

**THE CITY OF PORTSMOUTH, NEW HAMPSHIRE
TRUSTEES OF TRUST FUNDS
REQUEST FOR PROPOSALS**

REGARDING FUND MANAGEMENT SERVICES

PRELIMINARY:

The municipal charter of the City of Portsmouth, New Hampshire requires that all trust funds of the City, "remain in the hands", of its three Trustees of Trust Funds (Trustees) who are appointed by the Mayor and approved by the City Council. The Trustees currently administer approximately \$17,000,000.00 in trust assets. The Trustees are seeking to retain a qualified investment/financial advisor. The financial advisor will work as a "Manager of Funds" to structure and administer a broadly diversified global portfolio for the investment of those funds. This Request for Proposals (RFP) is being distributed by the Trustees to solicit information and proposals from any individuals who may be qualified and interested in serving as the investment advisor to the Trustees.

It is the desire of the Trustees to engage the services of an investment advisor as described above no later than October 1, 2020. Accordingly, proposals may be submitted electronically pursuant to this RFP up to 1:00 PM on August 21, 2020. Thereafter, the Trustees will review the proposals with the expectation of producing a "short list" of individuals who will be interviewed by the Trustees. The Trustees would expect to retain the services of one of those interviewees in order to meet the October 1, 2020 commencement date.

Attached to this RFP is a copy of the investment policy of the Trustees, adopted June 9, 2011. All responses to this RFP should be mindful of its terms and conditions.

MANDATORY RFP REQUIREMENTS:

Although responding individuals and entities are encouraged to include any information deemed relevant by them in their responses, all responses must at a minimum address the following criteria.

1. Include a complete description of the background of the particular individual who would serve as the investment advisor to the Trustees, including a detailed description of that person's education and employment.
2. Provide a complete detailed description of any business entity or organization with which the proposed investment advisor is affiliated,

including the business history of that entity and a description of its ownership and management.

3. Include a list of at least six institutional clients of the proposing entity, providing the name, address and telephone number of a contact person for each of those clients. Clients with connection to the City of Portsmouth or involvement within the Portsmouth community are of particular interest.
4. Include a list of any references deemed appropriate by the proposer.
5. Provide a description of the involvement of the proposer within the community of the City of Portsmouth, including any association which the proposer may have had with real estate development projects or business transactions in the City as well as with the City government itself.
6. Address the investment policy of the Trustees, offering whatever comment is deemed relevant by the proposed investment advisor. Such commentary should include matters relating to asset allocation, asset classes, management strategies, and recommendations regarding balancing the portfolio.
7. Contain a detailed description of the fee structure under which the investment advisor would be compensated by the Trustees for providing fund management services. This description shall include any manner in which the investment firm, or its officers or employees might receive direct or indirect compensation as a result of the work performed for the Trustees other than any fees paid directly by the Trustees.
8. Include a complete description of the manner in which the investment advisor would service the account of the Trustees, including the timing and frequency of the personal meetings and the timing and manner in which written reports on fund management activities would be generated by the investment advisor for the Trustees. Each proposal should include a copy of a typical report which has been provided by the investment advisor to a client as similar as possible to the Trustees.

OPTIONAL:

Proposers are invited to share with the Trustees any philosophies or recommendations regarding issues of perceived relevance to the Trustees, such as the balancing of funds, asset allocation, and risk exposure as these considerations relate to the operation of a public entity in the nature of the Trustees of Trust Funds.

SUBMISSION:

All proposals submitted in response to this RFP shall be in the office of Judith E. Renaud, Controller of the City of Portsmouth at the Municipal Complex, 1 Junkins Avenue, Portsmouth, NH 03801 (email: jerenaud@cityofportsmouth.com) no later than 1:00 PM on Friday, August 21, 2020.

Dated: July 22, 2020

TRUSTEES OF TRUST FUNDS

Thomas Watson, Esq., Chair
Dana Levenson
Peter Weeks

TRUSTEES OF TRUST FUNDS
CITY OF PORTSMOUTH NEW HAMPSHIRE
INVESTMENT POLICY

This Investment Policy has been adopted by the Trustees on June 9, 2011, and it replaces any previously dated investment policies, guidelines or lists of authorized investments.

1. PURPOSE

The Trustees of Trust Funds for the City of Portsmouth serve as stewards of the assets of the Prescott Trust and City Trust Funds, and oversee the investment and operations of these Funds. The purpose of this Investment Policy Statement is to provide a clear understanding of the investment policies and guidelines to the Trustees, investment advisor(s) and other service providers, the citizens of Portsmouth and other interested parties.

2. GOVERNANCE & AUTHORITY

In accordance with section 1.309 [*of the City of Portsmouth ordinances*] the Board of Trustees of the Trust Funds shall be established in conformity with section 67 [*of the amended charter of the City of Portsmouth*], 1947, and revised January 1, 1988.

Specifically, the Board of Trustees of Trust Funds shall perform the following functions:

1. Exercise all power and perform all duties as stated in Section 67 of the amended Charter of 1947.
2. Receive all trust funds which may be donated or bequeathed to the city or any department thereof, unless otherwise provided or required.
3. Distribute income and principal in accordance with the purpose for which the trusts were established.

Additional provisions for Trust Funds also referenced by City Charter: [*section 3.8-Pecuniary Interest, section 3.14-Code of Ethics, section 7.21-Trust Fund (generally), section 7.22-Audit of Accounts and amendment C-Conflict of Interest*] shall be adopted into this policy.

Further, by reference here, this policy and the Trustees shall be bound by City Ordinance, ARTICLE VIII: Code of Ethics [*sections 1.801 thru 1.803*].

By the adoption of this policy the Board of Trustees of the Trust Funds also adopt and agree to act in compliance with all applicable State of New Hampshire laws (RSA's) including, but not limited to;

Title III, Chapter 31, Section 31: [*Section 31:19;General, 31:22;Trustees, 31:25,&a-d;Custody;Investment,3:27Collective Investments, Section 31:28 Exception, Section 31:29;Contributions and Withdrawals, Section 31:32 Expenditures, Section 31:33 Audit, Section 31:34 Records, Section 31:38 Reports, Section 31:38-a Professional Banking and Brokerage Assistance, Section 31:39-a Conflict of Interest*].

Title LVI, Chapter 564-B Uniform Trust Code, Section 9 [*Section 564-B:9-901 Prudent Investor Rule, Section 564-B:9-902 Standard of Care, Section 564-B:9-903 Diversification, Section 564-B:9-904 Duties at Inception, Section 564-B:9-905 Compliance, Section 564-B:9-906 Language. Section 564-B:9-907 Governing Law*].

Title LVI, Chapter 564-B Uniform Trust Code, Section 8 [*Section564-B:8-801 Duty to Administer, Invest and Manage Trust, and Section 564-B:8-802 Duty of Loyalty*].

The Ordinances referenced in this section are included in their entirety as Appendix {X} to this Policy.

3. INVESTMENT OBJECTIVES & ASSUMPTIONS

A. Objectives

The principle goals of the investment program are:

- To preserve and, if possible, grow the principal of the Funds on an absolute and *real* (inflation-adjusted) basis; and
- To generate an average annual net total return sufficient to support the distribution policy determined by the Trustees, or mandated by the Trust documents or statutes. (Net total return includes income plus realized and unrealized gains and losses on Fund assets less all operating fees and expenses).

B. Fund-Specific Goals:

- Prescott Trust – The Prescott Park Trust is exempt from income-only municipal trust law relating to distributions, and therefore has a *total return* mandate. The long term total return requirement is comprised of an annual distribution amount of 3%-5% of the principal value of the portfolio (per the spending guidelines below), *plus* some measure of return equal to or greater than the effective rate of inflation and all expenses associated with the management and operation of the fund itself.
- Endowment Fund – The Endowment Fund is subject to income-only spending laws and therefore needs to earn the highest current income return available, consistent with the dual mandate to maintain and, if possible, over time grow the real principal value of the Fund and the income it produces.
- Scholarship Fund – The Scholarship Fund is subject to income-only spending laws and therefore needs to earn the highest current income return available, consistent with the dual mandate to maintain and, if possible, over time grow the real principal value of the Fund and the income it produces. Liquidity needs in the Scholarship Fund are highest in the spring and should be reserved when/if market conditions are favorable for the liquidation of securities to meet distributions within 9-12 months.
- Housing Endowment Fund – The Housing Endowment Fund has liabilities that may be lumpy and unpredictable. The portfolio objectives are to provide and grow real current income and principal while maintaining sufficient liquidity in a short duration, income-producing allocation to meet reasonable estimates of future distributions on short notice.

C. Risks

We, the Trustees, consider these funds to be perpetual. These funds must provide support in equal measure to meet liabilities now and in perpetuity, adjusting for inflation.

Investment risks include any factor that might prevent us from achieving our objectives; but we broadly view risk in terms of *time horizon*, and seek to align the assets in the portfolios with the nature and timing of the liabilities we need to fund with them.

In consideration of near term liabilities, the conventional measure of portfolio risk, *volatility*, matters most; to meet liabilities well into the future, *real* (inflation adjusted) *portfolio total returns* matter most and volatility very little. In between the long and short term, portfolio *cash flow* (income) matters most, and should comprise as much of the amounts distributed from the portfolios as practical.

D. Definitions

1. Total Return - equals the periodic change in principal value, *plus* all dividends and interest received and/or accrued over any measurement period.
2. Earnings - or "income", equals dividends and interest received over any measurement period.
3. Distribution - is any amount paid out of the portfolios to meet current spending needs which may be comprised of a combination of earnings *and* principal, depending on the provisions of the applicable trust document or statutes.

E. Investment Guidelines

Consistent with the liabilities confronting each of the funds, the portfolios should provide the right balance of liquidity, income and real return. Generally, equities and hybrid securities (i.e. equities that produce high income or bonds that produce equity like total returns) are the best asset classes for total return, i.e. growth *and* income. Bonds and hybrid securities are suitable for the production of current income in the form of dividends and interest. Money market funds and short-term bonds are best for meeting liquidity needs.

The Trustees have established the following asset allocation guidelines. We seek to achieve our investment goals by managing the allocation of assets to best match the timing and nature of near-term and future liabilities. For the most part, we recognize achieving our investment objectives will require that we maintain a long-term investment horizon in our decision making; and that it's important we are not swayed by short-term market influences.

We recognize the role sensible diversification plays in the formulation of our asset allocation and portfolio construction. The addition of uncorrelated assets should reduce overall portfolio volatility over time. Adding less volatile assets to the portfolio should reduce short-term volatility, as well.

However, on balance we view diversification as a way to increase returns as much as reduce risk (volatility). Our long-term perspective makes diversification a lower policy and portfolio priority since real returns matter to us most over time – and portfolio volatility is something the Trustees recognize is a risk the Funds must bear for the opportunity to earn higher real returns in the long-run.

	Strategic Weight	Maximum Weight	Minimum Weight	Proxy / Benchmark Index
Core Equity	50%	75%	50%	SPDR S&P 500 ETF TRUST (SPY)
Small Capitalization Stocks	5%	20%	0%	ISHARES RUSSELL 2000 (IWM)
International Developed Equities	10%	25%	0%	VANGUARD MSCI EAFE ETF (VEA)
Emerging Market Equities	5%	10%	0%	VANGUARD MSCI EMERGING MKT (VWO)
REITs*	5%	10%	0%	VANGUARD REIT ETF (VNQ)
	75%			
High Yield Bonds	0%	20%	0%	VANGUARD HIGH YIELD CORP-ADM (VWEAX)
Investment Grade Bonds	10%	20%	0%	VANGUARD INTM TERM INV G-ADM (VFIDX)
Government Bonds	15%	20%	0%	ISHARES BARCLAYS 7-10 YEAR (IEF)
Mortgage Securities	0%	20%	0%	N/A
	25%			

Note: The investment guideline chart above can be subject to revision over time by the Trustees. Under normal conditions the strategic weight of 75% equities shall be the maximum for the combined equity class grouping.

F. Limitations

In order to achieve reasonable diversification and to spread investments over a broad range of securities, the Trustees have a strong preference to utilize mutual funds providing passive exposure to appropriate indexes. Within the stated limitations herein, the Funds may be invested in mutual funds invested in a diversified portfolio suitable for trusts and endowments (in accordance with Section 3.I).

Normally, the assets of the Trusts, other than the Park properties owned in the Prescott Trust, shall be invested in liquid financial assets, normally convertible to cash within 1-3 business days.

Directly owned real estate, as well as securities acquired through gifts, may be held if the Trusts' financial advisors deem such action beneficial. Investments in private placements, short sales, margin purchases, commodities or derivatives are prohibited unless investments are made through mutual funds that have clear limits or guidelines on investments in these classes of securities. The Trustees adopt the standards of the Uniform Trust Code, Duty of Loyalty, contained in N.H. Revised Statutes Annotated 564-B8-802, to comply with conflicts of interest.

G. Process

At the recommendation of their financial advisor(s), the Trustees will seek to add value by actively managing the asset allocation to reflect current market conditions within the permitted ranges; and will use mainly *passive* investment vehicles to achieve the desired asset exposures, as previously addressed in the Policy.

As fees have a meaningful impact on returns over time, the Trustees will make every effort to use the lowest-fee securities possible, and ensure all fee structures are transparent.

H. Active vs. Passive Portfolio Exposures

From time to time, certain carefully vetted actively managed funds may be used to meet the needs of the portfolios if a passive vehicle is not available to fit the specific need or may not meet the need as effectively as an appropriate actively-managed fund.

Such active funds should not contribute undue volatility versus its benchmark index. This performance standard reduces the introduction of non-market, specific risks into the portfolio for which the portfolio might not earn commensurate returns.

In any event, the portfolios shall not invest more than 30% of any asset class in actively managed funds.

4. SPENDING GUIDELINES

Municipal law governs distributions from all the portfolios except for the Prescott Park Endowment. Distributions from these portfolios are limited to the accounting income earned through interest and dividends.

The trustees recognize the creative tension between the need for current income to meet operations today and the effect higher current spending might have on the Funds' ability to meet *future* spending needs. Since there is a low expectation that future contributions might bolster the growth of the portfolios, the Trustees agree to target a long-term spending rate of 3%-5% of the principal value of the portfolio averaged over a 3-5 year trailing period in the case of the Prescott Trust.

In the case of Funds that distribute income only, the distribution will be determined by yields available within the permitted range of asset allocations, as tactically appropriate.

Further, in the case of the Prescott Trust, the Trustees also recognize there might be market or budget circumstances that would make full compliance with this spending guideline difficult and/or detrimental to the operation of the Park in the near term, requiring them to exceed the spending level prescribed under this policy, on occasion.

However, across all the Funds, the Trustees shall make every effort to manage distributions in accordance with these guidelines over time as a way to properly balance current and future spending needs.

5. POLICY ASSET ALLOCATION EXCEPTIONS

Under certain market conditions, the current income return available from a bond portfolio may be meaningfully lower than income returns available from other asset classes. In these circumstances, the portfolios may suffer an unacceptable loss of current return if they are constrained by the asset allocation guidelines in this Policy to own very low income producing assets.

This policy exception provides that the Trustees may purchase/allocate an equity and/or hybrid security fund toward the fixed-income allocations in these portfolios when the indicated current yield of such a fund (the "SEC Yield") exceeds the yield on the generic 5-year US treasury note. The Trustees shall monitor these yield differentials to ensure compliance with this section of the policy. However, the Trustees shall have the discretion to hold an equity/hybrid fund allocated under this exception *for up to one year* from the date of its acquisition regardless of the prevailing yield spreads, whereupon the Trustees must bring the portfolios into compliance with the regular allocation guidelines should the required yield spread condition for this exception no longer exist.

The restriction and guidance on the use of active versus passive funds, as defined in Sections 3.G-I, shall apply within the individual asset classes, notwithstanding the asset class of the funds used under this policy exception.

6. INVESTMENT PERFORMANCE & REVIEW

The Trustees shall review the investment performance of the Trust Funds with the investment advisor or financial consultant quarterly. In evaluating the investment performance of the Funds' assets, the Trustees shall compare the relative performance of the different classes of Funds' assets to the performance of recognized index measures for comparable asset classes and peer comparisons, as defined in the asset allocation table in Section 3.E.

Generally, every 5-7 years the trustees shall conduct a formal review of the Funds' overall configuration, including but not limited to the advisor(s) retained, costs and overall efficacy, custody and trading, etc., as well as a review of this Policy in its entirety, to ensure the Funds are operating in an optimal fashion to meet their long-term objectives. In any event, a thorough due diligence as described above shall be implemented and documented at least every 10 years.

1. City Portsmouth, NH Charter References
2. City of Portsmouth, NH City Ordinance References
3. State of New Hampshire RSA (revised statutes annotated) References

**CITY OF PORTSMOUTH, NEW HAMPSHIRE
TRUSTEES OF TRUST FUNDS
REQUEST FOR PROPOSALS
RFP # 09-21
FUND MANAGEMENT SERVICES**

Sealed Proposals, plainly marked "**RFP # 09-21 TRUSTEES OF TRUST FUNDS, FUND MANAGEMENT SERVICES**" addressed to Judith E. Renaud, Controller of the City of Portsmouth at the Municipal Complex, 1 Junkins Avenue, Portsmouth NH 03801 will be accepted until 1:00pm on Friday, August 21, 2020. The RFP document and the Investment Policy of the Trustees is available at <http://www.cityofportsmouth.com/finance/purchasing.htm> or by contacting the Controller at (603) 610-7259 or by email at jerenaud@cityofportsmouth.com. Addenda to the proposal, if any, including written answers to questions, will be posted on the City of Portsmouth website under the project heading. The City of Portsmouth reserves the right to reject any or all proposals, to waive technical or legal deficiencies, to accept any proposal and to negotiate such terms and conditions of any proposal that may be in the best interest of the City. If you have any questions please contact the Controller in writing at jerenaud@cityofportsmouth.com.