



TOWN OF PEMBROKE TRUSTEES OF TRUST FUNDS MEETING MINUTES

September 12, 2019
Pembroke Town Hall
311 Pembroke Street

ATTENDANCE:

Present:

Gerard Fleury - Chairman – Trustee of Trust
Courtney Eschbach – Trustee of Trust Funds
Sharon Wickens – Trustee of Trust Funds
David Jodion – Town Administrator

The meeting was called to order at 1:36 p.m.

The first order of business was the approval of the minutes of the meeting of June 3, 2019. Chairman Fleury entertained a motion to approve which came from Trustee Eschbach with a second from Trustee Wickens. Trustee Wickens noted three corrections to the minutes, the omission of the number of responses to the RFP and two typos on page two. Chairman Fleury noted the errors.

Chairman Fleury provided a recap of questions to be asked of the two firms to be interviewed in the coming hours and the Trustees and the Town Administrator exchanged concerns and opinions. He explained that a third submission from the NH Public Deposit Investment Pool amounted to little more than information about the pool and did not qualify as a response to the RFP. For that reason, there was no reason to conduct an interview with NH PDIP representatives.

Mr. Jodion asked whether there would be a charge to the Town or the School District every time there is a request to distribute funds from a capital reserve. Chairman Fleury replied that he could see no reason why there should be and he added his own curiosity about how the process would work if Citizens Bank were to be awarded a contract, given that the capital reserve accounts are currently kept with that institution. He went on to explain that capital reserve funds and equity investments are presently segregated in separate institutions, with capital reserves being held at Citizens Bank and equities being held at Wells Fargo Advisors. He went on to elaborate that both accounts can be accessed electronically and he described Wells Fargo Advisors as a gift from heaven because the Town pays no custody fees, no management fees, and pays only a trade commission when the Trustees decide to buy or sell a security. He further explained that equities were largely buy and hold investments and that they were only sold in cases where a dividend was suspended, there was a takeover with a mandatory tendering of shares, and when there was a free distribution of shares and the new issues were not slated to pay a dividend. Trustee Eschbach suggested that the group be sure

to ask the institutions being interviewed exactly how they propose to operate the investment funds.

Mr. Jodion expressed his concern about the future mechanics of deposits and withdrawals from the capital reserves. He noted that the Town currently produces a single check which Trustee Fleury physically deposits and then allocates to the respective capital reserve accounts. When funds are required, a voucher is submitted and Trustee Fleury handles the processing and writes the check. He wondered whether the Town would incur a charge any time a transaction was required and he was concerned about his role in the future mechanics of capital reserve accounts. Chairman Fleury responded that if the Town was going to be charged for each deposit and withdrawal transaction, then the Trustees are talking to the wrong institutions. Trustee Eschbach stated that the group can request those details during the interviews to set Mr. Jodion's mind at ease. Trustee Wickens cited her experience with operations in Manchester and noted that all fees are a charge to the trusts and not to the municipality for whom trusts or capital reserves are held. She speculated that a similar arrangement might exist for Pembroke.

Mr. Jodion elaborated on his concerns and wondered whether he would need to prepare paperwork of some type whenever the Town made contributions to its capital reserve funds. Trustee Wickens replied that there would need to be some form of identification telling the institution how much was going to which funds but that they would be doing the actual allocations. Chairman Fleury explained that with Citizens Bank, the entire deposit goes into a concentration account where it becomes available for allocation to the underlying capital reserves. At that point, Chairman Fleury accesses the account and he does the allocation, making sure that the entire deposit is allocated. He speculated that something akin to the preset process would need to exist regardless of which institution has custody of the funds. Mr. Jodion explained that with other types of funds overseen by the Town, he is obligated to conduct a series of tasks to accomplish the objective, including carrying the physical deposit to the bank and then handling the allocation. When there is cause to establish a new category of reserve, the responsibility falls to him and it creates an administrative burden. He noted that Pembroke runs in excess of \$18 million through their account with TD annually and he thought that if trust funds move to that institution as well, that the Town should be realizing some type of efficiency or financial compensation. Chairman Fleury expressed hope that if TD Bank were selected, that there would be some type of online application which would accommodate the transfer and allocation of funds in an efficient manner.

Switching to the issue of withdrawals, Chairman Fleury expressed interest in hearing whether either of the bidders had a requirement for multiple authorizations for withdrawals, noting that in some towns, it takes two signatures on a check when a distribution is made. He noted that by State law, the trustees still need to review and approve each distribution before it can be made and he detailed the process through which requests are currently made, approved and processed.

Trustee Eschbach questioned whether the amended minutes had actually been voted and at that point, Trustee Wickens noted an additional correction. Chairman Fleury noted the correction and Trustee Eschbach then moved to accept the minutes as amended which drew a second from trustee Wickens. The vote was taken and the motion passed.

Chairman Fleury took the opportunity to state that the Trustees have never had a recoding secretary and that he has always prepared agendas and kept and transcribed minutes. Whereas he will not be seeking re-election, those who succeed him will need to cope with those tasks. He then reported that he had touched base with the Town's auditors regarding the

scope and acceptability of trust fund records submitted for audit purposes each year. He stated that he was disappointed that the response was largely that a good job has been done and to just keep it up. He explained that what he had been hoping for was a determination on whether a physical set of book needs to be maintained for each account. He noted that for many years, he has used a personal license for Quicken to keep a ledger for each trust and capital reserve account. He also explained that because the annual Town Meeting and School District Meeting are the drivers behind the funding and expenditure of trust funds, that the accounts were segregated between those established at Town Meeting and those established at School District Meeting. For reporting to the State on forms MS-9 and MS-10, all of the accounts were commingled. He further explained that a simple balance sheet and income statement have been included in the Town Report for the Town and School in order to facilitate discussion at the Town and School District meetings. Chairman Fleury stated that there are no hard copy physical books or ledgers but there are electronic accounts in Quicken which he speculated should be maintained. He explained that those files and copies of anything that has been done for the last 20 years is all stored electronically and fits nicely on a single flash drive. Trustee Wickens speculated that the drive would be provide to the Town upon at the end of Chairman Fleury's term. He replied that that could happen but that he has always retained the files with a backup copy kept at his office in Manchester in the event that his house were to burn down and destroy the primary records.

Mr. Jodion asked how future distributions would be handled. He noted that at present, he completes a fillable PDF form and submits it to Chairman Fleury. We wondered if future requests would use that same format or be submitted directly to the wealth management company. Chairman Fleury replied that requests could not go directly to a wealth management company because approval by the elected trustees would remain a requirement under NH Law. He stated that the Town Administrator should not be expected to pick up extra responsibility as a result of the pending changes in trustee composition. Mr. Jodion understood the responsibility of the Trustees on the distribution side but questioned to what extent the Town or School District might assume additional burden on the contribution side since those actions have been approved at Town and District meetings. Would the Town and District be obligated to assume a greater roll in the deposit of those funds? Discussion ensued on the likely ways that things would operate and it was conclude that no significant new administrative burdens would be created. Discussion then turned to the future role of ACH transactions and speculation ensued on which of the Town's entities could use or accept ACH transactions in lieu of paper check issuances.

At this point, representatives from Citizens Bank arrived for their scheduled interview.

Representing Clarfeld Private Wealth Management, a subsidiary of Citizen Bank, were Charles P Nason, Senior Vice President & Investment Manager and Laurie Leduc, Assistant Vice President. Following introduction and the distribution of presentation materials, Chairman Fleury provided the Clarfeld representatives with an overview of ongoing concerns and objectives. Ahead of the interviews, a page of questions was sent to each institution being interviewed and one of the questions dealt with expected future earnings of an example fund. The January market value of the example account and the fund's earnings net of all fees as of August 31st had been provided and the question posed was what a portfolio of that value would have earned had it been invested by Clarfeld. Another issue of major concern was the annual production of MS-9 and MS-10 forms to be submitted to the State, which Pembroke seeks to have prepared by a service provider instead of doing them in-house as in the past.

Mr. Nason thanked Chairman Fleury for the overview and provided the Town's representatives

with his background, educational qualifications and his designation as a Certified Public Accountant. He explained the while he now works for Citizens Bank as a financial manager, his biography includes employment with Merrill Lynch and Payne Webber in New York and Boston. Ms. Leduc then provided her biography, having been with Citizens Bank for 19 years and in the Private Wealth Division for the last 8 years. Ms. Leduc explained that, if given the contract, that she would be Pembroke's day to day contact on the account and she stated that she currently works with 19 Cities and Towns across New Hampshire in that capacity.

Chairman Fleury asked about the present collateralization agreements with Citizens Bank and wondered whether they would be melded into any new agreement with Clarfeld or whether they would be replaced by another agreement. Mr. Nason asked if Chairman Fleury was referring to capital reserve accounts to which he replied that he was. Mr. Nason then responded that Citizens' acquisition of Clarfeld would not have required new agreements but if accounts were managed by Clarfeld, that a replacement agreement might be required. Ms. Leduc confirmed that current agreements with Government banking at Citizens, if moved to the Private Wealth Division, would need to be replaced. Mr. Nason then elaborated that funds moved to the Private Wealth Division would be invested in full faith and credit US Treasury Securities which would negate the need for collateralization. Mr. Nason reiterated that the Private Wealth Division has 19 accounts with New Hampshire Cities and Towns which include both capital reserve funds and trust accounts. He stated that a better return on the funds was another reason why Cities and Town have chosen to participate in those investments. He assured the Town's Representatives that the returns on cash would be better than what they are currently receiving and that FDIC insurance would no longer be a concern.

Chairman Fleury asked whether there would be any minimum account balance requirements for any of the capital reserve accounts and he cited the Town Hall Cupola Fund with a principal of only about a thousand dollars as an example. We wondered whether the Town's capital reserves would be seen as independent funds or looked at in the aggregate. Mr. Nason replied that when an account is too small to be invested in Treasury securities, usually in denominations of \$10,000, then a low cost exchange traded fund of government securities can be used. Ms Leduc asked whether Pembroke has accounts which are that small or whether they are consolidated. Chairman Fleury replied that they are consolidated into one account but with each capital reserve funds having a claim against the total. Trustee Wickens sought clarification by asking whether all of the capital reserves would be invested together with sub-accounts representing the claim of individual accounts. Ms. Leduc replied that the individual claims are broken out on the MS-9 and MS-10 forms. At this point, Mr. Nason took the opportunity to state that Clarfeld would be able to prepare the MS-9 and MS-10 forms if awarded the account. He explained that while acting as an agent of the Town, they would conduct most of the process but cannot actually submit the forms because the forms require signatures from the Trustees and that process remains an obligation of the Town. Mr. Fleury asked if there was an update on that process because he had heard that the Department of Justice was exploring the use of electronic signatures, which would allow service providers to perform the submission. Ms. Leduc responded that they have been part of the development group with Axiom and that they can transmit the forms but the actual approval still rests with the Towns. Mr. Jodion noted that under the new arrangement, files would go to the DOJ, which would in turn, share those submission with the DRA.

Trustee Wickens then asked whether the Town or the Trustee, could at any time determine the balance of any of the individual capital reserve or trust accounts. Ms. Leduc replied that most Towns were only interested in that information once a year but that quarterly reports could be produced.

Chairman Fleury then asked about the process for adding funds to a capital reserve and Mr. Jodion expanded the question to include the mechanism for establishing an entire new capital reserve. Ms. Leduc replied that a letter of request citing proper authorization is all that would be required to set up a new account. Chairman Fleury explained that generally there is one single deposit from the Town or School District which requires distribution between several capital reserve accounts. In other cases, such as with enterprise funds, new deposits could come at any time. He stated that now those deposits can be made at any branch of Citizens Bank but he asked how that would be done in a private wealth arrangement. Ms. Leduc replied that the Trustees would not have direct access to their accounts and therefore a check would need to be mailed to her attention and that she would see to the deposit. Trustee Wickens asked whether additions to the capital reserves could be done via ACH and supported with a message identifying the destination for those funds. Ms. Leduc replied that such an arrangement would work. Mr. Jodion then asked whether he could simply wire a single ACH for the entire year's capital reserve contributions and follow it up with the details to which Ms. Leduc replied that he could. Mr. Jodion then asked how withdrawals would work. Ms. Leduc replied that for the withdrawal of funds, they did need a written authorization. He explained that presently, the selectmen may be agents to expend and they vote to make a withdrawal, a form is then submitted to the Trustees of Trust Funds who approve the distribution and write a check. Ms. Leduc explained that the Town's payment voucher would need to be amended to include the Trustees signature and then transmitted to Private Wealth who could either cut a check or wire the funds. Chairman Fleury expressed a degree of concern about how this would work for the school district and he asked the other Trustees what element of control they thought they would need to retain over deposits. Ms. Leduc replied that many districts require that a Trustee act to authorize deposits as well as withdrawals and Pembroke could do the same. Mr. Jodion noted that an element of control would need to be retained and he cited circumstance in the past where the Trustees had blocked a withdrawal request because they deemed the request to be outside of the intent of the capital reserve or trust fund. Mr. Fleury agreed and cited examples of when equipment funds were requested for building repairs or repair funds were being considered for real estate acquisitions and the Trustees interceded to prevent that use. Chairman Fleury noted that during his tenure, the Town's auditors never cited the Trustees for having authorized a distribution which should not have been made.

Returning to the issue of who needs to do what, Trustee Eschbach stated that while the Town was able to handle many of the operational details themselves, she understood that the Trustees needed to handle these same types of issues when the School District was involved. Chairman Fleury concurred with that assessment and added that the same was true for the enterprise funds. Mr. Jodion asked whether the Water and Sewer Departments were exploring taking control of their capital reserves funds themselves. Chairman Fleury replied that he had not heard any sentiment from the Sewer Department to that effect but that the Water Department was considering it. He further stated that he had cautioned the Water Department to seek a legal opinion on the matter because the funds would still be a capital reserve and would likely still need to be reported to the State annually. Trustee Wickens expressed her belief, based on her experience, that the funds needed to remain with the Trustees of Trust Funds by statute and that Water could not take control themselves.

Mr. Jodion asked what the schedule would be like for completion of the MS-9 and MS-10 forms. Ms. Leduc asked whether the Town was on a fiscal year or calendar year, to which Mr. Jodion replied that the Town operated on a calendar year. Ms. Leduc stated that the first step of the MS form preparation was to prepare an Excel spreadsheet and submit it to the Trustees for review, somewhere near the end of January. The forms would then be prepared

in time for the submission deadline in March but that the forms would be done early enough for the Trustees to be able to review them before final submission. Mr. Jodion then asked when the Town's auditors come in, do questions usually go to the Wealth Management Group or to the Trustees. Ms Leduc replied that the questions are usually directed to the Trustees. The Trustees then sign-off, authorizing Wealth Management to provide copies of requested statements directly to the auditors.

Returning to the question of distributions, Mr. Nason asked Ms. Leduc for a point of clarification. He asked if a signed emailed document from a Trustee was sufficient documentation to allow a distribution to be made. She replied that it would be. Mr. Fleury pointed out that the statutes require that there be a standard request form and that Pembroke had been unique for many years as one of the few towns to have developed such a form. He noted that for years, Pembroke's form was used as an example in the DOJ Trustee Handbook and that he is confident that it could be amended to serve a new operating practice.

Mr. Fleury then explained how trust schedules are contained in the Town Report which has a print deadline of mid January, and he expressed concerns about having access to December ending values in time for those reports to be completed and submitted to the printer. He stated that at present he gets end-of-month data no later than four days into the following month. He questioned whether that would be possible if accounts were held by Wealth Management. Ms. Leduc state that if Pembroke has a time constraint, Wealth Management would work with the Town to meet that deadline. Mr. Jodion clarified that it was not the MS-9 and MS-10 forms that needed to be ready for inclusion in the Town Report, it was just a spreadsheet of account balances and income and expenses from which voters decide how to vote on the ensuing year's capital reserve appropriations. He accessed and provided copies of the last Town Report as examples. Chairman Fleury explained that there are two sets of schedules, one for Town accounts and the other for School accounts because it is at those separate respective meetings that voters act on those reserves.

Moving on to the question of transferring equity investments currently held at Wells Fargo Advisors, Mr. Fleury asked how those securities would be handled. Would they be sold and the cash transferred or would the securities be transferred and sold or retained by Wealth Management? Mr. Nason replied that it could be done either way. He noted that the portfolio contains 22 equities, 7 of which are on Citizens' buy list, but he recommended that the securities be sold and the cash transferred because they would be investing in other issues and even for those on their buy list, the weighing would be different so selling the entire portfolio and transferring cash would be his suggestion. That would also avoid the historic cost concerns for each security. Chairman Fleury questioned the wisdom of that move, citing the one time need to record and report book values. He was concerned that book values no longer seemed important to trust recordkeeping and he disagreed with that belief. He asked how the complete reset of values would be reported to the State. Mr. Nason and Ms. Leduc both pointed out that the State is only concerned with market value. Mr. Nason then explained how the process would work.

Shifting the focus of discussion, Chairman Fleury referred to the risk categories used in financial reports; commonly know as categories 1, 2 and 3. He asked what risk category securities held by Wealth Manager would fall into. Mr. Nason replied that the securities would be held in the name of Pembroke.

Mr. Jodion asked whether an understanding had been reached regarding a line in the operating budget to pay for fees. Chairman Fleury reiterate his earlier concern about fees being changes against cash balance capital reserve funds and asked if fees on cash accounts

could somehow be treated differently from those assessed on equities. Mr. Nason indicated that he was not aware of any towns which appropriate fees separately and he turned to Ms. Leduc to ask if she was aware of any. She replied that she did have one town that is billed for the fees rather than having them taken from account balances. Chairman Fleury said that it would require some type of estimate on how much to appropriate for fees and that since accounts balances would determine the fee, anticipating the balances in order to know how much to appropriate could be a challenge. Mr. Nason noted that their proposal cited 60 basis points as the fee amount for the next three years. He went on to say that he understood the fiduciary responsibility not to lose money and he further stated that the fees that paid are less than what the fund earns. He explained that securities in the account earn 1.6% so that if you lose 60 basis points, the fund still went up 1%. Everyone is super sensitive about capital reserves not being eaten away by fees. Chairman Fleury stated that if that is always the case, we could move along right now because capital reserves currently don't make that much money.

Trustee Wickens asked whether the fees would still be a flat 60 basis points if they did not do the MS-9 and MS-10 preparations. Mr. Nason replied that it would be, so essentially the forms were being prepared for free.

Going back to the equity component of the portfolio, Chairman Fleury asked who voted the proxies on common stocks. Mr. Nason replied that the proxies were voted by professional managers and that professional managers also were responsible for stock selection. All of the management is done by a team and no one person makes the buy and sell decisions. Whether it is a stock, a bond, an exchange traded fund or a mutual fund, an investment team makes the decisions. He elaborated by stating that the investment committee consistent of a least 8 to 10 professionals.

Chairman Fleury explained that one special fund is invested solely in mutual funds shares with American Funds, ticker CABIX because it only consists of a principal of roughly \$19 thousand dollars. He asked how that fund would be invested if moved to Wealth Management. Mr. Nason replied that it would probably be invested in an exchange traded fund with a 15 basis point implement cost. With respect to the rest of the portfolio, they do not have any of the 19 municipalities which are 100% equities because of concerns about sustainability. He indicated that Clarfeld would be prepared to work with the Trustees to craft an investment policy. He explained that a typical town portfolio consists of 60% stocks and 40% fixed income. This is done because nobody wants to feel the losses of another 2018 market drop. He explained that they are also buy and hold investors with the lowest cost they can possibly have and they would want the Town to have a balanced asset allocation strategy and would work with the Town to develop one. Making money in the markets is about time in the markets, not timing the markets and that they are investors and not traders. Mr. Nason noted that one of the advanced questions was whether there was an option for all passive investments, and he stated that that could be arranged if that was what the Trustees wanted. He explained that for capital reserve funds, when the investments consist of bonds, they will be held to maturity so that there is no principal loss.

Moving toward wrap-up, Chairman Fleury asked how long it would take to complete transition if they were awarded a contract. Mr. Nason replied that it would be a matter of weeks and not months. Trustee Wickens asked if it would be within 30 days, to which Mr. Nason replied that it would be. Chairman Fleury then asked what the Trustees would be looking at in terms of subscription agreements, would it be 10 pages or closer to 100? Mr. Nason replied that it consisted of an engagement letter of approximately 7 pages. Chairmen Fleury asked if samples were available and Mr. Nason replied that he could make them

available in soft copy. Trustee Wickens asked that samples of everything the Trustees would be asked to sign be provided and Mr. Nason agreed to provide them. Trustee Wickens then asked if references for other clients of approximately the same portfolio size as Pembroke could be provided, and again, Mr. Nason indicated that they would be provided.

Chairman Fleury noted that the RFP timetable indicated that the selection process would be concluded by next week but that he was not sure whether that aggressive schedule could still be met. Trustee Wickens then noted that much of the time had been spent telling them what we wanted, and she now asked whether there was anything that they wanted to cover which had not been addressed. Mr. Nason replied that their proposal had addressed most issues in detail but he did want to call attention to the handout materials distributed today and called attention to a sample portfolio shown in the report. Of key interest is the total five year return which had outperformed its benchmark to yield 8 percent. Trustee Wickens asked if the reports in the handout were indicative of what we would see quarterly or monthly to which Mr. Nason replied that they were. Mr. Jodion asked if those returns were net of fees to which Mr. Nason replied that they were gross of fees. Mr. Nason noted that there had been a question on whether income could be swept to a distribution account, and he indicated that it could and that the handout indicated that type of arrangement.

Chairman Fleury noted that on income trusts, the focus should be on income generation rather than growth and he hoped that that could be the focus of an investment agreement. Mr. Nason assured Chairman Fleury that it could be accomplished.

Mr. Nason completed a brief explanation of the handout contents and having completed the presentation and they being no further questions from the Trustees, pleasantries were exchanged, and the Clarfeld Citizens Representatives departed.

After a short break, Chairman Fleury asked Mr. Jodion to usher in the next group of presenters from TD Bank.

Representing TD Bank were Mr. John DeQuattro, Vice President and Investment Advisor, Ms. Suzanne Moran, Vice President and Institutional Relationship Manager and Mr. Keith Pike, Vice President and Senior Government Banking Relationship Manager. After brief introductions, Mr. DeQuattro distributed presentation materials and then Chairman Fleury provided the TD Representatives with a review of how Pembroke came to operate the way it does and how the near term future will spell changes to the old ways which may be concerning to the various departments and organizations which come under the umbrella of Town Trust Funds. He explained how capital reserve funds are currently collateralized and stressed the importance of understanding how the Town's funds in excess of FDIC insurance would be protected under a new cash management agreement. Chairman Fleury also mentioned that a set of questions had been sent in advance. One of those questions had disclosed the beginning year value of a scholarship trust fund and the income net of fees through the month ending August 31, 2019 and asked how much a comparable value in the proposed agreement would have earned. Chairman Fleury also explained that a key objective for the Trustees was to outsource the preparation of MS-9 and MS-10 forms for the State each year. Chairman Fleury explained how trusts largely originate at spring Town and School District meetings. This led to including a balance sheet and income statement broken out between Town and School trusts in the Town Report. He further explained that in order to meet print schedule on that report, those trust related schedule must be completed in the first two weeks of January. He stated the importance of understanding whether that would be problematic under a new management agreement with the Trustees and the Town. Finally, Chairman Fleury explained how a special literacy trust, which is currently invested in a

single mutual fund, needs to incorporate capital gains into the corpus of the trust rather than making it available for distribution. Mr. DeQuattro asked what the balance of the literacy fund was, to which Chairman Fleury replied that it was only about \$19 thousand dollars which did not allow for the use of individual securities and still provide adequate diversification. He noted that cemetery funds had a larger balance and as a result, they were invested in individual securities in order to beat the meager return on cash. Moving ahead to another of the questions sent in advance, Chairman Fleury stated that the Trustees were interested in how the transfer of assets would be handled if TD were awarded a management contract. Reading from the list of questions, he also pressed the question of how proxy voting would be handled and the desire to keep trading to minimum once control was delegated to an outside manager. Mr. DeQuattro asked if that was different from what the Trustees have been doing because it appears as though they have been managing an active portfolio of stocks. Trustee Eschbach explained that the only time the portfolio conducts trades is when the sale of an existing stock is forced by an acquisition where the shares must be tendered or when free distributions from a spin-off are sold because they will not pay a dividend. The cash which results from those activities is then invested into new or existing positions and held indefinitely. The Trustees therefore are not tuned into CNBC and day trading but rather reacting to liquidity events in a manner she described as passive plus. Chairman Fleury explained that the focus is on value stock rather than growth because the value stocks tend to be more reliable income generators. Trustee Eschbach stated that the process has been working and she pointed out that at one time the annual scholarship distributions amounted to only \$5 thousand dollars and that this year it had grown to \$35 thousand.

Mr. DeQuattro stated that the review had touched upon a number of the question and so he proceeded to address them. He stated that the TD Bank Wealth Department covered most of the east coast from Maine to Florida and that he is based in Portland, Maine. Trustee Wickens noticed that Ms. Moran was based in Washington D.C., to which Mr. DeQuattro explained that she is considered their expert in the field and so she travels extensively in that capacity. He went on to state that their operations were based in Cherry Hill , New Jersey and that Mr. Pike is the local Government Banking Representative based in Manchester.

Trustee Eschbach asked who Pembroke would routinely be dealing with. Ms Moran replied that there is another individual in the TD organization named Paul Butler who is responsible for fund accounting who would be the primary contact for transactions like deposits and withdrawals, though Mr. DeQuattro interjected that such transaction could also be routed through him. He explained that there are support people in the organization around him to insure that things get done in his absence. On the investment side, there are 30 people who decide what investments go into the portfolio. He explained that a passive solution can be crafted that will do what the Trustees are looking to accomplish although it may not generate the absolute returns currently being realized. He stated the he has been with TD for 19 years and he and Ms. Moran provided the Trustees with a description of their roles and responsibilities in the TD organization. He emphasized that they are obligated to operate in a fiduciary capacity such that everything that happens is in the best interests of the Town.

Ms. Moran stated that she understood Chairman Fleury's concerns and she cited another case where Trustees of a trust organization had initially come from very strong financial backgrounds and sought to leave a legacy of financial competency before they departed their organization. She explained that TD does not come in and simply take over. They collaborate with the existing decision makers to design an investment program that will provide ongoing services that meet with the approval of the organization. She touched upon the expectation for periodic meetings between the Trustees and Private Wealth individuals, to report on

performance and address concerns.

Mr. DeQuattro then began addressing the list of questions which began with a description of how deposits and withdrawals would work. He stated that in the case of disbursement, someone would contact him to request that funds from a particular account be paid out and he envisioned that happening via an electronic transfer of funds, although he noted that the payment could be made by check if that were necessary.

Mr. Jodion explained that at present, the Town's voter approved additions to the capital reserve funds at Town meeting in March and also authorize spending from some accounts, with the Selectmen being authorized to request disbursements from other funds as the Agent to Expend. The following fall, after property taxes have been received, he generates a check for the total amount of funds appropriated for all Town capital reserves and gives it to Chairman Fleury who physically makes the deposit and directs allocation between the various capital reserve accounts. When the expenditure of capital reserves is called for, he prepares a standard payment request form and submits it to Chairman Fleury who then obtains the approval of the other Trustees and writes the check. He asked how this process would work if TD were given the contract. Chairman Fleury explained that while that scenario was an accurate depiction of how it works for the Town, the same processes exist for the School District, two of the Town's enterprise funds, and other specialized trust funds.

Mr. Pike suggested that capital reserves be discussed first because the Trustees are currently using government banking products to satisfy their needs. In the discussion which ensued, Mr. DeQuattro made it clear that in every case where funds were to be distributed, a verbal confirming call would be necessary since the submission of forms alone do not satisfy the bank's authorization concerns. Chairman Fleury asked if that process consisted of a simple callback to which Mr. DeQuattro replied that is does.

Chairman Fleury then asked about the number of signatures required to make a distribution, noting that some institutions require multiple signatures or a callback to a different authorized individual from the one who requested the distribution. Mr. DeQuattro replied that the situation Chairman Fleury was describing was an internal control and that from TD's position; multiple individuals were not required for a callback.

Trustee Wickens described a situation where there were funds in a concentration account composed of various sub-accounts. In a situation where we needed to make a deposit to a particular sub-account, could the funds be sent via ACH to the concentration account and then a letter faxed to Private Wealth which included the destination for those funds, along with callback numbers and signatures. Ms. Moran replied that that was correct except that the callback numbers could not come from the faxed instruction and would need to come from a list of callback numbers which were on file, in order to prevent fraud. Trustee Wickens then asked whether the details of transaction in each sub-account could be seen without waiting for an extended period of time. Ms. Moran and Mr. DeQuattro both agreed that the information is provided at the end of each month. Mr. DeQuattro elaborated that the deposit details needed to be provided to the accounting group but that those updated values were only compiled and made available at the end of each month. Mr. Pike added that those values would look just like the information which appears on the MS-9 and MS-10 forms. Mr. Jodion asked whether there was a password protected online system that would allow the Trustees to log in and see account balances any time they wanted. Ms. Moran replied that an online system did exist that would allow the Trustees to see the portfolio's composition but that no access was available for fund accounting. That information needs to come at the end of the month and be sent separately. There would be access to the concentration account in

read only mode which would be available anytime day or night. More conversation ensued on how distribution would be handled but Chairman Fleury reminded everyone that the Trustees have a fiduciary responsibility to review distribution requests to determine whether they are in keeping with the terms of the Trust or Capital Reserve account. Trustee Wickens explained that she was trying to find a way of getting around the issuance of a paper check. Chairman Fleury had no issue with eliminating paper checks and he speculated that the Town payment request voucher could be modified to include ABA routing and account numbers for the payment of disbursements. Once approved by the Trustees, that same document could be forwarded to Wealth Management, verified with a callback and paid electronically in most cases. Mr. Jodion asked if the payment went to an enterprise fund rather than to the Town, whether any additional wire fees would apply. Ms Moran replied that all fees are included in a flat 60 basis point charge for assets under management with a minimum charge of \$15 thousand dollars.

Mr. DeQuattro next addressed the question of collateralization on cash in excess of FDIC insurance limits and he turned to Mr. Pike to provide the answer. Mr. Pike explained that Pembroke is currently using a banking product for capital reserves with excess deposits covered by a special agreement. He stated that cash accounts with TD work in a similar fashion but it begged the question of whether capital reserves would still be held in cash and he noted that Mr. DeQuattro's proposal had included an alternate type of investment for capital reserve funds. Chairman Fleury asked to take a step back and he explained that for capital reserves, preservation of capital is the paramount issue. As an example, if voters elected to put funds aside for a fire truck, the Trustees never wanted to have to explain that although the funds had been allocated, the principal was no longer that much because it had been eaten away by fees. As a result they are not tolerant to anything which results in the degradation of contributed capital. On the other hand, for trusts like scholarships or cemeteries, they could be quite risk tolerant. The objective for those funds is to maximize the amount of revenue provided by those investments and to see it grow to protect against inflation. Mr. DeQuattro stated that he has built an all fixed income portfolio for investment of capital reserves in his proposal. He turned to Mr. Pike and asked what rate was being realized on the cash deposit side. Mr. Pike replied that it was currently 1.65 and dropping. Ms. Moran then called attention to a particular page in the proposal which detailed the fixed income portfolio mentioned by Mr. DeQuattro which consists entirely of US Government Securities and she portrayed it as a risk free rate. She explained that if the Town does not need immediate liquidity, it can get ahead of the yield curve by allocating part of the portfolio to longer maturity assets. Chairman Fleury stated that timing maturities is a path that the Town has never taken due to the timing difficulties associated with distribution requests. He noted that in some cases, only a Town or School District meeting can authorize expenditure of the funds but in other cases, disbursement requests could come on short notice. He stated that this approach has been pitched to the Trustees before and they passed on the offer. What is important to the Trustees regarding Capital Reserves is that any type of fees are exceeded by the investment return of the investment instrument, that there are no liquidity surprises and no principal loss.

The next question dealt with electronic filing of the MS-9 and MS-10 forms. Mr. DeQuattro stated that TD could not produce MS-9 and MS-10s for a flat fee and that it would only do them for assets under the Wealth Management umbrella. Trustee Wickens noted that the fee schedule was 60 basis points and she asked what it would be if the Trustees elected to do the MS forms themselves. Ms Moran replied that the fees would still be 60 basis points because TD views the MS form preparation as a complementary service.

Another question dealt with sweeping income and dividends into a proceeds accumulation

account. Mr. DeQuattro stated that as an operator of a trust department, they can bifurcate interest and dividends from principal without difficulty and it can be done quarterly or monthly. Chairman Fleury explained that the sweep of interest and dividends was not so much for the purpose of immediate distribution but rather as a means of readily identifying those amounts as qualifying for immediate distribution. He further explained that every equity investment account is coupled with a money market account to which monthly earnings are transferred. Earnings are never reinvested as they are slated for distribution with the exception of realized gains that might be paid out on mutual funds as those gains are considered additional principal. Mr. DeQuattro noted that they could set up the accounts to work that way. Ms Moran stated that they could take the fund accounting that Pembroke has been using and simply replicate it.

The next question was whether there is an option for a totally passive management portfolio. Mr. DeQuattro informed the Trustees that any exchange traded funds they use are institutional class shares which are not available to individual investors. He noted that there are no soft dollar arrangements or fee sharing between the funds and TD. Within that group, he could build a passively managed portfolio using index funds and it could be in fixed income, domestic or international funds. He gave the Trustees examples of possible portfolio construction using funds with a niche focus for particular purposes. He summarized that they would never pretend to know the ideal investment composition until they held a meeting with the Trustees to understand the investment objectives.

Mr. DeQuattro then addressed the question of what the Scholarship Trust's market value at January 1, 2019 would have earned in interest and dividends by August 31, 2019 had it been invested with TD. He stated that he had done some back of the envelope calculations and determined that you would end up with about \$5 thousand dollars less than what Pembroke actually earned because the yields of the TD portfolios are lower. Chairman Fleury stated that it isn't about how much you pay in fees; it's about how much you get to keep.

The next question dealt with the manner in which the accounts would be transferred. Would they be liquidated and the proceeds transferred or would the assets be transferred and then acted upon by the new custodian? Mr. DeQuattro responded that typically the assets would not be liquidated by the Trustees. Instead, an agreement would be signed and TD would manage the asset transfer. For capital reserves however, the accounts would be closed and the cash transferred with the ending account balances at the old institution becoming the opening balance at the new institution.

Ms. Moran explained that an investment in time would be needed to meet and identify all of the necessary particulars about the trusts and reserves. Chairman Fleury asked for an estimate of the amount of time needed to conduct those meetings to which Ms. Moran replied that it would be a few hours on a few occasions. Chairman Fleury stated that if there were issues that could be handled with telephone calls and email exchanges that it should be a piece of cake. Ms. Moran agreed that much of it could be handled that way.

Trustee Wickens asked how long a typical transition took, to which the TD representative replied that it could be done in less than 30 days. She then proceeded to give a description of how the process would work. Trustee Eschbach asked about the nature of documents that the Trustees would be asked to sign. Would we be talking about 100 pages documents? Ms. Moran responded that it would only be a series of documents of a few pages or less and she listed them verbally. Trustee Wickens then asked if copies of those documents could be obtained for review. Ms Moran said that they could and she agreed to provide them electronically to Chairmen Fleury so that he share them with others in the Pembroke group.

A final question dealt with a request for references which Ms Moran stated could not be honored because of Securities and Exchange Commission rules which prohibited TD from providing that information.

Mr. Jodion asked a parting question about the availability of end of year statements in time for the production of Town Report schedules. Ms. Moran was asked by Mr. Pike to obtain that assurance as a take away and she agreed to do so.

Mr. DeQuattro asked when the Trustees anticipated making a decision and subsequent transition. Chairman Fleury responded that it should happen within a month. He noted that the schedule in the RFP stated that the decision was to be made by September 20th and while he doubted that that schedule was realistic, he did not see any reason why it could not be shortly thereafter. The Trustees would need to receive the newly requested material to see if it resulted in more questions and the Trustees would probably need to meet again to make a formal decision. He indicated that from Pembroke's side, the information needed to transfer assets could be made available in 20 minutes.

The TD presentation having concluded and there being no further questions from the Pembroke side, Chairman Fleury thanked the TD group for their interest and they departed at 4:40 PM.

Chairman Fleury stated that he thought the group had just heard a couple of interesting proposals. He stated that the next step would be to await receipt of promised materials. He then asked if there were any first impressions. Trustee Eschbach stated that she liked the fact that Citizens Bank was local with their representatives based in New Hampshire but she found the TD Bank presentation to be better tailored with more give and take. Trustee Wickens stated that, coming from her experience in Manchester, she was disappointed at the wait time to obtain detailed information about the status of an account. Mr. Jodion was perplexed with the responses received with respect to providing references. He noted that Citizens had no issue with providing references while TD stated that it would be a violation of SEC rules. Conversely, he understood that Citizens would move funds upon receipt of a directive while TD insisted on the use of a callback mechanism. Trustee Eschbach agreed that the call back requirement was a good idea because it was more proactive.

Trustee Eschbach asked about the difference in the transition process between the two presenters. Mr. Fleury explained that there was no right or wrong process but that it was more common for the receiving institution to handle the transfer.

In closing the meeting, Chairman Fleury asked the Trustees to continue reviewing the materials they had been given and that he would share newly requested information as soon as he received it.

There being no further business to conduct, Trustee Wickens offered a motion to adjourn which received a second from Trustee Eschbach. The vote was all in favor and the meeting adjourned at 4:52 PM