BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

I. INTRODUCTION

The Bay County Voluntary Employees' Beneficiary Association (VEBA) Trust 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 of 1986 and permitted under the State of Michigan, Public Act 149 of 1999 entitled "Public Employee Health Care Fund Investment Act".

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

Attached, as a part of this document, are P.A. 149 of 1999 and Resolution 2001-242, which includes the Bay County Voluntary Employees' Beneficiary Association Trust Agreement.

The purpose of this document is to set forth the investment policies and objectives with respect to the assets of the VEBA in order that:

1. Standards for the safekeeping of VEBA assets are specified.
2. There is a clear understanding by all parties of the goals pertaining to the investment of the VEBA assets
3. There is a basis for the evaluation of the investment performance of the VEBA and its investment managers.

4. The duties and responsibilities of the VEBA Board of Trustees ("Trustees") and staff are defined.

5. Criteria for investment diversification and investment manager selection are established.

II. SAFEKEEPING OF ASSETS

1. All assets which are part of separately managed investment portfolios are to be held in a designated trust account at a custodian bank licensed to conduct business in Michigan.
2. All pooled funds (mutual funds, collective investment trusts, money market funds, etc.) must provide independent audit of fund assets at least annually.

III. INVESTMENT OBJECTIVES

The VEBA assets serve as the primary vehicle for the investment of assets to facilitate the prefunding retiree health care and other post employment benefits. Therefore, the VEBA assets are to be managed in a way that produces a balance portfolio of income and capital appreciation at a moderate level of risk in order to meet the County's future post employment benefit obligations.

The investment objectives of the VEBA are to:

1. Achieve a targeted annual investment rate of return of 4.0% greater than the rate of inflation over a rolling 5-year periods; and

2. Achieve 100% funding of the actuarial accrued liabilities.

IV. PHILOSOPHY AND VEBA OPERATION

All assets of the VEBA are to be used for the exclusive benefit of the VEBA members. VEBA assets shall be invested solely in the interest of the VEBA beneficiaries for the exclusive purpose of:

1. Funding medical or other post-employment benefits to retired employees, their spouses and dependents.
2. Defraying the administrative expenses of the VEBA.

It is the duty of the Trustees to supervise the management of the VEBA assets in accordance with this policy and the VEBA Trust Agreement, as may be amended from time to time.

The Trustees may delegate specific VEBA management duties to the VEBA Finance Officer / Secretary.

V. PERMITTED INVESTMENTS

All investment fiduciaries are required to invest the assets of the VEBA in accordance with this investment policy and in compliance with Section 13 of the Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended (MCL 38.1133, et seq, as amended) which is attached and is incorporated into this policy by reference; as well as any other applicable state and federal laws, regulations, and rules not specifically mentioned herein.

VI. ASSET ALLOCATION – TOTAL VEBA

	Minimum	Target	Maximum
Equity			
Domestic	40	60	70
International	0	5	20
Total	40	65	70
Fixed Income			
Domestic	20	25	60
International	0	5	20
Total	20	30	80
Real Estate	0	3	5
Cash	0	2	5

If multiple investment managers are employed, asset allocations among investment managers will be rebalanced by the Trustees in order to maintain allocations within the policy guidelines set forth herein. The VEBA's Finance Officer / Secretary in conjunction with its Consultant shall monitor the asset allocation and, from time to time, recommend to the Trustees changes needed to rebalance the fund in order that allocation of assets remain within the above asset allocation guidelines. As a result of market fluctuations, benefit payments, administrative expenses and contributions to the VEBA rebalancing should occur periodically, no later than 2 quarters after the rebalancing targets have been reached, to ensure that the asset deployment is within the stated guidelines. For the purpose of rebalancing, it will be assumed that all assets held by a manager are either invested in the asset class or held in reserve to be invested in the asset class in which the manager was hired to invest. The Consultant in conjunction with the

Finance Officer / Secretary shall confer with the Trustees from time to time to determine whether changes in the asset allocation are required.

VII. DIVERSIFICATION

The investment of the VEBAs assets shall be broadly diversified to reduce the risk of large losses. The Trustees are responsible for diversifying by asset class and investment manager style. Each investment manager is responsible for diversifying within the asset management style for which they have been selected. Diversification guidelines as established by the state law governing public employees' retirement system investments, PA 314 of 1965, as amended, shall be adhered to by the trustees regarding the benchmark by which the VEBA and all investment managers will be held responsible.

VIII. INVESTMENT MANAGER SELECTION

The responsibility for managing VEBAs assets will be delegated to investment managers with expertise appropriate for their assigned role. Both mutual / comingled funds and separately managed accounts are acceptable. The Consultant will assist the Trustees and the Finance Officer / Secretary with hiring and monitoring the investment performance the investment managers. All investment managers must be Registered Advisors under the U. S. Securities and Exchange Commission, Investment Advisors Act of 1940. Managers must have a minimum of $100 million of assets under management and have a minimum of five years of experience in the investment discipline for which they are selected.

IX. LIQUIDITY

The VEBA will maintain adequate liquidity to meet benefit payments and administrative expenses. Investment managers will be advised as far in advance as possible of additions to or withdrawals from their portfolios.

X. FIXED INCOME MINIMUM RATING/DURATION STANDARDS

No individual fixed income security shall have a Moody's investment rating below "Baa3" or a Standard & Poor's rating below "BBB-". The total fixed income portfolio of each fixed income manager shall have an average rating of "A" or better from either rating agency. The effective duration of the portfolio may not vary more than +/- two (2) years from the effective duration of the Barclays Capital Aggregate Bond Index.

XI. PROHIBITED INVESTMENTS

Within the guidelines set forth within, the investment managers have full discretion over the management of funds in their care with the exception of the following prohibited investments:

1. Venture Capital
2. Letter Stock
3. Options, except Covered Calls and Embedded Call and Put Options
4. Commodity / Future Contracts
5. Private Placements, except Rule 144(A) Fixed Income Securities
6. Limited Partnerships

7. Derivatives, except when they are within commingled / pooled investment vehicles

Regarding derivatives, the Trustees recognize that managers of or managers who purchase commingled / pooled investment vehicles cannot respond to the individual needs of each of their clients, therefore, these managers are to define their policies on derivatives and the Trustees shall make the judgment as to whether or not the manager's practices are in keeping with the spirit of the Trustees' policy on derivatives.

XII. POLICY AND OBJECTIVES REVIEW

The policies and objectives of the VEBA will be reviewed at least annually by the Trustees and Finance Officer / Secretary. Their focus will be on the continued feasibility and appropriateness of the VEBAs investment policies and objectives. The Trustees should amend the VEBAs policies and objectives as deemed necessary.

XIII. PERFORMANCE REVIEW

The investment performance of the VEBA and its investment managers will be reviewed no less than quarterly by the Trustees and Finance Officer / Secretary. Performance reviews will focus on investment results in relation to stated investment objectives and adherence to stated investment policies. The reviews will encompass investment market opportunities, performance in relation to risk, and comparison to managers with similar investment characteristics and other funds.

The **VEBA** is expected to realize a rate of return that is at least 4% greater than the rate of inflation over rolling 5-year periods. Additionally, the VEBAs rate of return should exceed a customized index comprised of appropriate indices, must perform within the top one-third (1/3) of a recognized plan universe and in the top one-half (1/2) when compared to plans with a similar level of risk over a 3-to 5-five year period.

Each **domestic equity** investment manager is expected to exceed the performance of an appropriate peer group and market index. Over a 3- to 5-year period, equity investment managers will be expected to perform within the top one-third (1/3) of their specified style group, on a total fund basis, as defined by a recognized domestic equity fund style universe and to exceed their specific market benchmark.

International equity investment managers will be evaluated in comparison to an appropriate international investment peer group and market index. Over a 3- to 5-year period, international equity investment managers will be expected to rank within the top one-third (1/3) of a specified universe of actively managed international equity funds and exceed their specific market benchmark.

Domestic and **international fixed income** (bond) investment managers will be expected to rank within the top one-third (1/3) of a specified recognized bond fund universe and exceed their specific market benchmark over a 3- to 5-year period.

Real estate and **other specialized** investment managers will be expected to rank within the top one-third (1/3) of their specified investment peer group and exceed their specific market benchmark over a 3- to 5-year period.

Investment managers who do not meet the above objectives will be placed on probation and their performance will be subject to further review by the Trustees for possible termination

The VEBA and manager reviews will be conducted, by the VEBAs consultant, on a quarterly basis and will focus on adherence to this investment policy, progress toward achievement of its / their specific investment objectives and guidelines, and performance relative to opportunities Each investment manager will be required to submit written quarterly reports and meet with the Trustees at least once annually. The Trustees will make their determinations about manager retention and replacement based on the above criteria and their considered opinion of the merits of an investment manager's capabilities.

VIX. TRADING

Investment manager are prohibited from conducting investment transactions (trades) with or through any and all subsidiaries and / or parent organization.

XV. DIRECTED BROKERAGE

In order to reduce "out of pocket" expenses, the Trustees may require the domestic equity managers to utilized directed brokerage, provided that the directed brokerage can be competitive on total transaction costs.

XVI. PROXY VOTING

Unless notified otherwise, the investment managers shall have the authority to "vote" on all issues presented to stockholders. It is expected that managers will vote for the sole benefit of the VEBA and its beneficiaries. A summary of the votes cast shall be submitted to the Trustees on a quarterly basis. This summary must identify the company, number of shares held, subject proxy issue, votes (whether for or against management), and justification. Voting by proxies must conform to the provision set forth in the Public Employees' retirement Systems Act. Public Act 314 of 1965, as amended (MCLA38.1132 et seq, as amended).

XVII. ADOPTION

This investment policy is adopted by the following Trustees:

Trustee	04.14.09 Date
Trustee	04-14-09 Date
Trustee	04-14-09 Date
Trustee	4-14-09 Date
Trustee	4-14-09 Date
Trustee	4/14/09 Date
Trustee	4/14/09 Date