

**Town of Rockport  
Investment Committee  
Minutes of Meeting**

**Monday, September 21, 2015 - 4 p.m.  
Richardson Room – Rockport Town Office Building**

**In Attendance:**

Committee Members

William Freeman, Jr., Vice- Chair  
Jerod Cronkite  
Laurence Novotney  
William Chapman, Select Board Liaison

Finance Director

Virginia B. Lindsey, acting recording secretary

Absent

Robert Campbell, Chair

**1. Meeting Called to Order**

Vice Chair Freeman called the meeting to order at approximately 4:01 p.m.

**2. Minutes Approved**

- ❖ L. Novotney motioned, seconded by J. Cronkite, to approve the minutes of the June 22, 2015 meeting. Motion carried without objection.

**3. New Business**

**A. Meet with BHTS representatives**

Bar Harbor Trust Services Representatives Present:

Peter Nicholson, CFP®, VP, Trust Investment Officer  
Melanie Bowden, VP, Trust Officer  
Timothy Wooster, VP, Trust Investment Officer

**Update on Investment Accounts**

The committee was provided with a handout entitled “Investment Review, Town of Rockport, As of September 15, 2015”.

Mr. Nicholson went over the review of the town’s account acknowledging that it had been a “rocky” year. He stated that at the beginning of August the S&P500 had corrected itself by about 12%; more people were selling stocks than were buying; and he stated that leading up to August of this year the stock market had behaved similar to that of the 1990s. He said that there were a

few leaders leading the market, which was “never good”. A lot of people had been looking at the Federal Reserve to increase rates, others were looking at what was happening in China, some were looking at how the US currency was performing; and he noted that September was typically not a good month. He also suggested that typically there was a recession every five to seven years, which also affected the stock market.

Mr. Nicholson explained that BHTS had been trying to keep the cash low in trying to abide by the wishes of the committee; but, they would be staying in cash at the current level until there was an upward trend in the market. He acknowledged that currently the investment account contained 14% cash. Five stocks had been sold; two had been reinvested; there were “three vacancies”.

In talking about BHTS philosophy of buying and selling, Mr. Nicholson explained that when they noticed a 25% drop in a stock they would sell, which then lead to having more cash in the account. He reported that the 25% drop and sell was not automatic, rather the process required that three company employees manually review the stock’s value verses the loss at the end of the day. Vice-chair Freeman reminded Mr. Nicholson that the committee wanted to be fully invested because the town had a cash account invested elsewhere. Mr. Nicholson answered by saying, “We can’t do that.” The global allocation model, which was used for the town’s investments, included a portion invested in cash. He also said that the reason why they sold equities when they were low was that this type of strategy protected the gains and limited the losses. He then suggested an asset allocation model might be better; however Vice-chair Freeman noted that the town’s policy didn’t allow for international bonds.

Vice-chair Freeman inquired about BHTS’ decision to automatically sell a product if there was a 25% loss. Mr. Nicholson explained that it was not automatic that a stock was sold if it lost 25% of its value; rather they used an update process to manually sell a stock after looking at the stock to see how it had performed historically. Again, Vice-chair Freeman reminded BHTS representatives that it was the committee’s desire to have the investment 100% invested and not to have cash in the account, as the town’s investment cash had been placed elsewhere.

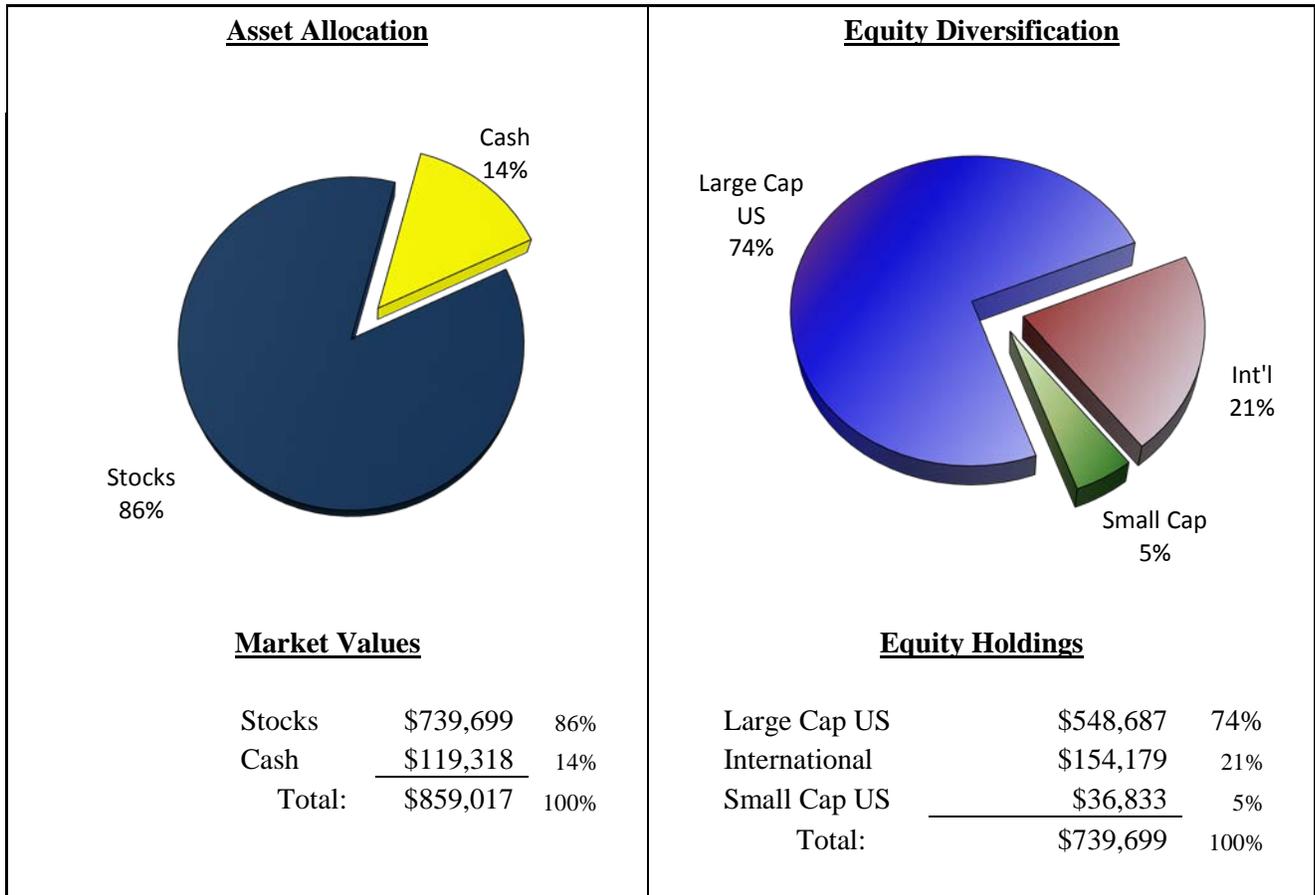
J. Cronkite remarked that in looking at the *Portfolio Appraisal* dated September 15, 2015 there were a number of stocks that should have been stopped out given the model that BHTS had described, and mentioned Medtronic stock.

Mr. Nicholson explained that at closing at the end of each day he and two others in the company looked at the stocks and how they had performed. In the case of Medtronic Mr. Nicholson said that they had looked at the stocks as a group and had determined that it would be best to retain Medtronic; which had turned out to be a good decision. In addition, Mr. Nicholson said that in 2008 they had kept Exxon Mobile stock when it appeared as though it should have been sold; but, that also had performed well.

L. Novotney inquired at BHTS’ decision to look at stocks at the close of business each day; and asked Mr. Nicholson if he meant to say that nothing would happen with the town’s investments

until after the stock market had closed and the group had gotten together after that. Mr. Nicholson indicated that was true, and that any adjustments to the investments would trail the market.

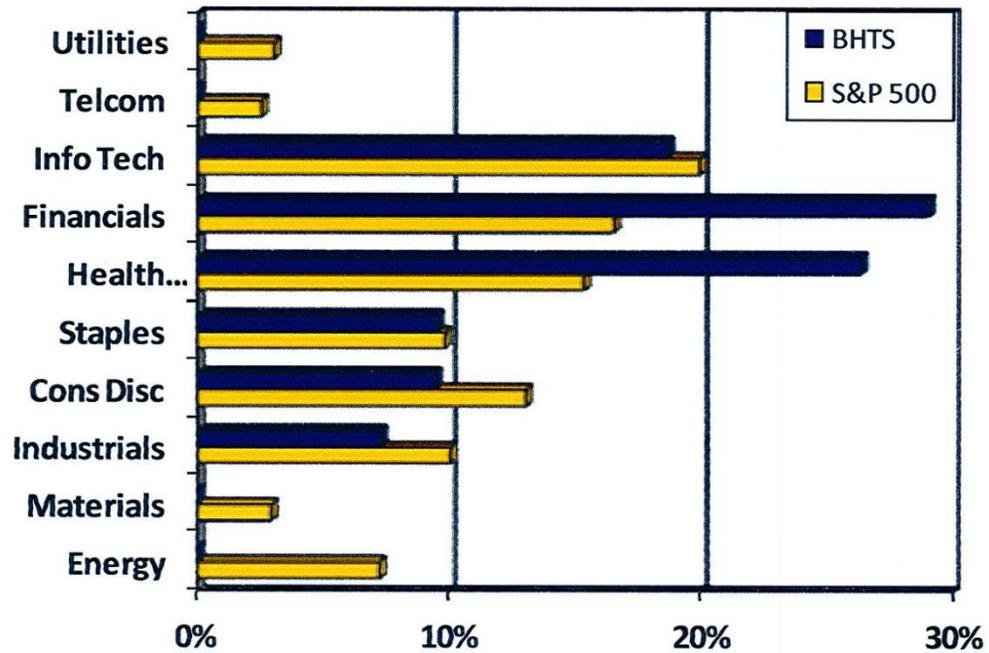
Mr. Nicholson then went back to his handout and described the Portfolio Overview of the town’s investments and gave a side by side comparison of the Asset Allocation Market Values and the Equity Diversification – Equity Holdings, as follows:



Mr. Nicholson reported that there was “no set template”, rather they managed investments from the “bottom up”. He reported that some of the top holdings were Medtronic, Brookfield, etc.

BHTS also provided in the handout an Equity Analysis comparing BHTS to the S&P 500:

**Economic Sector Weighting**



In the equity analysis he acknowledged that the investments were not doing as well; financials were usually the stocks that were the first to turn around. They had added entities in the health care field; but, they had avoided anything in the utilities and telecommunications markets.

BHTS also provided a list of the Top Holdings, as follows:

**Top Holdings**

Wells Fargo & Co	\$44,380
Roche Holdings	\$44,105
Apple Inc	\$43,605
Target Corp	\$43,190
Becton Dickinson	\$42,526
Amgen, Inc	\$41,078
Medtronic Plc	\$40,909
Oracle Corp	\$40,079
Brookfield Asset Mgmt	\$39,784
Procter & Gamble	\$38,198

J. Cronkite asked BHTS what is “overrated?” What is “too much?” Mr. Nicholson responded by saying if a stock was 35% or more it would not get added to the portfolio because they did not want the portfolio to become over-weighted.

In looking at the top holdings Mr. Nicholson reported that BHTS thought Medtronic was a good risk because it was in the field of healthcare; providing heart valves, stints, and they were involved in diabetes, which was a growing field. He said this was a good complement to the other holdings.

J. Cronkite noted that financial stocks were some of the first to recover in a down market, but they did present more risk. Unfortunately, J. Cronkite remarked that he saw more risk in financials today.

Mr. Nicholson also briefly reviewed other holdings including Brookfield, which was a Canadian holding. J. Cronkite remarked that Bank of America hadn’t done anything in a while.

Mr. Nicholson explained that BHTS did market research internally and did not rely on an outside source in determining when to buy, or when to sell; what to buy or what to sell. He said they used various publications, but they did not outsource the investment decisions. The investment decisions were done by himself, T. Wooster, and another gentleman in the office (Josh). When looking at companies they looked to find that the company is well capitalized; not a lot of debt; geographic diversity (globally); good product – and many other factors.

L. Novotney inquired about the current holdings; the impact the federal interest rate had on the account. Mr. Nicholson answered by saying that the feds had not increased interest rates last week as many people had expected. That could be interpreted as slow growth worldwide, or something else. However, he said he believed that it would not be long before the feds did raise the interest rate that the banks borrow from each other overnight to 0.13%. His opinion was this would not have a huge impact on the nations’ economy. He went on to say that the banks have been waiting for the increase. He did say that utilities could be impacted by a rise in the interest rate.

Again, Mr. Nicholson mentioned that they (BHTS) were “bottom up focused.”

In comparing BHTS investment performance to the S&P 500 the committee was provided a number of graphs that depicted the following:

- Since May 2007 through August 2015, Rockport Equity compared 6.1% to the S&P 500 at 5.7% for compounded average annual returns net of fees.
- 5 Years: From September 2010 through August 2015, Rockport Equity had compared average annual returns net of fees at 11.9% compared to 15.8% of the S&P 500.
- 3 Years: From September 2012 through August 2015 Rockport Equity had compared 8.6% to 14.3% of the S&P 500.

- One Year: September 2014 through August 31, 2015, Rockport Equity had compared -5.8% to 0.5% of the S&P 500.

Mr. Nicholson acknowledged that Rockport's investments had trailed the S&P 500 over the last five years. J. Cronkite asked how much the account was down overall. It was reported that the account was down 9 overall; the market was down 3; and the Dow was down 8.

Vice-chair Freeman asked from 2007 to 2008 what percentage of the account had been in cash. Mr. Nicholson responded by saying that it had never been 100% in cash; it had been about 50%, and most likely was 40% cash with 60% invested.

J. Cronkite inquired about IBM stock. Mr. Nicholson said the stock would most likely do well in the long term; they were now into providing software as a service, and were shareholders friendly paying good dividends. He remarked that in looking at a good company, often times they looked to invest in the companies that paid dividends of between 8 to 12%. He said they had previously liked Cisco Foods, but they had only paid shareholders dividends of about 3%. He also noted that Cisco was in the middle of a merger with US Foods.

J. Cronkite asked Mr. Nicholson if he thought the market was over-valued. He responded by saying the market was "fairly valued now", in looking at the price to earnings – they were in line with the market. However, he did not rule out the markets continuing to fall further – September was historically not a good month for stocks.

J. Cronkite commented that stocks did not always do well when rates started to climb. Mr. Nicholson answered by saying he believed the feds would raise the rate by 0.25%; and went on to say they would be looking at inflation, unemployment, US funds, global economics, China, and other things. He said that many people thought the feds might not raise the rates until 2018; and followed by saying that rates were not usually raised during an election year.

The committee thanked Peter, Tim, and Melanie for meeting with them and talking about the investments, after which the BHTS representatives left the meeting.

After the BHTS representatives had left the meeting L. Novotney raised the question about when the town had last gone to bid for investment services. He said he was trying to understand the process.

V. Lindsey reported that the previous Investment Committee had invited a number of banks in to discuss investments; sort of an interview process. That had been about eight years ago.

L. Novotney noted that the town had approximately 22 holdings, 9 of which were down. He suggested it might make sense to find out what alternatives might be available to the town for its investments.

Vice-chair Freeman asked V. Lindsey to find out what other towns might be using for investment companies or banks. Also, V. Lindsey mentioned that the town had to abide by state statute in terms of investments; she indicated she had documents pertaining to municipal investing that she would forward to the committee.

#### **B. Meeting with Select Board**

Select board chair William Chapman asked the group to meet with the select board to bring them up to date on the town's investments. In addition, if the committee had policy recommendations the board would be interested in hearing what those suggestions might be. Further, how had the town's investments been impacted by the downward trends of the market. Also, will the town be able to draw funds from the cemeteries' investment without dipping into the principal as a result of the loss in the stock market.

#### **4. Old Business**

##### **A. Election of Officers**

The committee members present agreed to hold off on election of officers until Chair Campbell could participate in the election. (Mr. Novotney might be able to participate via speaker phone at the next meeting.)

##### **B. Membership Discussion**

J. Novotney indicated he would follow-up with an individual that might be interested in joining the committee. The group agreed that as long as the person was a taxpayer in Rockport they could join the committee.

#### **5. Next Meeting Scheduled**

The committee then scheduled its next quarterly meeting for **Monday, December 14, 2015 at 4 p.m.** The meeting will be held in the Richardson Room at the town office building, 101 Main St., Rockport.

#### **6. Meeting Concluded**

The September 21, 2015 meeting of the Rockport Investment Committee concluded at approximately 5:01 p.m.



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Virginia B. Lindsey, Acting Recording Secretary