Approved: May 19, 2023

Trustees of Trust Funds
Meeting Minutes
Friday, April 21, 2023
Matthew Thornton Room, Merrimack Town Hall

The meeting was called to order at 9:01 a.m. Trustees present were Christensen, Wilkes, and Petrides. Also present was Tom Boland Finance Director.

On a motion by Wilkes, second by Petrides, the minutes of March 17, 2023 were approved as distributed, 3-0-0.

A request from Parks and Recreation Director Matt Casparius for assistance with Camp Naticook Scholarships was discussed. Parks and Recreation and youth programs are the focus of the Bear Christensen Fund. It was noted that we had donated two weeks of scholarships in 2022. Wilkes moved, second by Petrides, to authorize $590 to scholarships. Motion carried 3-0-0.

As a Trustee, Pat Heinrich was working to organize trustee files. She has offered to continue this work which is about 75% complete. Motion by Petrides, second by Christensen to authorize her to continue this project. 3-0-0. It was noted that there been correspondence by Heinrich with school officials regarding the Watkins Prize Speaking Contest. It was agreed that the contest was for the middle school and Christensen will follow up with Principal Caragher.

With the failure Of Silicon Valley Bank and some potential turmoil in the banking industry, an inquiry was made to Cambridge Trust to re-examine our bank holdings and report. Our holdings are in Bank of America, JPMorgan Chase and Regions Financial. These are all strong holdings. The full report is attached as an appendix to these minutes. We will have a full portfolio review with Cambridge Trust at our May meeting. There was discussion about future dividend income stagnating as rising interest rates have an impact on earnings, and consideration of more heavily weighting fixed income such as treasuries which have currently high yields of 4-5%. We also want to look at future timelines and laddering as we navigate the next two years.

Our next meeting is planned for May 19, followed by June 16.

There being no further business, the meeting was adjourned at 9:35 am.

Respectfully submitted,

Chris Christensen
Trustee Chair

March 22, 2023

Merrimack Trustees of Trust Funds

Here are some thoughts on the banking sector and the banks that are owned in the portfolios.

The recent failures of both Silicon Valley Bank and Signature Bank were, in large part, the result of overdependence to specific end-markets (early-stage/venture-backed businesses and cryptocurrency) and poor risk management practices. The bank-specific positions in your portfolio reflect our preference for holding broadly diversified companies across key components of a bank's operating model. Consideration is given to business models that limit excess concentration in areas such as business segment contribution, loans by industry, depositor mix, and geographic exposure … all while being guided by well-regarded, seasoned management teams. As a result, these bank investments (which include J.P. Morgan Chase & Co., Bank of America, PNC Financial, and Regions Financial) have materially different business models than those that recently failed and are not over-extended in any single area of their operations. Brief summaries below.

J.P. Morgan Chase & Co. (ticker: JPM). JPM is the largest bank in the US with over \$3.6T in assets on its balance sheet. Revenues are split nearly 50/50 between the traditional banking business and the fee business (such as investment banking and asset management). \$2.3T in deposits was held on balance sheet at the end of FY'22 with nearly half of those coming from the bank's Consumer & Community Banking unit; 61% of total deposits are held in accounts that that exceed the FDIC insurance limit of \$250,000 (for the sake of comparison, that number exceeded 90% for Silicon Valley Bank at the time of its failure) with the average balance on those running at just \$1.5M (vs. \$4.2M at Silicon Valley Bank). Deposit inflow that JPM is realizing from the recent industry disruption would be unlikely to alter the mix of exposure in a material way. Further, from a credit risk management standpoint, JPM's loan exposure is does not exceed 20% of its entire loan book in any area (the largest being Residential Mortgage lending).

Bank of American (ticker: BAC). The 2nd largest bank in the US (\$3.1T in assets) on balance sheet, BAC realizes ~55% of its revenue from core banking related activity with the rest coming from fees related to advisory, wealth management and capital markets activities. Of BAC's $1.9T in deposits (11.8% of all deposits in the US), 54% comes from its retail-centric consumer business; 65-70% of the bank's deposit base is fully insured by the FDIC. The bank has noted that it has seen incremental deposits (est. $15B) flow into the bank in the week following the recent bank failures which, if true, would represent just under 1% of its exiting deposit liabilities—not enough to materially change the mix away from the 55%/45% consumer/commercial split. Like other large banks, BAC's loan exposure leans toward Commercial & Industrial lending but is balanced out by Real Estate (both Commercial and Residential) and Credit Card. BAC's business mix is well diversified and company remains well-capitalized with solid liquidity.

PNC Financial (ticker: PNC). PNC—considered a Super Regional Bank—is the 9th largest bank in the US with over $557B of assets. PNC has a presence across the US. Core banking activities generate over 60% of the bank's revenue with fee-generating services such as card/cash management services and asset management providing the remainder. Deposits of $436B (nearly 3% of all bank deposits in the US) are sourced from both consumer accounts (~60%) and commercial accounts (40%). Less than half of the deposits are uninsured by the FDIC with the average size of those deposits $1.4M. Any deposit inflows into the bank resulting from the recent bank failures likely would tend toward commercial accounts which represent a lower portion of PNC's overall mix. Greater than 50% of PNC's loan book is geared toward commercial lending (C&I and CRE, in particular). Management is well-regarded and oversees a strong operation including a healthy balance sheet. In a show of financial strength, PNC recently pledged $1B in deposits to help stabilize First Republic Bank.

Regions Financial (ticker: RF). With $155B in assets (which places it among the top 30 US banks), RF is the smallest bank held in portfolios. However, conservative balance sheet management makes it stand out among regional bank peers. The bank operates in the southeast part of the US (headquarters are located in Birmingham, AL) with branch locations in 15 states where it holds a top five market share in most of its trade areas. Revenues are split across core banking operations (66%) and fee lines, primarily wealth management (34%). From a deposit standpoint, of RF's $131B in deposits, 63% are sourced from the consumer portion of its bank and 30% from its corporate banking relationships. Given its "Main Street" orientation, uninsured deposits carry a relatively low average balance of $1.1M; ~35% of all deposits are uninsured at RF. Lending activity focuses on commercial loans (67% of total lending) with no single end-market borrower representing more than 10% of the loan book. The company is conservatively managed and remains in an excess capital and strong liquidity position.

Please let me know if you need any additional information.

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