

City of Concord Trustees of Trust Meeting

Minutes of February 21, 2013 Meeting

Meeting was convened at 8:30 AM at Citizens Bank

In attendance: Trustees Michael Aitken, Jeff Schindler & Karen Levchuk; Charles Mathews, Judy Noel of Citizens Trust and Investment Group; Michael Jache, Nancy Bunce City of Concord.

Agenda and Minutes from the November 15th, 2012 meeting were distributed for review. A motion was made to approve the minutes by Michael Aitken and seconded by Jeff Schindler, minutes were unanimously approved.

Mike Jache then turned the meeting over to Charles. Charles stated that (with respect to your portfolio holdings) that Trust fund "C" was up 12% for the year. Markets exceeded expectations with a growth of 7-9%, this with GDP growth of only 2%. The equity returns also rose almost 15%. Charles believes that this dynamic will continue for 2013. On the income piece, we are in a slow growth environment with modest earnings growth and a very accommodative Federal Reserve which should keep you out of a bear market and out of a recession. These factors will lead to fairly modest earnings growth as long as the bond yield continues to stay low investors will continue to buy high quality dividend paying stocks as an income paying alternative.

The energy market is changing here in the US, but globally oil is still very important, especially in China & Japan. Japan is the other global economy that is starting to take growth seriously. You are seeing an increased demand in Japan and China. Natural gas still has a supply problem, the issue is really long term for natural gas, can you drive a car with it, and can you convert oil & gas appliances and manufacturing machinery easily? What is the real return on investment (ROI)? We will probably see usage first in vehicles that don't travel long distances, like trash trucks and city buses. Easier to get to a distribution station within a city, would be more difficult for long haul drivers. This will come about eventually but will not be a quick process. What we think might be different this year as it evolves there will more global investing. In the last five years global markets have been underperforming in the US, largely driven by European debt problems and mild recession slow down. We think this is beginning to normalize, the European situation will continue to drift on for many years, and the default risk piece of it seems to be more manageable. Since Labor Day, global markets have outperformed the US. Debt situation is starting to be managed by policy makers in Europe. This is good for the global economy but US stocks may be over owned and US based assets have become somewhat over owned so that the money flow trade that drove performance during the European crisis. In the 4th quarter we started to see and little unwinding of that.

Investors globally started to become a little more comfortable with risk and a little more comfortable with taking money out of the US and back to their home economies, it will

not continue all at once but will continue to some degree particularly if Central Banker devalues their currency like Japan.

Charles feels the greatest potential probably lies in emerging markets as opposed to the currency devaluation. Jeff feels that there is a tradeoff between investors seeking yield, which is pushing them into stocks vs. flight from US stocks by foreign investors. Charles said that there is yield even in foreign markets. If you are an American Based Investor and you are looking at higher quality dividend paying stocks vs. 5-10 year bonds and you are taxed the way you're taxed you have some incentive to do that, but if you are a Polish investor and you have a 4% dividend yield and your stocks are trading at 10 times earnings you might be more inclined to buy Polish stocks vs. American stocks, but if you are a German investor you might be more inclined to buy Polish stocks because you have a bigger dividend and cheaper evaluation, so long as you have an economy with some potential for growth that's an attractive trade, but if you have an economy slipping to recession then it is not attractive trade.

Mike asked if with all the structural issues going on in Europe with the euro and the default issues create a long term issue of "kicking the can down the road". Does Charles think things are going to continue in the next 5-6 years unless they are willing to make structural changes, when you attempt to make structural changes the majority tends to push back? Charles does believe there is going to be some push back, Europe along the way has demonstrated more commitment to austerity then we have with spending cuts to assist in all of this. The idea that European growth is going to reaccelerate and lead the world, no, however I do see reacceleration in Asian growth. The question with Europe is how much worse does it become? Three months ago Italian stocks were trading 9 times earnings with a 4-5% dividend yield, now they are a little more expensive and have rallied back up fairly dramatically on a percentage basis, but still relative to where they were 5 years ago it almost negligible. The question is will it get meaningfully worse, I don't think it skyrockets back, I think it will be more of a meander sideways. What this last rally has told us is that the worst is over; it has removed the crisis trades from the markets. Maybe somewhere along the way they become more efficient. What is happening in Europe is a massive collective restructuring, so you have this huge downswing and a little pop back, what you get is a waiting period, you don't go back to a crisis but we are not doing enough to stimulate growth. I cannot speak to how long this is going to take. It won't be apparent until it starts to get better.

Jeff feels that one good sign is that the "crisis" is off the front page and that the press is not covering Europe like they were recently. Charles agrees, but is not ready to go on a European buying spree. We will modestly increase exposure to European markets, but we will enter the market slowly and cautiously, one indicator will be the ability of China & Asia to get growth moving again. Stocks will do better than bonds and commodities will also do better than bonds in this situation. The key difference between this year and the last several years is that bonds will not perform; you can only expect a 2-3% return in bonds, just because the coupons are so low.

In reviewing our portfolios you will see that they were up for the year (2012). We feel that is was a pretty good year. Last year was a really good year up until the 4th quarter, if you look at the S& P-pretty flat, NASDAQ, Dow down & International benchmark and the emerging markets fell off pretty dramatically in the 4th quarter. Relative to the hybrid benchmark we were underweight, and neutral to emerging markets. However, all in all, Dow up 15.7 & S & P up 16%, average large cap core up 15.3%. Bond performance was outstanding, with bonds up 6% in a year when the index was up 3.9%. 2012 was a relatively positive year.

In the equity sectors we have gradually increased exposure in the energy markets, while staying underweight in utilities & telecom as well as consumer staples. The best sectors were financials & consumer discretionary. An easing federal reserve was very good for credit sensitive stocks, energy was by far the weakest sector, however it is starting out in 2013 as the best sector.

The bond portfolio is still slightly short duration; we may see slightly higher rates if they continue to keep the yields at a competitive rate, but no longer than about 8 years out. A lot of the rates will be determined on how the Federal Reserve handles “Quantitative Easing”. Over the next 12-18 months the Fed will probably begin to let-up on “QE” and allow rates to gradually rise.

There was a brief discussion surrounding the federal law suit against the S & P 500 and its parent company McGraw-Hill. Charles stated that none of the trust funds were currently invested with McGraw-Hill. The unfortunate things that can happen to a company are the best argument for a diversified portfolio. You have to manage the portfolio in such a manner as to recognize an ailing stock that seems to flounder while the rest of the market is going up. That is usually a sure sign to sell.

The only other comments have to do with Trust A & B, there were some contributions that we put to work in equity markets. From the 1st of January we have seen good performance in the markets, but in the last couple of weeks there has been a slight downturn.

Karen asked about the cash position in the funds and Mike Jache explained that because of transfers within the City of Concord, it is necessary to hold some cash aside. This enables the transfers to occur without having to sell securities to meet the budget obligations. If a large transfer is required it can take several weeks to complete.

Charles completed his review and asked if there were any questions. Karen asked if Citizens Bank voted the proxies that come in on the securities held for the City of Concord or did that responsibility fall to the Trustees. Charles said that normally the Bank votes the proxies, and that they are usually pretty routine. He said that normally they vote with the suggestions on the proxies, but once in a while something crops up that is key to the stock, in that case they would be voted in the best interest of the trust.

There was a review of the Investment Policy and there were a couple of corrections (dates). There were not any changes to the overall policy. Karen moved to approve the policy and Mike Aitken seconded. The Investment Policy was unanimously approved.

The next meeting date was set for May 16, 2013 at 8:30 AM at Citizens Bank

Mike Aitken made a comment about city website and the information that is available for many of the cities and towns. Mike Jache stated we had a new website and that all the boards and commissions will be available on the site. Mike Aitken said that he would like to see 1. Who are the trustees? 2. What is the purpose of the trusts? 3. What is the source of funds? 4. How are the funds dispersed? The Trustees feel that more information should be included on the site.

Meeting was adjourned.

After the meeting was adjourned, Charles and Judy left, Mike Jache, at the request of Jeff Schindler, gave a brief overview on how monies are moved between the trust and the City of Concord. The Trustees then adjourned.