therefore, voters in all these towns previously have approved assessing investment advisory fees from the publicly funded Town and School capital reserve funds.
- Of the six Cooperative School District towns, only Exeter and SAU 16 are without an investment advisor.
- **To summarize**, the Exeter Trustees strongly believe that using a professional investment advisor will:
 - Enable stronger growth of invested funds over time,
 - Improve investment returns for all trust funds,
 - Minimize loss of trust fund value from inflation, and
 - Improve monthly and annual reporting for all your trust funds.