

## LETTER FROM THE COMMISSIONERS OF TRUST FUNDS

March 31, 2020

Dear Town Manager and Select Board,

We would like to provide a quick update on the disposition of assets under the management of the Commissioners of Trust Funds in light of the COVID-19 market reaction. As we write, stock and bond markets remain quite volatile, thus it is difficult to provide an accurate picture of what might happen in the short term. We are in uncharted territory with respect to U.S. monetary and fiscal policy response.

With interest rates so low (again), we see little value in the Treasury market, and we would expect the interest rate on money market assets to be negligible for the foreseeable future, as was the case post the 2008–09 financial crisis. The price-to-earnings valuation on the U.S. stock market has moved from fairly high (19x prospective earnings) down to near the long-term average (about 14x prospective earnings). However, anticipated earnings growth in the major indices has gone negative, making valuations more difficult to determine. Inflation, which has heretofore stayed stubbornly low – even given the low unemployment rate – now runs the risk of either falling into negative territory or, worse, accelerating sharply under the extraordinary \$2T of fiscal stimulus enacted so far.

Heading into 2020, the Funds' asset allocation was relatively conservative within the established policy ranges. The equity allocation going into the market decline, at roughly 62% of assets in the main accounts, was near the bottom of our policy range. Over the past year we had reduced exposure to stocks and to corporate debt. The Funds' bond exposure was less aggressive than relevant indexes, and we held an above-average cash level as well as some small hedges in the form of gold-mining and silver ETFs. This risk reduction helped mitigate losses to some degree.

The majority of assets we manage are in a "growth" model, meaning they had significant exposure to declining equity markets. The Main account, for example, began 2020 with a balance of \$4.5 million. As of Friday, March 27<sup>th</sup>, this account is valued at \$3.9 million, translating to a -13.4% year-to-date return (versus -21.0% for the S&P 500 stock index and a gain of 3.47% for the Bloomberg Barclays U.S. Aggregate Bond Index). In contrast, the Library Trust account, which is managed to a lower-risk model, has returned -6.6% for the same period.

These losses, while relatively "modest" under the circumstances, should give pause to those relying on the Funds for operating income. At the very least, we would suggest that regular payments should be adjusted downward from 2019 levels, with ongoing input from the Commission as we cautiously evaluate the longer-term implications during the second quarter of 2020.

We are available to help the Town in whatever way we can during this time of uncertainty. Please do not hesitate to contact us if needed.

Regards,

C. Hayes Miller (Chair)

Robert MacIntosh

David Risgin

Commissioners of Trust Funds