

DRAFT – DECEMBER 21, 2017

PECK ESTATE TRUSTEES - MEETING MINUTES

December 18, 2017

MEMBERS PRESENT: Gill Coates (Clerk), Frank Twarog, and Kristy McLeod

OTHERS PRESENT: None

This meeting took place in the Town Clerk's office at the Hinesburg Town Hall.

The Clerk of the Trustees, Gill Coates, called the meeting to order at 5:05 p.m.

The draft minutes of the November 7, 2017 meeting were reviewed. Frank made the motion to approve the minutes. Gill seconded the motion. The motion was approved. The approved meeting minutes will be posted on the Town of Hinesburg web site under "Peck Estate."

The next order of business was the review of the proposal letter from Eric Hanson of Hanson & Doremus Investment Management on the future of the stock portion of the Peck Estate portfolio and to decide whether to accept or reject the proposal. The proposal letter is an attachment to these minutes. In anticipation of the public meeting, the Trustees communicated with Eric about the Trustees' comments and questions on the proposal. Those comments and questions along with Eric's response are as follows:

Thoughts from Frank:

Eric's letter answers all of the questions that I had! I feel that his proposal is sound, as it will likely ensure continued growth - albeit at a more moderate rate than we've enjoyed for the last dozen years - with lower risk of being subject to the volatility of certain current investments. His strategy so far has been spot on and I have no reason to doubt that this is the best overall approach.

Thoughts from Gill:

I am fine with Eric's new stock approach. I am very much in favor of the diversification the proposal provides. In addition, it seems to me that there is increasing move to stock index funds rather than portfolios made up of specific individuals stocks. I support the move to stock index funds.

Questions from Kristy:

-To confirm with Eric what percent of our portfolio ALL combined fees will be?

-If we might expect wider swings in portfolio value from year-to-year, but "more consistent performance" over the long-term.

Eric's response:

As to asset allocation I think we should still do 50% in stock and 50% in bonds. On the stock side our default rate is 50% US, 30% International and 20% Emerging market allocation. We will stick with this.

As to fees, you are presently paying 0.58% on the entire portfolio. This includes our standard 25% discount for being a non-profit. Under the new strategy your fee with us will fall to 0.375% (including the 25% discount) and with the index mutual fund charges added in (averaging 0.10%) your all in fee is 0.48%, or a dollar savings of just over \$1,000 based on the last bill.

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As to volatility, we will be moving from a 60% stock allocation to a 50% allocation. This should cut down slightly on the swings in the portfolio. As to performance, I think your results will be more consistent with world equity markets since you will be tracking these markets, but the 50% in stock will obviously mean more ups and downs than if you were more heavily in bonds. We will hold off going ahead on this until we hear back from you. Thanx.

Gill made the motion to accept Eric's proposal to move the stock portion of the Peck Estate portfolio to stock index funds as defined in his letter of December 8, 2017 and as clarified in his response to Kristy's questions. The motion was seconded by Kristy and approved.

Under new business, there was a brief discussion of when the next meeting would be held. It is expected to be a May meeting to determine the distribution amount to the Champlain Valley School District. In addition, Kristy stated that a reminder needs to be provided to the Hinesburg Community School principal in March about the required report on the school's usage of funds from the Peck Estate Private Purpose Trust over the prior year.

Being no other business, Gill made a motion to adjourn. The motion was seconded by Frank and approved. The meeting was adjourned at 5:20 p.m.

Respectfully submitted by,



Gill Coates, Clerk
Peck Estate Trustees

Attachment: Proposal Letter from Eric Hanson on future investment of the stock portion of the Peck Estate portfolio, dated November 8, 2017 (2 pages)

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PO Box 819
Burlington, VT 05402
tel 802.658.2668
fax 802.658.1027

November 8, 2017

Trustees of the Peck Estate
c/o Gill Coates
1211 Texas Hill Road
Hinesburg, VT 05461

Dear Trustees:

At our recent meeting on November 7 I discussed a possible change in investment strategy for the Peck Estate.

The Portfolio today is invested 40% in fixed income securities and the balance in sixteen stock holdings.

The fund has been heavily weighted towards bank stocks for many years now. Local Vermont banks have totaled between 30% and 40% of the portfolio. Historically these banks paid high dividends, yielding in the range of 4% and their operations were stable. The bank stock strategy has been successful over the years.

The Peck Estate has grown over the past 14.3 years by 6.9% per year after all fees and expenses. The payout from the Peck Estate has grown from \$19,000 in 2004 to \$37,000 this year. This is a compound annual rate of increase of 4.9%. This rate of increase is over twice that of the Consumer Price Index over the same 14 year period.

Going forward I think having 35% of the overall account in two bank stocks (Community Bank System which bought the Merchants Bank and Toronto Dominion) is too risky. What I am proposing is using low cost index tracking stock funds on the equity side and continuing to use individual bond holdings on the fixed income side.

If all of the individual stocks were sold there would be no capital gains tax issue due to the tax exempt nature of the Town fund. My proposal is to split the fund 50% in fixed income securities and 50% in low cost index stock funds.

On the fixed income side we would continue to emphasize \$25,000 or \$50,000 bond pieces with maturities ranging from one to eight years. The average maturity of the fund would be approximately 3 to 4 years.

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If and when interest rates rise we would be able to take advantage by reinvesting maturing issues at higher rates. We will continue to emphasize quality positions rated "A" or better.

On the stock side we will use three index tracking mutual funds, one for the U.S. market, one for the developed markets outside the U.S. (primarily Europe, Japan and Australia) and one for Emerging markets (China, Brazil, India, etc.). We will split the equity money 50% in the U.S. market, 30% in the Developed markets outside the U.S. and 20% in Emerging markets.

Some U.S. investors might be more comfortable emphasizing the U.S. to a greater degree but we think it is important to be globally diversified. There will always be times when one of those three markets (the U.S., Developed markets outside the U.S. or Emerging markets) are doing better than the others but over time you should get a good solid return covering the World equity waterfront so to speak.

Now as to fees. You are presently paying us a fee of 0.6% on all of the assets. We reduce our fee when clients move from individual stock management to mutual fund management and my calculation is that your overall fee will be reduced by approximately \$800 to \$900 annually moving to this strategy. The overall cost of our management will fall from 0.59% to 0.49%. After you add in the very low cost of the index managers, there will still be a fee savings.

In summary I think moving to this new strategy will increase the diversification of the fund, reduce the risk from a concentration in two bank stocks and give you more consistent performance.

Let me know your thoughts and if the committee wishes us to go ahead we can make the changes quickly.

Cordially,



Eric H. Hanson, CFA, CFP®
Partner

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Important Disclosure Information

Please remember to contact Hanson & Doremus Investment Management, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services, or if you wish to direct that Hanson & Doremus Investment Management to effect any specific transactions for your account. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.