

Minutes
City of Laconia Trust
July 22, 2021

In attendance: Randy Haas, Peggy Selig, Michael Fogarty, Trustees; Glenn Smith, finance director for the City of Laconia; Charlie Nason, and Laurie Leduc from Citizen's Bank.

Investment Review

Charlie Nason reviewed the target asset allocation of the Trust portfolio. 50% is allocated to equities (37.5% to large-cap equities, 7.5% to international equities, and 5% to mid-cap equities), and 50% is allocated to investment grade fixed income. As of June 30th, the portfolio is slightly overweight in large-cap equities. The equity portfolio continued to push forward in Q2, and despite some rebalancing since our last meeting, the equity allocation expanded again, ending the quarter with 52.9% in stock, and the remainder in cash and bonds. With market multiples at 21x earnings compared to a long-term average forward PE of around 16x, this exposure to equities might at first seem alarming. However, low rates in the bond market make this expanded PE more attractive with few other alternatives for income.

Since the market lows in March 2020, the US equity markets have doubled. Fed rates remain near zero with little talk of near-term rate increases despite a Q2 spike in inflation (4.5% annualized). The Fed would like long-term inflation to settle over 2%, but Charlie Nason said that before raising the Fed lending rate, it is likely that policymakers would first taper purchases of financial assets.

The Trust portfolio, including the 50% allocation to fixed income, has averaged 11.6% per year over the past three years. This is very much in line with the benchmark return for the portfolio, and is a result of the resiliency of equity markets flush, with stimulus, as we moved through the election and the COVID-19 lock-downs in 2020. Charlie Nason noted that this is higher than we should reasonably expect long-term, and we should be careful to keep our expectations in line moving forward. The fixed income allocation, with an average duration of 6.6 years, is slightly shorter than the benchmark average. This led to slight underperformance in fixed income in Q2 as interest rates retreated after advancing sharply in Q1.

Next Meeting Date

Before Charlie Nason and Laurie Leduc left the meeting, we set a date for our next portfolio review. We will meet at 2 PM on October 18, 2021. At this point Charlie Nason and Laurie Leduc left.

Approval of Minutes

Peggy Selig made a motion to approve the minutes of the Board meeting on April 26, 2021, and it was seconded by Michael Fogarty. The motion passed unanimously.

Michael Fogarty made a motion to approve the minutes of the Board meeting on May 3, 2021, and it was seconded by Peggy Selig. The motion passed unanimously.

Putnam Fund carryover/allotment for FY2022

We discussed the letter received from the Putnam Fund Board with a funding request of \$100,000 for the 2021-2022 fiscal year. Enclosed with the letter was an opinion from Rodney Dyer written in 2011. Randy Haas told the board that two years after Attorney Dyer's letter was written, the Trust received clarification regarding distributions of these funds. The maximum distribution from the trust per year was set at 7% of market value. It was additionally clarified that no minimum distribution amount was specified.

Michael Fogarty referred back to Charlie Nason's comments during our investment review presentation. Our 50/50 Equities-Fixed Income portfolio has returned 3-yr and 5-yr annualized performance of 11.6% and 10.1% respectively. He cautioned however that these types of returns will not continue indefinitely. He feels year-by-year allocations should be based more closely on sustainable distribution percentages that consider current yield, growth in principle, and the expectation of future volatility.

Randy Haas reviewed the appropriations and actual disbursements going back to 2014-2015. The disbursements ranged from a low of \$13,474.52 in 2020-2021 to \$80,854.62 in 2017-2018. The amount appropriated by the Trust in 6 of those years exceeded the amount actually disbursed resulting in a cumulative carryover of \$93,785.72 as of June 30, 2021. As of June 30, 2021, the Putnam Fund balance was \$1,694,824.76. In 2018 and 2019, distributions were between 5% to 6% of the Putnam Fund market value. Despite a lack of Putnam Fund programming in 2020, the Board appropriated an additional \$30,133.

Peggy Selig noted that while it is important to provide for high quality programs, it is also important for the Putnam Trust Funds to grow. Some of the Funds recent growth must remain invested.

The current carryover balance of \$93,785 is available for future programming. In addition, Michael Fogarty made a motion to approve an additional appropriation of \$60,804 (4% of the fund market value). Peggy Selig seconded the motion. The motion passed unanimously.

Scholarships – Announce winners

2021 scholarship winners have been announced and include the following students:

- Aiden Eldridge - The Vanus DeMark scholarship, attending WPI to study industrial management engineering
- Lydia Tucker - Perkins Scholarship, the LHS Valedictorian, attending Dartmouth to study International Relations
- Ryan Whitton - Perkins Scholarship, LHS Salutatorian, attending UNH College of Engineering
- Collin Corneau - Priest Scholarship
- Amethyst Phelps - Priest Scholarship
- Keagan Moore - Priest Scholarship

Review Bank of NH accounts

Randy Haas provided the Trustees with a summary of the cash balances. There were no notable changes to the account balances since our last meeting.

Review NHPDIP Accounts

Randy Haas provided the Trustees with a summary of the cash balances held in the NHPDIP accounts. One account was redeemed on 4/27 and transferred to the general fund on 7/2 as reimbursement for the tree program and other projects. He also shared a press release announcing the acquisition PFM's asset management business which include the NHPDIP accounts.

Trustee Training (WHOVA) held June 10th

The Trustees discussed the recent educational presentation put on by WHOVA. It was agreed that the information was very helpful and informative. We will continue to look for educational opportunities available to the board.

Review summary sheet of funds/distributions

Randy Haas presented the spreadsheet and additional information about the distribution of funds from the Trust. One reimbursement from last year from an expendable account was not made until after June 30th. This distribution of \$126,592.15 was to reimburse the city for expenditures in 2019-2020 fiscal year, but it was not completed in part due to the passing of trustee Jon Nivus. The distribution was made in July 2021 and will be reflected in the next statement.

Fund purposes discussion

Randy Haas proposed that we conduct research to review the specified purpose and intent of the various funds held in the Trust. We could summarize our findings and put the information in our trustee binders. This information will be particularly important for new trustees joining the board in the future. Peggy Selig volunteered to look into this idea. Potential sources of information include the City archives, the Laconia Historical Society, and the attorney general's office.

Investment Policy Statement (IPS) discussion

Michael Fogarty presented a draft of an investment policy statement. He walked through the format which is based on the information in the Trustee Handbook (p. 112-116). It included a paper from the NH Bar Journal by Michael Ablowich discussing the format of an Investment Policy Statement. The draft version is largely based on the Trust's current IPS and incorporates the original language. He suggested the trustees take the draft home for review and consider any changes that we should consider. [He noted that the last section of bullets in section 6 should be deleted. It was left in during the drafting process.]

Michael Fogarty suggested a discussion of the following changes:

- Defining allowable bond investment as "Investment Grade" rather than as "rated A or better."
- Listing the specific accounts and custodians to which the IPS will apply.
- Identify whether each fund is expendable or non-expendable.
- Discussion as to whether portfolios should be separated in the IPS based on the unique characteristics of the separate funds.

Randy Haas suggested that we consider the following:

- Exclude the reserve funds and make reference to the fact that those funds are to be held in cash.

- Keep the flexibility to consider ancillary services offered by the investment manager as we conduct a review of cost and benefits of the appointed investment manager.

Glenn Smith noted that, in section 2, the first sentence should start, "The appointed trustees...", rather than "The elected trustees..."

We will review this document further in our next meeting. Once the IPS is completed, we will submit a copy to the attorney general's office and review the IPS at least annually.

Communications

Randy Haas said he would draft a letter to the Putnam Fund Board specifying the amount of the appropriation.

Additional Meeting Date

Randy Haas suggested we schedule a second meeting for this quarter. We agreed on a meeting time on September 13 at 2 PM.

Adjournment