

BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION  
AGENDA

TUESDAY, FEBRUARY 9, 2016

(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

**COMMISSIONERS CHAMBERS**  
**515 CENTER AVENUE - 4<sup>TH</sup> FLOOR**  
**BAY CITY, MI 48708**

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	A. NEXT REGULAR MEETING - TUESDAY, MARCH 8, 2016 IMMEDIATELY FOLLOWING THE RETIREMENT BOARD OF TRUSTEES MEETING AT APPROXIMATELY 2:30 P.M., COMMISSIONERS CHAMBERS, 515 CENTER AVENUE - 4 <sup>TH</sup> FLOOR, BAY CITY, MI 48708

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BENEFICIARY ASSOCIATION

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(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

**COMMISSIONERS CHAMBERS**  
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**BAY CITY, MI 48708**

- VI. UNFINISHED BUSINESS
- VII. NEW BUSINESS
- VIII. MISCELLANEOUS BUSINESS
- IX. ADJOURNMENT

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
JANUARY 12, 2016 MINUTES VEBA

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**NOTE: In addition to these typed minutes, this Board meeting was also taped. These tapes are available for review in the Retirement Office.**

The meeting of the Board of Trustees was held on January 12, 2016 at 3:01 p.m. in the Commission Chambers, 4<sup>th</sup> Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan. Roll was taken.

**Trustees Present:** Chairperson Gray, Mr. Brzezinski, Mr. Coonan, Ms. Goetz, Mr. Gromaski, Mr. Krygier, Mr. Morse, Mr. Pett, Mr. Starkweather,

**Trustees Absent:** None.

**Also Present:**

Consultant: The Bogdahn Group: Howard Pohl  
Finance Officer: Crystal Hebert  
Retirement Administrator: Rebecca Marsters  
Public: Yes

Chairman Gray welcomed Mr. Krygier to the VEBA Board and welcomed back Mr. Starkweather to the VEBA Board.

The meeting was called to order by Chairman, Steve Gray at 3:01 p.m.

Chairman Gray then turned the meeting over to Ms. Hebert for the election of officers for 2016.

Ms. Hebert asked for a nomination for the position of Chairperson. Trustee Gromaski nominated Steve Gray. Trustee Starkweather seconded the nomination. Mr. Gray accepted the nomination. There were no other nominations.

**MOTION #1:** Moved supported and carried to unanimously elect Steve Gray as the 2016 Chairperson for the Voluntary Employees' Beneficiary Association Board (VEBA).

Ms. Hebert asked for nomination for the position of Vice Chairperson. Trustee Starkweather nominated Richard Brzezinski. It was seconded by Trustee Coonan. Mr. Brzezinski accepted the nomination. There were no other nominations.

**MOTION #2:** Moved, supported and carried to unanimously elect Richard Brzezinski as the 2016 Vice Chairperson for the Voluntary Employees Beneficiary Association Board (VEBA).

Ms. Hebert asked for a nomination for the position of Sergeant at Arms. Trustee Brzezinski nominated Matt Pett. The nomination was seconded by Trustee Gromaski. Mr. Pett accepted the nomination. There were no other nominations.

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
JANUARY 12, 2016 MINUTES VEBA

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**MOTION #3:** Moved, supported and carried to unanimously elect Matthew Pett as the 2016 Sergeant at Arms of the Voluntary Employees' Beneficiary Association (VEBA).

The meeting was turned over to Chairperson Gray.

**MOTION #4:** Moved, supported and carried to approve the minutes, as printed, from the December 8, 2015 regular meeting.

Mr. Gray called for public input. As there was no public input, he moved onto petitions and communications.

**RES. No: 2016- 1:**

Moved, supported and carried to adopt resolution 2016-1 to receive the monthly reports Portfolio Value ending 12/31/15 (Today's Value \$40.9 million), Monthly Change in Book and Market Value ending 11/30/15, C.S. McKee performance report ending 11/30/15, Capis Recapture services ending 11/30/15, VEBA YTD Budget Report ending 12/31/15, and Approved Invoices Report ending 12/30/15.

**ANNOUNCEMENTS:**

- A. Next regularly scheduled meeting will be Tuesday, February 9, 2016 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in Commissioner's Chambers, 515 Center Avenue - 4<sup>th</sup> Floor, Bay City, MI 48708.

**UNFINISHED BUSINESS:**

**NEW BUSINESS:**

Mr. Pohl apologized for Peter Brown's absence due to the road conditions. He conveyed Mr. Brown's wishes to the Board for a Happy New Year.

**MISCELLANEOUS BUSINESS:**

Mr. Starkweather commented on the fact that Atalanta Sosnoff was terminated and the portfolio balance for Atalanta Sosnoff shows a decrease from \$9.7 million down to \$7,415.58 and asked where the money was put. Ms. Hebert stated that portfolio balance shows MFS now has \$9.7 million.

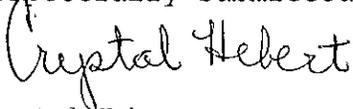
**ADJOURNMENT:**

**MINUTES** BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)  
JANUARY 12, 2016 MINUTES VEBA

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**MOTION #5:** Moved, supported and carried to adjourn the meeting at -  
3:14 p.m.

Respectfully submitted,



Crystal Hebert  
Finance Officer/Secretary

Transcribed by: Tracy Cederquist

**MEETING OF THE V.E.B.A. BOARD OF TRUSTEES COMMITTEE**  
JANUARY 12, 2016

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4<sup>TH</sup> FLOOR,  
 BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 3:01 P.M.

**Motions**

TRUSTEE	1	2	3	4	5					
BRZEZINSKI	Y	Y	Y	Y	S-Y					
COONAN	S-Y	S-Y	M-Y	Y	Y					
GOETZ	Y	Y	Y	Y	Y					
GRAY	Y	Y	Y	Y	Y					
GROMASKI	Y	Y	Y	S-Y	Y					
KRYGIER	Y	Y	Y	Y	M-Y					
MORSE	Y	Y	S-Y	Y	Y					
PETT	M-Y	M-Y	Y	M-Y	Y					
STARKWEATHER	Y	Y	Y	Y	Y					

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

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MEETING OF THE **VEBA** BOARD OF TRUSTEES COMMITTEE  
JANUARY 12 , 2016

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4<sup>TH</sup>  
 FLOOR, BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIRPERSON STEVE GRAY 3:01 P.M.

**RESOLUTIONS**

TRUSTEE	2016-1								
BRZEZINSKI	M-Y								
COONAN	Y								
GOETZ	Y								
GRAY	Y								
GROMASKI	Y								
KRYGIER	Y								
MORSE	Y								
PETT	S-Y								
STARKWEATHER	Y								

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

## Investment Policy

### I. PURPOSE OF INVESTMENT POLICY

The Bay County Voluntary Employees' Beneficiary Association Board of Trustees ("Board") was established for the purpose of providing, through Health Care Organizations, on a pre-funded basis, medical benefits for retired employees, their spouses and dependents of the County and its Component Units. To provide for such other life, sick, accident, vacation or other post-employment benefits as defined in Section 501(c)(9) of the Internal Revenue Code and permitted under Michigan Public Act 149 of 1999, as amended.

The VEBA Trust Agreement became effective 9/30/01 with the adoption , on 09/24/01, of Resolution 2001-242 by the Bay County Board of Commissioners.

The Board maintains that an important determinant of future investment returns is the expression and periodic review of the Bay County Voluntary Employees' Beneficiary Association ("VEBA" or "Plan") investment objectives. To that end, the Board has adopted this Investment Policy and directs that it apply to all assets under their control.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term and that investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with the Prudent Investor Rule and any other applicable ordinances and statutes.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, interest rate fluctuations and volatility of securities markets make it necessary to judge results within the context of several years rather than over short periods of five years or less.

The Board will employ investment professionals to oversee and invest the assets of the Plan. Within the parameters allowed in this document and their agreements with the Board, the investment management professionals shall have investment discretion over their mandates, including security selection, sector weightings and investment style.

The Board, in performing their investment duties, shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) - (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

## II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The Investment Managers are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total fund:

Asset Class*	Target	Range	Benchmark Index
Domestic Equity	53%	48% - 58%	Russell 3000
Large Capitalization	33%	28% - 38%	Russell 1000
<i>LC Value</i>	16.5%	14-19%	<i>Russell 1000 Growth Index</i>
<i>LC Growth</i>	16.5%	14-19%	<i>Russell 1000 Value Index</i>
Small/Mid-Capitalization	20%	15% - 25%	Russell 2500
Broad Market Fixed Income	47%	42% - 52%	Barclays Aggregate
Cash**	0%	0% - 5%	90-Day T-Bills

\*\* Benchmark will default to "broad market fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

The Investment Consultant will monitor the aggregate asset allocation of the portfolio and notify the Board of Trustees to rebalance to the target asset allocations based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed in a manner to maintain allocations within policy ranges while minimizing transaction costs. The Board does not intend to exercise short-term changes to the target allocation.

## III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers:

### A. Total Portfolio Performance

The performance of the total portfolio will be measured for rolling three (3) and five (5) year periods. The performance of the total portfolio will be compared to the return of the policy indexes comprised of 33% Russell 1000 Index, 20% Russell 2500 Index and 47% Barclays Aggregate..

1. On a relative basis, it is expected that the total portfolio performance will rank above the median of the appropriate peer universe over three (3) and five (5) year time periods.
2. On an absolute basis, the investment goal of the investment portfolio is to achieve an annual investment return target of 7.3% over a 10 year time period or investment cycle.

B. Equity Performance

The combined equity portion of the portfolio, defined as domestic and international common stocks is expected to perform at a rate at least equal to 62% (33%/53%) of the Russell 1000 Index and 38% (20%/53%) of the Russell 2500 Index (Mid-Cap) as well as above the median of combined equity fund performance over three (3) and five (5) year time periods. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank above the median of the appropriate peer universe over three (3) and five (5) year time periods.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio. The combined fixed income portion of the portfolio is expected to perform at a rate at least equal to the Barclays Capital U.S. Aggregate Bond Index as well as above the median of combined fixed income fund performance over three (3) and five (5) year time periods. All portfolios are expected to rank above the median of the appropriate peer universe over three (3) and five (5) year time periods.

**IV. INVESTMENT GUIDELINES**

A. Overall

All investment guidelines and restrictions of the State of Michigan are incorporated by reference, including, but not limited to:

- a. Michigan Public Act 149 of 1999, as amended; and
- b. Michigan Public Act 314 of 1965, as amended; and
- c. Bay County Voluntary Employees' Beneficiary Association Trust Agreement.

B. Pooled Funds

Investments made by the Plan may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and limited liability corporations. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this IPS. In the event of investment by the VEBA into a pooled fund, the VEBA will adopt the prospectus or governing policy of that fund.

C. Collective Investment Restrictions and Correcting Excess Investments

All investment managers and investment consultants are restricted individually, and collectively, by this IPS. The investment managers shall coordinate monthly with the investment consultant, who shall (among other things) assure collective compliance with this IPS. In the event any investment, based on changes in the market value of the VEBA assets, causes the VEBA to exceed any limitation prescribed in this IPS, the assets may be reallocated by the Board of Trustees in a prudent manner to comply with Michigan Public

Act 149 of 1999, as amended and Michigan Public Act 314 of 1965 and this Investment Policy.

D. Guidelines for Equity Investments

1. Not more than 70% of the VEBA's assets in global stock as defined as in §12(b)(4)(b) of PA 314 of 1965.
2. The VEBA shall not invest more than 5% of their total assets in any one corporation.

E. Guidelines for Fixed Income Investments and Cash Equivalent

Specific guidelines will be outlined for separate account managers in their addendums. For mutual funds and collective trusts guidelines will be outlined in their prospectus or offering document.

V. **COMMUNICATIONS**

- A. On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- B. On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions of Section IV (as well as any provisions outlined in the Investment Manager's addendum). In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the Board within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the County, and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.
- C. If an Investment Manager owns investments that complied with section IV at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, the Investment Manager shall reallocate assets in a prudent manner to comply with the prescribed limitations. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.
- D. The Investment Consultant shall evaluate and report on a quarterly basis the rate of return and relative performance of the Plan on a gross and net of fee basis.
- E. The Board will meet periodically to review the Investment Consultant's performance report. The Board will meet with the Investment Managers and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis as prescribed by its Due Diligence Policy.

- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the Plan so that the investment portfolio can be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To this end the Investment Managers should, to the extent possible, attempt to match investment maturities or investment programs with known cash needs and anticipated cash-flow requirements.

## VI. COMPLIANCE

- A. It is the direction of the Board that the Plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by authorized signers of the Board.
- B. At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.
- C. The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval and shall vote all proxies associated with their portfolios. On a regular basis, at least annually, each manager shall report a record of their proxy vote. Additionally, any other proxy votes required for plan assets, such as commingled funds, collective trusts or mutual funds or other routine matters, shall be voted upon by the Finance Officer and/or the Board of Trustees. In the event there are non-routine matters or items that raise questions, those items shall be referred to the Investment Consultant for review and who shall recommend a vote to the Finance Officer.

## VII. CRITERIA FOR INVESTMENT MANAGER REVIEW

The Board wishes to adopt standards by which judgments of the ongoing performance of an Investment Manager may be made. If, at any time, any three (3) of the following is breached, the Investment Manager may be warned of the Board's serious concern for the Plan's continued safety and performance and Manager may be considered "on watch". If any five (5) of these are violated the Investment Consultant may recommend an Investment Manager evaluation for that mandate.

- Four (4) consecutive quarters of relative under-performance versus the benchmark.
- Three (3) year trailing return below the median within the appropriate peer group and under performance versus the benchmark.
- Five (5) year trailing return below the median and under performance versus the benchmark.
- Three (3) year downside return greater than the index (greater than 100), as measured by down market capture ratio.

- Five (5) year downside return greater than the index (greater than 100), as measured by down market capture ratio.
- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the Investment Policy, Investment Manager Addendum or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a 60% vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the Investment Manager at any time for any reason.

#### **VIII. APPLICABLE COUNTY ORDINANCES**

If at any time this document is found to be in conflict with the VEBA Trust Agreement or applicable Michigan Statutes, the Trust Agreement and Statutes shall prevail.

#### **IX. REVIEW AND AMENDMENTS**

It is the Board's intention to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified in writing. Through this Investment Policy, the Investment Managers concur with the provisions of this document. By signing this document, the Chairman attests that this policy has been recommended by the Investment Consultant, reviewed by the Plan's legal counsel for compliance with applicable law, and approved by the Board.

#### **BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION**

\_\_\_\_\_  
Chairman, Board of Trustees

\_\_\_\_\_  
Date

## Bay County Voluntary Employees' Beneficiary Association

### Manager Addendum to Investment Policy for C.S. McKee Investment Managers Core Fixed Income

*The investment objectives and guidelines for the assets managed by C.S. McKee Investment Managers ("C.S. McKee") for Bay County Voluntary Employees' Beneficiary Association are defined in this Addendum and the Bay County Voluntary Employees' Beneficiary Association Statement of Investment Policy, Objectives, and Guidelines (collectively the "Investment Policies"). The policy items included in the Investment Policies and Michigan Public Act 149 of 1999 are applicable to the entire Bay County Voluntary Employees' Beneficiary Association's assets. Each individual money manager is responsible for compliance with any asset allocation guidelines set forth below. The manager is instructed to incorporate these guidelines into their investment process. Should any restriction within these investment policies reduce the manager's ability to meet the stated goals, the manager shall notify the Bay County Voluntary Employee's Beneficiary Association immediately.*

#### **I. Specific Investment Goals**

Over the investment horizon established in the investment policy, it is the goal of the assets managed by C.S. McKee to:

- A. The primary objective of the C.S. McKee portfolio shall be to achieve a return over the longer term, 3 to 5 years, in excess Barclay's Aggregate Bond Index.
- B. The secondary objective of the portfolio shall be to achieve a rate of return over the longer term, 3 to 5 years that ranks in the top 50<sup>th</sup> percentile of a representative universe of similarly managed portfolios.
- C. The volatility of the Fund's total returns is expected to be similar to that of the Barclay's Aggregate Bond Index.

#### **II. Investment Guidelines**

Within the guidelines contained in the Bay County Voluntary Employees' Beneficiary Association's Investment Policy, the portfolio must comply with the following:

- A. The diversification of the securities held in the manager's portfolio among industries and issuers is the responsibility of the investment manager. However, the overall manager's portfolio characteristics should exhibit characteristics with an aggregate government/mortgage backed fixed income bias and a "Core" focus.
- B. Foreign securities must be dollar-denominated and are limited to 10% of the manager's portfolio.
- C. Maintain a fully-invested fixed income portfolio. The manager shall notify the Bay County Voluntary Employees' Beneficiary Association Staff and its Investment Consultant whenever investments in cash and equivalents exceed 10% of the portfolio.

- D. All debt obligations must be rated Baa3/BBB- or better by at least one NRSRO (e.g.: Moody's, Standard & Poor's or Fitch) at the time of purchase. For debt obligations rated by more than one NRSRO, the highest rating shall apply.
- E. No more than 8% of the manager's assets shall be invested in the bonds of any one issuer (US Government backed securities are exempted), nor shall the aggregate investment in any one issuer exceed 5% of the outstanding debt of the issue.
- F. Short sales are prohibited.
- G. The use of futures and options for hedging purposes is prohibited unless specifically authorized by the Board and the manager is notified in writing.
- H. No securities may be purchased which are not publicly traded.
- I. No use may be made of margin or leverage purchases.
- J. No direct commodities are to be purchased.

III. Policy Review

This Addendum is a part of the Bay County Voluntary Employees' Beneficiary Association Investment Policy and is intended only to complement the objectives and guidelines outlined therein. It is the intention of the Bay County Voluntary Employees' Beneficiary Association to review the Investment Policy and this Addendum from time to time and to amend them if necessary to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met, or that the guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing. By signing this addendum the investment manager understands and agrees to adhere to the guidelines, investment manager responsibilities, and other conditions therein.

Contact: Jeff Davidek

Phone Number: 412-566-1234

I/We understand and accept the Investment Policy and this Addendum, acknowledge my/our status as an Investment Fiduciary, and will manage the Bay County Voluntary Employees' Beneficiary Association assets accordingly.

\_\_\_\_\_  
C.S. McKee (Signature) / Title

\_\_\_\_\_  
Date

**Bay County Voluntary Employees' Beneficiary Association**

**Manager Addendum to Investment Policy for MFS Institutional Advisors, Inc.  
Large Cap Growth Equity**

*The investment objectives and guidelines for the assets managed by MFS Institutional Advisors, Inc. ("MFS") for Bay County Voluntary Employees' Beneficiary Association are defined in this Addendum and the Bay County Voluntary Employees' Beneficiary Association Statement of Investment Policies and Objectives (collectively the "Investment Policies"). The policy items included in the Investment Policies and Michigan Public Act 149 of 1999 ("Act 314") are applicable to the entire Bay County Voluntary Employees' Beneficiary Association's assets. Each individual money manager is responsible for compliance with any asset allocation guidelines set forth below. The manager is instructed to incorporate these guidelines into their investment process. Should any restriction within these investment policies reduce the manager's ability to meet the stated goals, the manager shall notify the Bay County Voluntary Employees' Beneficiary Association immediately.*

**I. Specific Investment Goals**

Over the investment horizon established in the investment policy, it is the goal of the assets managed by MFS to:

- A. The primary objective of the MFS portfolio shall be to achieve a return over the longer term, 3 to 5 years, in excess of the Russell 1000 Growth Index.
- B. The secondary objective of the portfolio shall be to achieve a rate of return over the longer term, 3 to 5 years that ranks in the top 50<sup>th</sup> percentile of a representative universe of similarly managed portfolios.
- C. The volatility of the portfolio's total returns is expected to be similar to that of the Russell 1000 Growth Index and will be evaluated accordingly.

**II. Investment Guidelines**

Within the guidelines contained in the Bay County Voluntary Employees' Beneficiary Association Investment Policy, the portfolio must comply with the following:

- A. The diversification of the equities held in the manager's portfolio among industries and issuers is the responsibility of the investment manager. However, the overall manager's portfolio characteristics should exhibit a large capitalization bias with a "Growth" focus.
- B. Foreign securities including American Depository Receipts (ADRs) are limited to 10% of the manager's portfolio.

- C. Maintain a fully-invested equity portfolio. The manager shall notify the Bay County Voluntary Employees' Beneficiary Association and its Investment Consultant whenever investments in cash and equivalents exceed 10% of the portfolio. Residual cash will be invested in the custodian's short-term investment fund (STIF) account.
- D. No more than 8% of the portfolio's assets shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company.
- E. Short sales are prohibited.
- F. The use of futures and options for hedging purposes is prohibited unless specifically authorized by the Board and the manager is notified in writing.
- G. No equities may be purchased which are not publicly traded.
- H. No use may be made of margin or leverage purchases.
- I. No direct commodities are to be purchased.
- J. REITs and 144A securities are prohibited.

### III. Divestment Requirement

MFS will obtain the most recent divested securities list from the webpage listed below no less frequently than quarterly and will block all securities listed on such list as prohibited securities not eligible for investment by the Account. If a new security is added to the list and the Account is invested in such security, MFS will contact the client to discuss an appropriate course of action. To the extent that any security appears on the divested securities list which was not previously on such list, MFS will add such new security to the list of prohibited securities not eligible for investment by the Account. If at any time the divested securities list is no longer made publicly available at the following webpage, MFS will not be in violation of the guidelines or the IPS provided MFS contacts the client to discuss.

Divested securities list:

[http://www.michigan.gov/documents/treasury/Divested\\_Securities\\_380236\\_7.pdf](http://www.michigan.gov/documents/treasury/Divested_Securities_380236_7.pdf)

### IV. Other

MFS will provide you a copy of our Compliance and Operational guidelines which notes, among other things, that deviations from the investment guidelines that are due to market movement or cash flows, or other items outside of our control, are not deemed to be a breach of the investment guidelines. Review of these limitations is based on our end of day valuations and MFS will seek to resolve these items as soon as practicable (e.g., within five (5) business days under normal circumstances).

**Trading Currency:**

The trading currency for the portfolio is US Dollars (USD) unless specifically instructed by the Client to the Investment Manager to the contrary. The Client permits MFS to manage the residual cash of USD by purchasing short-term instruments such as, but not limited to, commercial paper, bank obligations (e.g. certificates of deposit and bankers' acceptance) repurchase agreements, and various obligations of the U.S. government, its agencies and municipalities.

**Reporting Currency:**

The reporting currency of the portfolio is US Dollars.

**Reporting Requirements:**

All reports should be provided in US Dollar (or please specify currency).

The following reports shall be delivered to the Client with consideration of the following specified timing requirements.

**Month-end + 15 days (non-quarter-end month):**

- Monthly valuation report of account holdings;
- Monthly transactions report.

**Quarter-end +15 days (calendar quarter basis):**

- Quarterly valuation reports;
- Quarterly transaction reports;
- Quarterly commentary.

**Quarter-end +30 days:**

- Quarterly proxy voting report (if Adviser is selected to vote proxy ballots).

**V. Policy Review**

This Addendum is a part of the Bay County Voluntary Employees' Beneficiary Association Investment Policy and is intended only to complement the objectives and guidelines outlined therein. It is the intention of the Bay County Voluntary Employees' Beneficiary Association to review the Investment Policy and this Addendum from time to time and to amend them if necessary to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met, or that the guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing. By signing this addendum the investment manager understands and agrees to adhere to the guidelines, investment manager responsibilities, and other conditions therein.

**VI. Contact Information and Signature**

Contact: Kimberly Hyland  
Contact: Thomas Shanley

Phone Number: 617.954.5575  
Phone Number: 617.954.7492

Address:

***MFS Institutional Advisors, Inc.***

111 Huntington Avenue

Boston, MA 02199

Attn: Institutional Client Service

E-mail: [InstitutionalClientService@mfs.com](mailto:InstitutionalClientService@mfs.com)

Fax: 617-350-2189

I/We understand and accept the Investment Policy adopted on March 10, 2009 and amended on November 8, 2011 and this Addendum, acknowledge my/our status as an Investment Fiduciary, and will manage the Bay County Voluntary Employees' Beneficiary Association assets accordingly.

---

**MFS Institutional Advisors, Inc.**

(Signature)

Name and Title: Carol W. Geremia, President

Date: \_\_\_\_\_



**BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM  
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION**

BAY COUNTY BUILDING  
515 CENTER AVENUE  
BAY CITY, MICHIGAN 48708-5128

Thomas L. Hickner  
Bay County Executive

Crystal Hebert  
Finance Officer/Secretary

**BOARD OF TRUSTEES**  
Steven Gray, Chairperson  
Richard Brzezinski  
Kim Coonan  
Kristal Goetz  
Richard Gromaski  
Tom Herek  
Jon Morse  
Matthew Pett  
Thomas Starkweather

**MEMORANDUM**

**ADMINISTRATIVE STAFF**  
Tiffany Jerry  
Rebecca Marsters  
(989) 895-4043  
TDD (989) 895-4049  
FAX (989) 895-4113

To: Bay County Employees' Retirement System Board of Trustees

From: Crystal Hebert, Finance Officer, BCERS/VEBA Secretary *CH*

Date: February 1, 2016

RE: Transition Management Agreement

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**Request :**

To enter into a Transition Management Agreement with Capital Institutional Services, Inc. (CAPIS).

**Background:**

The Bay County Employees' Retirement System (BCERS) and the Bay County Voluntary Employees' Beneficiary Association (VEBA) are currently engaged with Northern Trust to provide transition management services, a service necessary when restructuring investments by terminating or reducing the asset allocations of certain investment managers. Our consultants suggest that we engage with more than one management service which allows BCERS and VEBA the ability to request proposals as to the methods, timing, estimated costs, etc. for future major manager or allocation changes. Due to timing issues, our consultants also suggest that the Board give the Finance Officer the authority to request proposals on the Board's behalf and select an approved manager after their review.

**Finance/Economics:**

The use of a transition manager may lower the transaction costs associated with major manager or allocation changes.

**Recommendation:**

Please receive and approve the transition management agreement with CAPIS after review by Corporation Counsel. In addition, please authorize the Finance Officer to request proposals, as needed for major transitions. Further, allow the Finance Officer the authority to select a transition manager after consultation with the Investment Consultants.

**BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION  
02/09/2016  
RESOLUTION**

- BY: BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION BOARD
- WHEREAS, The use of a transition manager may lower the transaction costs associated with major manager or allocation changes
- WHEREAS, Currently, the Bay County Voluntary Employees' Beneficiary Association (VEBA) is engaged only with Northern Trust to provide transition management services, a service necessary when restructuring investments by terminating or reducing the asset allocations of certain investment managers.
- WHEREAS, Our consultants suggest that we engage with more than one management service which allows VEBA the ability to request proposals as to the methods, timing, estimated costs, etc. for future major manager or allocation changes.
- WHEREAS, Due to timing issues, our consultants also suggest that the Board give the Finance Officer the authority to request proposals on the Board's behalf and select an approved manager after their review. Therefore, Be It
- RESOLVED That this Board enter into a transition management agreement with CAPIS, Be It Further
- RESOLVED That the Finance Officer is authorized to request proposals, as needed, for major transitions, and Be It Further
- RESOLVED That the Finance Officer, after consultation with the Investment Consultant, is authorized to select which of the approved transition managers shall be utilized, Be It Finally
- RESOLVED That the Chairman of the Board is authorized to execute the agreement with CAPIS and all related documents on behalf of the Bay County Voluntary Employee's Beneficiary Association (VEBA) Board following review by Corporation Counsel.

STEVE GRAY, CHAIR  
AND BOARD

TRANSITION MANAGEMENT AGREEMENT CAPIS

MOVED BY TRUSTEE \_\_\_\_\_  
SUPPORTED BY TRUSTEE \_\_\_\_\_

TRUSTEE	Y	N	E	TRUSTEE	Y	N	E	TRUSTEE	Y	N	E
Richard Brzezinski				Steve Gray				Jon Morse			
Kim Coonan				Richard Gromaski				Matthew Pett			
Kristal Goetz				Ernie Krygier				Thomas Starkweather			

Vote Totals:  
 Roll Call: Yeas \_\_\_\_\_ Nays \_\_\_\_\_ Excused \_\_\_\_\_  
 Voice: Yeas \_\_\_\_\_ Nays \_\_\_\_\_ Excused \_\_\_\_\_

Disposition: Adopted \_\_\_\_\_ Defeated \_\_\_\_\_ Withdrawn \_\_\_\_\_  
 Amended \_\_\_\_\_ Corrected \_\_\_\_\_ Referred \_\_\_\_\_

**BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION  
02/09/2016  
RESOLUTION**

BY: BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION BOARD

RESOLVED By the Bay County Voluntary Employees' Beneficiary Association Board that the following reports are received:

1. PORTFOLIO VALUE - 1/1/16 -1/31/16
2. CHANGE IN BOOK AND MARKET VALUE -- 12/31/15
3. MONEY MANAGER REPORTS
  - a. C.S. MCKEE - ENDING 12/31/15 & 4<sup>th</sup> QTR REPORT 12/31/15
4. RECAPTURES SERVICES
  - a. CAPIs - SUMMARY ENDING- 12/31/15
5. VEBA YTD BUDGET REPORT - ENDING 1/31/16
6. INVOICES APPROVED - 1/31/16

STEVE GRAY, CHAIR  
AND BOARD

MONTHLY REPORTS FEBRUARY

MOVED BY TRUSTEE \_\_\_\_\_

SUPPORTED BY TRUSTEE \_\_\_\_\_

TRUSTEE	Y	N	E	TRUSTEE	Y	N	E	TRUSTEE	Y	N	E
Richard Brzezinski				Steve Gray				Jon Morse			
Kim Coonan				Richard Gromaski				Matthew Pett			
Kristal Goetz				Ernie Krygier				Thomas Starkweather			

Vote Totals:

Roll Call: Yeas \_\_\_\_\_ Nays \_\_\_\_\_ Excused \_\_\_\_\_

Voice: Yeas \_\_\_\_\_ Nays \_\_\_\_\_ Excused \_\_\_\_\_

Disposition: Adopted \_\_\_\_\_ Defeated \_\_\_\_\_ Withdrawn \_\_\_\_\_

Amended \_\_\_\_\_ Corrected \_\_\_\_\_ Referred \_\_\_\_\_

VEBA 2015	<u>DODGE &amp; COX</u> <small>no vendor number visible in file Mgmt fee reported to separately managed mutual deduct fee from portfolio</small>	<u>CASH</u>	<u>ATLANTA SOSNOFF</u>	<u>LORD ABBOTT</u> <small>no vendor number visible in file Mgmt fee reported to separately managed mutual deduct fee from portfolio</small>	<u>CS MCKEE</u>	<u>MFS</u>	<u>TOTAL</u>
VENDOR #			1061		3509		
JAN	9,372,607.82	242,295.57	9,233,500.71	7,037,168.25	15,638,042.35		41,528,814.70
FEB	9,952,923.15	249,127.39	9,745,731.63	7,468,844.28	15,512,618.11		42,939,444.61
MARCH	9,503,389.19	127,059.94	9,346,931.59	7,533,533.53	16,301,909.64		42,812,893.69
APRIL	9,759,073.60	118,394.44	9,323,633.72	7,461,656.59	16,255,829.65		42,918,568.06
MAY	9,639,876.45	90,416.89	9,456,375.99	7,523,160.66	16,228,630.63		43,153,450.67
JUNE	9,746,603.25	94,627.29	9,327,431.67	7,523,160.66	16,058,951.56		42,851,069.43
JULY	9,856,782.12	122,254.13	9,694,347.47	7,541,149.89	16,187,952.71		43,402,495.32
AUG	9,171,435.83	155,594.49	9,045,038.09	7,175,026.45	16,168,549.01		41,735,643.87
SEPT	8,787,357.99	118,999.53	8,793,593.42	6,926,978.49	16,301,324.34		40,928,651.77
OCT	9,492,978.60	161,932.44	9,714,099.64	7,250,499.00	16,338,025.92		42,947,535.60
NOV	9,436,387.19	184,056.93	9,752,744.38	7,291,828.82	16,345,634.97		43,010,752.29
DEC	9,166,741.48	193,156.27	7,415.58	7,048,514.63	16,277,014.67	9,739,019.02	42,451,001.65

ATLANTA SOSNOFF            LARGE CAP EQUITY  
CS MCKEE                    FIXED INCOME  
DODGE & COX                LARGE CAP EQUITY  
LORD ABBETT                 SMALL M-D CAP EQUITY

	<u>DODGE &amp; COX</u>	<u>ATLANTA SOSNOFF</u> VENDOR 1061	<u>ABBOTT</u>	<u>CS MCKEE</u> VENDOR 3509	<u>TOTAL</u>
2015					
1ST QTR		17,819.00		12,223.31	30,042.31
2ND QTR		17,525.00		12,078.61	29,603.61
3RD QTR		11,734.00		12,233.32	23,967.32
4TH QTR				12,214.75	12,214.75
		47,078.00		48,749.99	95,827.99

VEBA 2016	<u>DODGE &amp; COX</u> <small>no vendor number visible in file Mgmt fee reported to separately managed mutual deduct fee from portfolio</small>	<u>CASH</u>	<u>ATLANTA SOSNOFF</u>	<u>LORD ABBOTT</u> <small>no vendor number visible in file Mgmt fee reported to separately managed mutual deduct fee from portfolio</small>	<u>CS MCKEE</u>	<u>MFS</u>	<u>TOTAL</u>
VENDOR #			1061		3509		
JAN	8,556,306.57	268,524.93	1,459.48	6,635,474.41	16,476,306.40	9,247,614.05	41,235,715.84
FEB							0.00
MARCH							0.00
APRIL							0.00
MAY							0.00
JUNE							0.00
JULY							0.00
AUG							0.00
SEPT							0.00
OCT							0.00
NOV							0.00
DEC							0.00

ATLANTA SOSNOFF            LARGE CAP EQUITY  
CS MCKEE                    FIXED INCOME  
DODGE & COX                LARGE CAP EQUITY  
LORD ABBETT                 SMALL M-D CAP EQUITY

	<u>DODGE &amp; COX</u>	<u>ATLANTA SOSNOFF</u> VENDOR 1061	<u>ABBOTT</u>	<u>CS MCKEE</u> VENDOR 3509	<u>TOTAL</u>
2016					
1ST QTR					0.00
2ND QTR					0.00
3RD QTR					0.00
4TH QTR					0.00

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# Portfolio Statement

1 DEC 15 - 31 DEC 15

ACCOUNT NUMBER BCVEBA  
ACCOUNT NAME BAY COUNTY VEST CONSOLIDATED

## ◆ Change in Book and Market Value

	Cost	Market value	For more information
Opening balance	37,640,298.17	43,011,260.35	
Miscellaneous Cash Receipts	169.50	169.50	See funding & disbursement summary
Sponsor Contributions	26,931.24	26,931.24	See funding & disbursement summary
Interportfolio Transfers In	444,983.88	444,983.88	See funding & disbursement summary
Security Receipts	8,312,650.88	9,427,610.70	See funding & disbursement summary
Total receipts	8,784,735.50	9,899,695.32	See funding & disbursement summary
Interportfolio Transfers Out	- 444,983.88	- 444,983.88	See funding & disbursement summary
Security Deliveries	- 8,312,650.88	- 9,427,610.70	See funding & disbursement summary
Total disbursements	- 8,757,634.76	- 9,872,594.58	See funding & disbursement summary
Income received	83,266.18	83,266.18	See income & expense summary, cash activity detail
Expenses paid	- 18,954.45	- 18,954.45	See income & expense summary
Unrealized gain/loss change	0.00	- 1,707,651.06	See asset summary
Unrealized gain/loss on security movements	0.00	0.00	See funding & disbursement summary
Realized gain/loss	1,062,652.36	1,062,652.36	See realized gain/loss summary
Accrued income change	- 5,772.47	- 5,772.47	See income & expense summary
Closing balance:	38,788,890.53	42,451,901.65	

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**Bay County VEBA**

Account Statement - at 12/31/2015

06/17

**Portfolio Summary**

	QTD 9/30/15 - 12/31/15	YTD 12/31/14 - 12/31/15
Beginning market value	\$16,311,099	\$15,309,249
Net additions and disbursements	-2	704,517
Investment income	116,849	449,572
Portfolio appreciation / depreciation	-141,618	-177,011
Ending market value	\$16,286,327	\$16,286,327

**Allocation**



■ Fixed Income  
■ Cash

Actual	Target	Diff
98.5%	100.0%	(-1.5%)
1.5%	0.0%	+1.5%

Actual

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**Performance**

(2/7/2012)\*

Fixed Income  
BC Aggregate

	QTD	YTD	2 yr	3 yr	TTD
Fixed Income	-0.15%	1.76%	3.83%	1.96%	2.53%
BC Aggregate	-0.57%	0.55%	3.22%	1.44%	2.00%

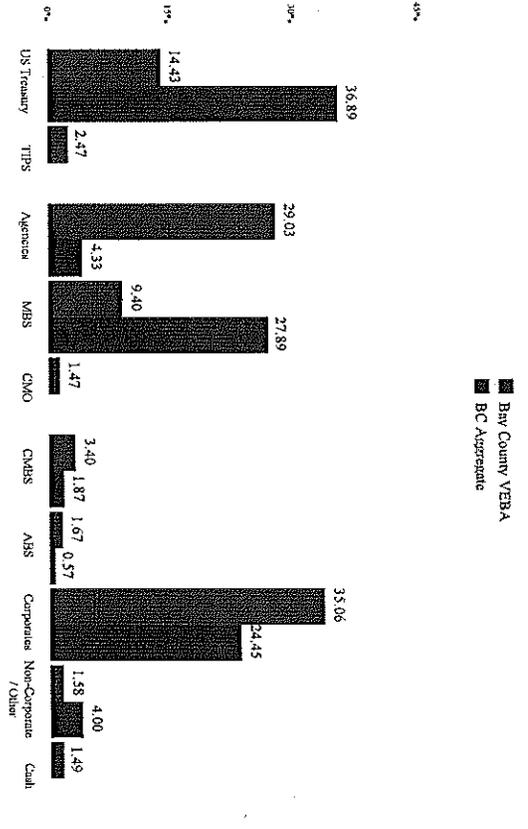
Periods greater than 1 year are annualized  
\* Performance Start Date

**Bay County VEBA**

*Fixed Income Portfolio Characteristics - at 12/31/2015*

Benchmark Comparisons	Bay County VEBA	BC Aggregate	Variance
Effective Duration	5.55 yrs.	5.68 yrs.	-0.13 yrs.
Average Convexity	0.09	0.05	0.04 yrs.
Average Maturity	7.13 yrs.	7.49 yrs.	-0.37
Yield to Maturity	2.46 %	2.54 %	-0.07 %
Average Coupon	3.00 %	3.18 %	-0.18 %
Average Quality	Aa2	Aa2	N/A

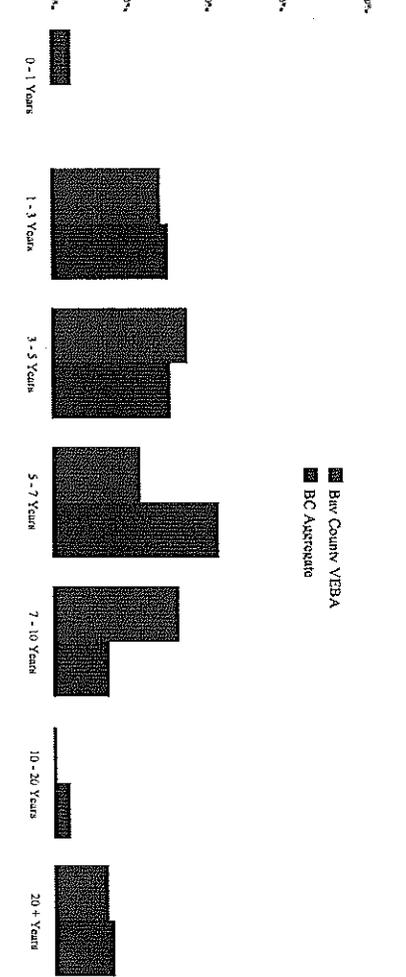
**Sector Allocation**



**Top 10 Largest Holdings (Active Exposures)**

Security	Coupon	Maturity	Sector	% of Portfolio
FEDERAL NTL MTG ASSN	1.500	11/30/2020	US Agencies	3.59
UNITED STATES TREAS	2.375	08/15/2024	US Treasuries	2.80
UNITED STATES TREAS	2.500	08/15/2023	US Treasuries	2.71
UNITED STATES TREAS	2.750	11/15/2023	US Treasuries	2.18
UNITED STATES TREAS	2.125	08/15/2021	US Treasuries	2.00
UNITED STATES TREAS	0.750	02/15/2045	US Treasuries	1.77
AMERICAN EXPRESS CEN	2.350	10/07/2020	US Agencies	1.53
GE CAPTL BK 33778 CD	1.750	05/04/2017	US Agencies	1.53
BMW BK NORTH AMER SA	2.200	10/16/2020	US Agencies	1.53
COMPASS BK 19048 CD	1.900	11/06/2018	US Agencies	1.52

**Term Structure**



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Aggregate Fixed Income, Gross of Fees

Performance Attribution – at December 31, 2015

	4th Qtr																		
	2015	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	
CS McKee Aggregate	-0.14	1.55	5.76	-1.73	5.09	8.62	7.05	8.73	7.17	7.61	5.07	3.56	4.74	4.42	10.33	8.92	11.58	-0.53	
Barclays Aggregate Index	-0.57	0.55	5.97	-2.02	4.22	7.84	6.54	5.93	5.24	6.97	4.33	2.43	4.34	4.10	10.26	8.44	11.63	-0.82	
Value-Added Return	0.430	1.000	-0.21	0.29	0.87	0.78	0.51	2.80	1.93	0.64	0.74	1.13	0.40	0.32	0.07	0.48	-0.05	0.29	
<b>Relative Performance Breakdown</b>																			
Duration Decision	0.020	-0.100	-0.655	0.310	-0.355	-1.065	-0.080	-0.340	0.060	-0.240	0.160	0.015	-0.120	0.020	-0.440	0.030	-0.06	-0.07	
Yield Curve Decision	-0.005	-0.035	0.055	-0.070	-0.020	0.155	0.090	0.090	-0.260	-0.110	0.010	0.165	0.080	0.130	-0.280	-0.060	0.03	-0.01	
<b>Sector Allocation Decision</b>																			
US Agency Debt	0.000	0.030	0.125	-0.040	0.230	0.060	0.240	0.390	-0.220	-0.280	0.405	0.100	0.270	0.030	0.020	-0.060	-0.04	0.03	
US Agency MBS/CMO	-0.090	0.005	-0.100	-0.225	-0.155	0.170	-0.650	-1.660	1.015	0.530	-0.330	0.095	-0.475	-0.040	0.200	0.370	-0.03	0.10	
Corporate Bonds	0.020	-0.190	-0.050	0.330	0.645	-0.190	0.100	1.930	0.370	0.000	-0.050	0.065	-0.070	-0.180	0.090	0.150	-0.23	0.20	
Other Government Bonds	-0.035	0.070	-0.025	-0.030	-0.230	0.085													
ABS	-0.005	0.000	0.000	-0.005	0.015	0.000	0.000	-0.080	0.135	0.060	-0.010	0.000	-0.015	-0.020	0.000	0.000	0.00	0.00	
CMBS	0.000	-0.005	0.040	0.020	0.333	-0.015	0.140	0.640	0.500	0.210	-0.035	-0.010	-0.060	-0.090	-0.020	-0.010	0.00	0.00	
<b>Security Selection Decision</b>																			
US Treasury (US TIPS)	0.030	-0.040	0.005	-0.115	0.290	0.335	-0.490	3.150	-1.490	0.070	0.020	0.100	0.000	0.130	0.230	0.090	-0.080	0.000	
US Agency Debt	0.340	0.635	0.215	0.285	0.805	0.335	0.740	-0.420	0.170	-0.070	0.590	0.310	0.730	0.270	-0.070	0.060	0.020	0.020	
US Agency MBS/CMO	-0.015	0.010	0.000	-0.030	0.045	0.095	0.090	0.030	-0.290	-0.010	-0.005	0.000	-0.060	-0.080	-0.060	0.010	-0.020	0.030	
Corporate Bonds	0.135	0.620	0.180	-0.035	-0.445	0.840	0.570	-0.460	1.250	0.480	0.005	0.090	0.120	0.230	0.360	0.030	0.360	-0.010	
Other Government Bonds	0.015	-0.005	0.020	-0.075	0.005	0.000													
ABS	0.015	-0.010	-0.005	0.010	-0.005	-0.015	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.100	-0.300	0.000	0.000	0.000	
CMBS	0.005	0.015	-0.015	-0.040	-0.290	-0.030	-0.240	-0.470	0.690	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	

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The above information is supplemental and complements the composite disclosure presentation at the end of this document, which includes net-of-fee returns for all periods presented. For additional information, contact CSIMcKee at 412-566-1234.

*From the desk of C.S. McKee—December 31, 2015*

*2015 – a lot of volatility. We're happy it's over!*

*What happened....China devalued its currency and the Federal Reserve Board raised rates. These two events affected almost everything in stock and bond land.*

*So where are we? Not a great deal has changed and security prices are not especially attractive domestically or globally. The global economy remains awash in cheap money, but we have yet to see the widely anticipated resulting growth.*

**Outlook:**

- *FRRB will cautiously raise rates in 2016.*
  - *Investors anxiously await next moves.*
  - *Where will growth come from?*
  - *Debt will be an over-arching theme (intelligent management of which will be important).*
  - *Possible impact of 2016 elections?*
- The Consumer:*
- *Most debt has centered around cars and education.*
  - *Unclear just how much discretionary income remains.*
  - *Some signs of improving savings – not a bad thing.*

**“You just can't have zero interest rates for long without messing with the metrics of commercial activity.”**

**- Greg Melvin, CIO (Barron's October 15')**

**C.S. McKee**

- *We experienced strong fixed income returns across all strategies (short, intermediate, and aggregate).*
- *Security selection and sector management were the most valuable components of our investment process in 2015.*

**Major Market Themes**

- *A year of interest rate speculation; important because any change in rates can affect everything - corporate and retail.*
  - *Market now adjusting to a future without Fed stimulative policy = expect volatility as things sort out.*
  - *Remember in 2011 when Europe "raised" interest rates (and the European economy wasn't strong enough)?*
- *Global low interest rate environment.*
  - *Reinforces a risk-taking attitude as investors sought returns. Limited success in 2015 as many of the recommended/traditional alternatives underperformed: hedge funds, MLPs, junk bonds.*
- *Market Paradigm: The S&P 500 HAD never been positive for 7 years in a row.*
  - *In 2015, the U.S. Stock market was trading at prices more expensive than all but six of the past 135 years. The 10-year Treasury was paying yields lower than all but six of the past 13 years (WSJ December 15, 2014).*
- *Continuing slow growth.*
  - *"Below expectations" became a common phrase in reporting economic news.*
    - o *The collapse of commodities.*
- *China: Trying to accurately assess the trend lines.*
  - *Assume that its economy is worse than it appears, but the government has more power than you think to control events.*
- *Energy: Gas prices were \$1.99 on Thanksgiving, the lowest since 2009.*
  - *The consumer remains 65% of GDP, and the positives of low energy outweigh the negatives.*

# Strategy Overview

## Fixed Income, Fourth Quarter, 2015

For the first time since June 2006, the FOMC moved to increase the Fed Funds rate, raising it to a range of .25% to .50% from the longstanding target of 0% to .25%. The previous band had been in place for 7 years, adopted at the height of the financial crisis in 2008.

Market fears over the end of the easy money policy were evident in the risk markets in 2015. The credit, mortgage, and commercial mortgage sectors of the bond market underperformed Treasuries last year, with only high quality and short average maturity asset-backed securities and the credit risk-free agency sectors outperforming. High yield, emerging markets and bank loans, securities which are not included in high quality fixed income indices but frequently held by "core" managers, also lagged Treasuries by wide margins.

### • What worked for the strategy over the quarter?

Consistent with our historical source of alpha, security selection and sector management were the most valuable components of our investment process in 2015. Those efforts in the Agency and Corporate sectors added 64 basis points and 49 basis points, respectively to portfolio performance for the year.

Performance in the Agency sector was the result of very timely moves in callable securities, adding to positions in 10-year and 15-year securities as they lagged Treasuries early in the year. The drop in energy prices and the ECB's implementation of quantitative easing led to a 50 basis points drop in U.S. 10-year Treasury yields in January, significantly widening yield spreads on the aforementioned agency securities. Spreads tightened throughout the balance of the year, as Treasury rates came off the January lows and volatility receded.

Our Credit sector holdings benefited from our long-standing focus on high quality and highly liquid holdings. BBB-rated corporate bonds, a permanent underweight in our portfolio, lagged the performance of A-rated bonds by nearly 300 basis points. Our holdings also benefited from an underweight to long maturity credit, the worst performing subset of the market.

### • What didn't work for the strategy over the quarter?

Thankfully, the list of performance detractors is short. Duration management was a modest negative last year, costing the portfolio less than ten basis points. An overweight allocation to Credit was also ill-advised, crimping returns by an equal amount. A small holding in Treasury Inflation Protected Securities (TIPS) held back still superior returns as inflation was below expectations on oil's 30% drop.

### • How is the portfolio positioned?

We look forward to another challenging campaign in 2016, one marked by questions regarding Fed policy and that of other central banks, energy prices and inflation, turmoil in the Middle East, bond market liquidity and investor appetite for risk. Treasury yields should remain volatile and low, with the yield curve flattening as a result of at least two possible rate hikes this year. As always, we focus our efforts on identifying attractively priced securities, an approach that should continue to generate consistent benchmark outperformance.

## Portfolio Positions

↘ **Short Duration:** We expect slightly higher interest rates in 2016 with the ten-year Treasury reaching 2.70%. A few rate hikes from the Fed will push short-term rates higher, while increasing wages and shelter costs will flow through into core inflation resulting in slightly higher long-term rates.

↘ **Underweight U.S. Treasuries:** With a slow, but steadily improving economy, we view Treasuries as rich from a historical valuation perspective and likely to underperform spread products for 2016.

↘ **Overweight Agency Debt:** Agency security selection will continue to be a large driver of performance with the portfolio 23% overweight the sector. After reducing our callable agency positioning late in 2015 at rich levels, we will look for a spike in volatility to invest again at more attractive levels providing additional yield to the Portfolio.

↘ **Underweight Mortgage-backed Securities:** With similar risk characteristics to callable agency debt, but with less attractive return potential, we underweight the ABS sector by approximately 15% to help fund our Agency sector overweight.

↘ **Overweight Credit:** While our overweight to Credit in 2015 detracted from our overall relative performance, the bias towards liquid, higher quality issues more than offset the underperformance. We expect higher quality securities to continue to outperform lower quality in 2016 as spreads widen modestly due to heavy issuance, deteriorating fundamentals, a doubling of energy driven default rates, and increased volatility. Excess returns versus Treasuries should be slightly positive as the additional yield provided by corporate debt will be larger than the subsequent widening in spreads.

↘ **Underweight the Belly of the Curve:** Two to three increases in the Fed Funds rate in 2016 should push short-term yields higher with the four to seven year part of the interest rate curve underperforming the most. The Portfolio's small barbell position - overweight short-term and long-term securities while underweighting intermediate term debt - will fare well as the yield curve flattens in 2016. Tepid increases in inflation and a tightening Fed will keep long-term yields somewhat suppressed compared to more significant increases in short to intermediate maturities.

*Economic Perspective – Fourth Quarter, 2015*

*Third Quarter GDP expanded by 2.1% year-over-year driven by personal consumption and government spending at the state and local levels. Declining inventory levels and weak net exports were the largest drag on the US economy's performance. 2016 is expected to match 2015's modest growth of 2.4%.*

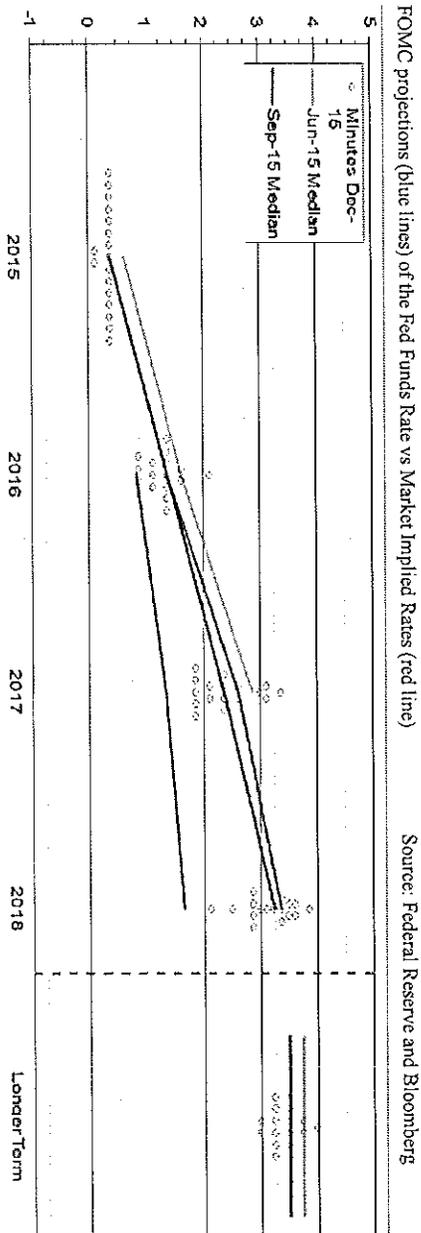
*Nonfarm Payrolls rebounded in the fourth quarter following weak reports in August and September. October's 298K and November's 211K additions were enough to push the US unemployment rate down to 5.0% from 5.1% at the end of the third quarter. For the year, monthly job gains averaged 221K – down from the February 2015 peak of 269K.*

*The ECB increased the scope of their stimulus program by extending their monthly securities purchases through March 2017 and expanding the list of eligible securities. They also lowered their depositary rate to -0.30% from -0.20%, charging banks who park money at the central bank. Markets, however, were expecting further increases in the size of the ECB's monthly purchases of €60BN. German 10yr yields increased 21 basis points in response to investors' disappointment at the ECB's actions.*

*The Federal Reserve Bank took a step in the opposite direction of the ECB by raising policy rates to an upper limit of 0.50% at their December meeting. FOMC members unanimously voted in favor of lifting interest rates and forecast four additional increases in 2016. Markets disagree with the Fed's frequently too optimistic outlook and see only two increases for the next 12 months.*

*We have lift off. Now where are we heading?*

As the calendar changes over into a new year, investors' focus has now changed from "will the Fed hike" to "how many hikes should we expect in 2016?" At their last meeting of 2015, Fed Chair Janet Yellen and the other members of the FOMC unanimously decided to increase the Fed Funds Rate for the first time since 2006 based on their expectations of modest growth and rising inflation pressures. The bond market, which had focused on this event for most of 2015, took the policy rate increase in stride as expectations for a rate hike were mostly priced in. Now that the first rate hike is out of the way, markets have shifted their focus to the "glide path" of future rate increases expecting two additional hikes in 2016 versus the Fed's more aggressive outlook of four moves (chart below). Barring an exogenous shock to world financial and energy markets, we expect 2016 to resemble 2015's mediocre performance, therefore making the Fed's forecast of four rate hikes unlikely, barring an oil price rebound above \$50.



Similar to 2015, our outlook for 2016 is based on steady but unspectacular GDP growth, relatively cheap energy prices, and a slight uptick in inflation driven by rising shelter costs and wages. Falling unemployment and increased savings from lower energy prices might help consumers modestly increase spending in 2016, pushing GDP growth higher. Weak domestic manufacturing data – mostly due to the energy sector – and a slowdown in the global economy will offset the positive contribution of increased consumption and keep inflation below the Fed's two-percent target. While the Fed is forecasting an uptick in GDP growth to 2.4% in 2016 and for Core PCE inflation to accelerate to 1.6%, their projections over the past several years have proved optimistic. We expect 2015's trend of subdued commodity prices and weak import prices will continue to test the Fed's ability to lift interest rates more than two to three times this year despite low levels of unemployment. This likely scenario will limit GDP growth and fuel the continuing debate on how to lift inflation towards their long run goal.

*(continued)*

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*Economic Perspective – Fourth Quarter, 2015*

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*OPEC maintained their high level of production despite the 44% decline in Brent Crude prices in 2015. Global production is expected to reach 103 million barrels per day in 2016 while demand is forecast to approximate 100 million barrels per day.*

Increasing the funds rate by four times in 2016 will prove problematic and will exacerbate the deflationary forces of a strong dollar as other central banks continue to increase stimulus. The divergence between the Fed's forecast for future policy rates and the market's implied outlook will lead to elevated financial market volatility and tighter financial conditions as the FOMC tries to reconcile their differences with investors. Ultimately, we expect the Fed to converge towards the shallower glide path expected by the market resulting in a modest increase in interest rates for 2016, most evident on the short end of the curve.

Bay County VEBA

Investment Summary - at 12/31/2015

90477

Asset Class	Total Cost	Weight at Cost	Market Value	Accrued Income	Total Value	Weight at Market
Fixed Income	\$16,129,694.55	98.56%	\$15,939,558.82	\$110,500.17	\$16,050,058.98	98.55%
Cash	\$236,268.13	1.44%	\$236,268.13	\$0.00	\$236,268.13	1.45%
<b>Total Portfolio</b>	<b>\$16,365,962.68</b>	<b>100.00%</b>	<b>\$16,175,826.95</b>	<b>\$110,500.17</b>	<b>\$16,286,327.11</b>	<b>100.00%</b>

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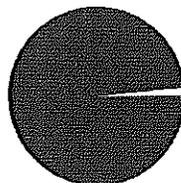
**C.S. McKee, L.P.**  
Account Overview

Bay County VEBA

Client Code: 90477  
As Of Date: 12/31/2015  
Report: Calendar

**Asset Allocation**  
As of 12/31/2015

Asset Class	Value	Percentage
Large-Cap Equity	\$ -	0.00%
Small-Cap Equity	\$ -	0.00%
Fixed Income	\$ 16,050,058.98	98.55%
Intl Mutual Fund	\$ -	0.00%
Cash	\$ 236,268.11	1.45%
Other	\$ -	0.00%
<b>Total Portfolio:</b>	<b>\$ 16,286,327.11</b>	<b>100.00%</b>



**Performance**  
As of 12/31/2015

Portfolio Summary	Month-to-Date	Large-Cap Equity	Small-Cap Equity	Total Domestic Equity	Intl Mutual Fund
Beginning Market Value:	16,361,814.36	-	-	16,361,814.36	-
Net Contributions (Distributions):	-	-	-	-	-
Income:	40,891.52	-	-	40,891.52	-
Market Appreciation (Depreciation):	(116,318.76)	-	-	(116,318.76)	-
Ending Market Value:	16,286,327.11	-	-	16,286,327.11	-
Dollar-Weighted Return:	(0.46%)	-	-	(0.46%)	-

Time-Weighted Returns	Performance Start Date:	Total Portfolio	Large-Cap Equity	Small-Cap Equity	Total Domestic Equity	Intl Mutual Fund
MTD	2/7/2012	(0.46%) Gross Net Benchmark Value Added (Gross)	N/A	N/A	N/A	N/A
YTD		(0.46%) Gross Net Benchmark Value Added (Gross)	-	-	-	-
1 Year		(0.46%) Gross Net Benchmark Value Added (Gross)	-	-	-	-
3 Year		(0.46%) Gross Net Benchmark Value Added (Gross)	-	-	-	-
5 Year		(0.46%) Gross Net Benchmark Value Added (Gross)	-	-	-	-
ITD		(0.46%) Gross Net Benchmark Value Added (Gross)	-	-	-	-



# Bay County, Michigan

02/03/2016 14:13  
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BAY COUNTY, MI  
YEAR-TO-DATE BUDGET REPORT

P  
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FOR 2016 01

ORIGINAL APPROP	REVISED BUDGET	YTD ACTUAL	MTD ACTUAL	ENCUMBRANCES	AVAILABLE BUDGET	PCT USED
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7360 PUBLIC EMPLOYEE HEALTH CARE

73627401 VOL.EMPLOYEE BENEF. ASSOC. BOARD

RA FUND BALANCE, NET AS

73627401 40001 FUND BALANCE	0	1,685,865	0	0	1,685,865.00	.0%
73627401 40004 NET ASSETS - RESERV	0	0	0	0	0	0%
<b>TOTAL FUND BALANCE, NET AS</b>	<b>1,685,865</b>	<b>1,685,865</b>	<b>0</b>	<b>0</b>	<b>1,685,865.00</b>	<b>.0%</b>

RJ LOCAL UNIT CONTRIBUT

73627401 59401 ER CONTR-BRHAVE, HEA	-250,000	0	0	0	-250,000.00	.0%
73627401 59402 ER CONTR-MOSQUITO C	0	0	0	0	0	0%
73627401 59403 ER CONTR-HEALTH FUN	0	0	0	0	0	0%
73627401 59404 ER CONTR-ROAD COMM	0	0	0	0	0	0%
73627401 59406 ER CONTR-LIBRARY	-48,000	0	0	0	-48,000.00	0%
73627401 59407 ER CONTR-GOLF COURSE	0	0	0	0	0	0%
73627401 59408 ER CONTR-GENERAL FU	0	0	0	0	0	0%
73627401 59409 ER CONTR-DMS	-32,000	0	0	0	-32,000.00	0%
73627401 59410 ER CONTR-911 SERVIC	0	0	0	0	0	0%
73627401 59411 ER CONTR-CHILD CARE	0	0	0	0	0	0%
73627401 59412 ER CONTR-DIV ON AGI	0	0	0	0	0	0%
73627401 59413 ER CONTR-RETIRE SYS	0	0	0	0	0	0%
73627401 59415 ER CONTR-GYPSY MOTH	0	0	0	0	0	0%
73627401 59416 ER CONTR-HOME REHAB	0	0	0	0	0	0%
73627401 59418 ER CONTR-100% TAX P	0	0	0	0	0	0%
73627401 59419 ER CONTR-MED CARE E	-250,000	0	0	0	-250,000.00	0%
73627401 59424 ER CONTR-SELF INSUR	0	0	0	0	0	0%
73627401 59427 ER CONTR-COMM. CORR	0	0	0	0	0	0%
73627401 59429 ER CONTR-F. O. C. FUN	0	0	0	0	0	0%
73627401 59430 ER CONTR-HOUSING FU	0	0	0	0	0	0%
73627401 59433 ER CONTR-SOLDIER RE	0	0	0	0	0	0%
73627401 59499 ER CONTR-SHERIFF DE	0	0	0	0	0	0%
<b>TOTAL LOCAL UNIT CONTRIBUT</b>	<b>-580,000</b>	<b>-580,000</b>	<b>0</b>	<b>0</b>	<b>-580,000.00</b>	<b>.0%</b>

RP INTEREST & RENTALS

73627401 66400 INVESTMENT INTEREST	-500,000	0	0	0	-500,000.00	.0%
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# Bay County, Michigan

02/03/2016 14:13  
Rmesters

BAY COUNTY, MI  
YEAR-TO-DATE BUDGET REPORT

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FOR 2016 01

	ORIGINAL APPROP	REVISED BUDGET	YTD ACTUAL	MTD ACTUAL	ENCUMBRANCES	AVAILABLE BUDGET	PCT USED
<b>RR OTHER REVENUE</b>							
73627401 66500 GAIN ON SALE OF INV	-1,200,000	-1,200,000	.00	.00	.00	-1,200,000.00	.0%
73627401 66501 UNREALIZED GAIN ON	0	0	.00	.00	.00	.00	.0%
73627401 66600 SECURITIES LENDING	0	0	.00	.00	.00	.00	.0%
TOTAL INTEREST & RENTALS	-1,700,000	-1,700,000	.00	.00	.00	-1,700,000.00	.0%
<b>RR OTHER REVENUE</b>							
73627401 67104 MISCELLANEOUS REVENUE	0	0	.00	.00	.00	.00	.0%
73627401 69000 COMMISSION RECPTOR	-6,900	-6,900	.00	.00	.00	-6,900.00	.0%
TOTAL OTHER REVENUE	-6,900	-6,900	.00	.00	.00	-6,900.00	.0%
<b>XE WAGES &amp; SALARIES</b>							
73627401 71000 PER DIEM	360	360	.00	.00	.00	360.00	.0%
TOTAL WAGES & SALARIES	360	360	.00	.00	.00	360.00	.0%
<b>XI SUPPLIES</b>							
73627401 72700 OFFICE SUPPLIES	100	100	.00	.00	.00	100.00	.0%
73627401 72800 PRINTING AND BINDING	150	150	.00	.00	.00	150.00	.0%
73627401 72900 POSTAGE	100	100	.00	.00	.00	100.00	.0%
73627401 75100 COMPUTER SUPPLIES	50	50	.00	.00	.00	50.00	.0%
TOTAL SUPPLIES	400	400	.00	.00	.00	400.00	.0%
<b>XII OTHER SERVICES AND C</b>							
73627401 80100 PROFESSIONAL SERVICE	130,000	130,000	.00	.00	.00	130,000.00	.0%
73627401 80101 ACTUARIAL SERVICES	39,300	39,300	.00	.00	.00	39,300.00	.0%
73627401 81400 INVESTMENT/BANK SER	30,000	30,000	.00	.00	.00	30,000.00	.0%
73627401 81700 LEGAL FEES	7,500	7,500	.00	.00	.00	7,500.00	.0%
73627401 81900 CONSULTANTS	30,000	30,000	.00	.00	.00	30,000.00	.0%
73627401 86600 LOCAL TRAVEL MILEAGE	0	0	.00	.00	.00	.00	.0%

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# Bay County, Michigan

02/03/2016 14:13  
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BAY COUNTY, MI  
 YEAR-TO-DATE BUDGET REPORT

P  
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FOR 2016 01

	ORIGINAL APPROP	REVISED BUDGET	YTD ACTUAL	MTD ACTUAL	ENCUMBRANCES	AVAILABLE BUDGET	PCT USED
73627401 94601 EQUIPMENT RENTAL-CO	55	55	.00	.00	.00	55.00	.0%
73627401 95600 INDIRECT COST EXPEN	10,420	10,420	.00	.00	.00	10,420.00	.0%
73627401 96200 LOSS ON DISPOSAL OF	350,000	350,000	.00	.00	.00	350,000.00	.0%
73627401 96201 UNREALIZED LOSS ON	0	0	.00	.00	.00	.00	.0%
73627401 96500 INSURANCE AND BONDS	3,000	3,000	.00	.00	.00	3,000.00	.0%
TOTAL OTHER SERVICES AND C	600,275	600,275	.00	.00	.00	600,275.00	.0%
TOTAL VOL. EMPLOYEE BENEF. ASSOC. BO	0	0	.00	.00	.00	.00	.0%
TOTAL PUBLIC EMPLOYEE HEALTH CARE	0	0	.00	.00	.00	.00	.0%
TOTAL REVENUES	-601,035	-601,035	.00	.00	.00	-601,035.00	.0%
TOTAL EXPENSES	601,035	601,035	.00	.00	.00	601,035.00	.0%
GRAND TOTAL	0	0	.00	.00	.00	.00	.0%

\*\* END OF REPORT - Generated by Rebecca Marsters \*\*

# Bay County, Michigan

02/03/2016 14:13  
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BAY COUNTY, MI  
YEAR-TO-DATE BUDGET REPORT

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## REPORT OPTIONS

Sequence	Field #	Total	Page Break
1	1	Y	N
2	9	Y	N
3	10	Y	N
4	0	N	N

Report title:  
YEAR-TO-DATE BUDGET REPORT

Year/Period: 2016 / 1  
 Print revenue as credit: Y  
 Print totals only: N  
 Suppress zero bal accts: N  
 Print full GL account: N  
 Double space: N  
 Roll projects to object: N

Print Full or Short description: F  
 Print MTD Version: Y  
 Print Revenues-Version headings: N  
 Format type: 1  
 Print revenue budgets as zero: N  
 Include Fund Balance: N  
 Include requisition amount: N  
 Multiyear view: D

Carry forward code: 1  
 Print journal detail: N  
 From Yr/Per: 2014 / 7  
 To Yr/Per: 2014 / 7  
 Include budget entries: Y  
 Incl encumb/liq entries: Y  
 Sort by JE # or PO #: J  
 Detail format option: 1

Find Criteria  
 Field Name      Field Value  
 Fund                      7360

FUNCTION  
 ACTIVITY  
 SPECIAL CODE  
 SPECIAL COD2  
 Character Code  
 Org  
 Object  
 Project  
 Account type  
 Account status  
 Rollup Code

VEBA Invoices Approved: January

Invoice Date	Vendor	Amount	Description
1/11/2016	CS McKee	\$ 12,214.75	Q4 money manager fee
1/1/2016	Bogdahn	\$ 4,000.00	Q1 performance evaluation



BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM  
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

BAY COUNTY BUILDING  
515 CENTER AVENUE  
BAY CITY, MICHIGAN 48708-5128

Thomas L. Hickner  
Bay County Executive

Crystal Hebert  
Finance Officer/Secretary

January 4, 2016

BOARD OF TRUSTEES  
Steven Gray, Chairperson  
Richard Brzezinski  
Kim Coonan  
Kristal Goetz  
Richard Gromaski  
Tom Herek  
Jon Morse  
Matthew Pett  
Thomas Starkweather

Ms. Kimberly Hyland  
Director, Relationship Manager  
MFS Investment Management  
111 Huntington Ave  
Boston, MA 02199-7618

ADMINISTRATIVE STAFF  
Tiffany Jerry  
Rebecca Marsters  
(989) 895-4043  
TDD (989) 895-4049  
FAX (989) 895-4113

Re: Brokerage Services

Dear Ms. Hyland:

The purpose of this correspondence is to inform MFS Investment Management that the Bay County VEBA ("Fund") has established a commission recapture program with Abel/Noser Corp. ("Able/Noser") and Capital Institutional Services, Inc. (CAPIS).

You are requested to contact Abel/Noser representative Mary Davidson at 646-432-4084 and CAPIS representative Jon Lantz at 214-978-4778 to obtain applicable brokerage information. When transacting business for our portfolios, please inform the executing broker to credit the account for the benefit of the Fund.

Please be advised that all brokerage transactions should be executed in accordance with your obligation to seek the best combination of net cost and execution ("best execution").

It is our understanding that the use of the Abel/Noser and/or CAPIS trading desks and/or the use of step-outs should allow you to meet our request without impacting your ability to achieve best execution.

If you have any questions regarding trading arrangements, please contact me at 989-895-2007 or the Fund's Investment Consultant, Howard Pohl or Peter Brown of The Bogdahn Group at 866-240-7932. Thank you for your cooperation.

Sincerely,

Crystal Hebert  
Financial Officer/Secretary

cc: Board of Trustees  
Mr. Howard Pohl  
Mr. Peter Brown  
CAPIS  
Abel/Noser