City of Manistee
Oil and Gas Investment Board
Meeting of July 15, 2016

There will be a meeting of the Oil and Gas Investment Board held on Friday, July 15, 2016 at 12:00 p.m. in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660.

AGENDA

I. ROLL CALL.

II. OLD BUSINESS.

a.) None

III. NEW BUSINESS.

a.) Approval of Minutes from April 15, 2016

b.) Investment Advisor Update and Commentary

c.) Discussion on Aztec Producing

IV. PUBLIC COMMENT.

VI. ADJOURN.

c. Colleen Kenny, Chair
Eric Gustad, Council Representative
Ed Bradford, Vice-Chair
Doug Parkes
Steve Brower
Thad Taylor, City Manager
George Saylor, City Attorney
Woody Uible, Investment Advisor

OIL AND GAS INVESTMENT BOARD
MINUTES OF APRIL 15, 2016

The City of Manistee Oil and Gas Investment Board held a regular meeting on Friday, April 15, 2016 in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660. Meeting was called to order by Chair Colleen Kenny at 12:00 p.m.

MEMBERS PRESENT: Colleen Kenny, Steve Brower, Ed Bradford, Eric Gustad, Thad Taylor

MEMBERS ABSENT: Doug Parkes

OTHERS PRESENT: City Attorney George Saylor

OLD BUSINESS

None.

NEW BUSINESS

Minutes - Minutes from the January 15, 2016 meeting were reviewed. **MOTION** by Ed Bradford, second by Eric Gustad to accept the minutes with minor changes by the investment advisor. All in favor - motion carried.

Investment Advisor Update and Commentary – Woody Uible was in attendance and Troy Snider participated via conference call and presented the Investment Update as of March 31, 2016. Information in the report included Market Review, Fed Watch, Bonds & Economic Trends, S&P Valuations, Asset Allocation, Fixed Income Characteristics, Equity Sector Allocation, and Portfolio Performance.

Discussed:

- Federal Reserve interest rate increases are hard to forecast this year because of uncertainty in the strength of the US and global economy.
- Global market malaise with low rates of return.
- Companies buying back their own stock instead of investing in capital expenditures.
- Constant battle on the spending rule, something to keep on the radar. Many endowments are reviewing their policies.
- Bartlett staying a little bit on the conservative side; portfolio is widely diversified.
- Energy including coal, gas and oil production and prices.

Aztec Well Update – Finance Director Ed Bradford provided a memo advising that Aztec Producing has shut down operations of both their wells and processing facility in the City due to low oil and gas prices. The City should be receiving a few residual royalty payments, but then they will cease until production is restarted. Wells might be at the end of their useful life unless oil and gas prices recover significantly.

Straight Talk Article – Finance Director Ed Bradford participated in a Manistee News Advocate column series called Straight Talk regarding the history of the Oil and Gas Investment Fund, the board history, and its functions.

PUBLIC COMMENTS

General discussion on presidential candidates and potential political climate after the election.

ADJOURNMENT / NEXT MEETING

Next regular meeting is scheduled for Friday, July 15, 2016 at 12 p.m. in the Second Floor Conference Room, City Hall.

MOTION to adjourn by Steve Brower, second by Eric Gustad at 1:00 p.m.

DRAFT - cl

Cynthia Lokovich, CAP-OM
Recording Secretary

c. Manistee City Council
Board Members
Thad N. Taylor, City Manager
George Saylor, City Attorney

City of Manistee

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CITY HALL

Administration
Fax 231.723.1546

City Manager
231.398.2801

City Assessor
231.398.2802

Building Inspector
231.398.2806

Planning & Zoning
231.398.2805

Clerk/Treasurer
Fax 231.723.5410

City Clerk
231.398.2803

City Treasurer/ Finance Director
231.398.2804

Water Billing
231.723.2559

Police Department
231.723.2533
Fax 231.398.2012

Fire Department
281 First Street
231.723.1549
Fax 231.723.3519

Dept. of Public Works
280 Washington St.
- Street Dept.
- Parks Dept.
- Water Maintenance

280 Washington St.
231.723.7132
Fax 231.723.1803

Wastewater Plant
15 Ninth St.
231.723.1553

June 24, 2016

Aztec Producing Company, Inc.
3312 12th Street
Wayland, MI 49348

Subject: City of Manistee

Dear Aztec,

The City of Manistee is aware that the oil & gas wells and processing facility in the City have been shut down for several months. In conversation with your plant operator, we understand that this is primarily an economic decision given the sharp reduction in crude and gas prices over the last year. Now that prices appear to be trending back up, the City would like to inquire about the future status of production and treatment.

Do you anticipate starting the wells and facility back up? If so, when would that likely be and is there a price range for gas and\or crude at which the economics work again? We would request that you inform the City if this does occur so that we might plan accordingly.

In addition, please provide updated contact information for your company, including email addresses.

Thank you for your attention to this matter.

Sincerely,

Edward Bradford

Edward Bradford
Chief Financial Officer

Cc: Thad Taylor, City Manager
Dave Bachman, Public Safety Director
Cindy Lokovich, Oil & Gas Board

Cindy Lokovich

From: Downing, Kelley J. <kdowning@Bartlett1898.com>
Sent: Monday, June 27, 2016 11:41 AM
Subject: Bartlett's Brexit Commentary

Bartlett on BREXIT
June 27, 2016

The United Kingdom last Thursday voted to leave the European Union. British Prime Minister David Cameron, who instigated the referendum as an election pledge and campaigned vigorously for remaining in the EU, resigned on Friday in the aftermath of the exit vote. The "BREXIT" decision was not anticipated by major polls and futures markets, so it sparked massive upheaval in global stock, bond, and currency markets on Friday. The fallout included: a 9% drop in the British Pound which fell to a 31-year low against the U.S. dollar; 7% stock market selloffs in Europe, Japan, and Britain; a comparatively milder but still significant 4% decline for the U.S. stock market; and falling government bond yields in major countries amid "safe haven" buying.
We are sending this message shortly after the start of trading on Monday morning, and equity markets are lower again.

Much has been written about the political dimensions of the vote. It has been widely characterized as a populist rebuke to establishment leaders, reflecting unease over immigration from war-torn Middle Eastern countries at a time when economic growth seems sluggish and tenuous. As to the fallout, many are justifiably discouraged by the prospect of political tremors across the European continent, in countries where the commitment to unity was already under strain. This is a matter of profound concern as we recall the painstaking efforts of Western policymakers, over more than seventy years, to develop and sustain cooperation, free trade, globalization and mutual security following the end of World War II. Some have even lamented – not without justification – that a compromised EU could embolden aggressive moves by Russia in Eastern Europe and perhaps by China in South Asia.

For now, we focus our comments on the implications for your investments, as best we can in a situation of manifest fluidity.

- **Global economic growth will be even slower**. The U.S. and British economies have been bastions of comparative strength in recent years, but now the latter seems all but certain to slow significantly. Europe may lapse from recently slow growth back into recession. While our domestic economy has been resilient and most indicators augur continuing progress, we will feel the impact of weakness abroad, and probably should not expect more than 2% growth. Bartlett thinks a U.S recession is not probable in the next year, but we admit the odds are higher now than they were last Thursday.

- **U.S. corporate profits will remain lackluster.** Slower overseas growth and the stronger U.S. dollar will be headwinds, and even the best companies may struggle to deliver higher revenues and profits. We think a careful value-oriented approach to stock selection, grounded in realistic assessments of earnings and dividend growth potential, should fare relatively well.

- **Interest rates will be even lower, for longer.** Among the "winners" on Friday were government bonds in almost all Western countries, which rallied to higher prices (and lower yields) on safe-haven buying. Here at home our benchmark 10-year Treasury yields just 1.6%. That is comparatively high when juxtaposed with 1.1% in Britain, 1.2% in Canada, 0.4% in France and negative – yes, *negative* – bond yields in Germany, Switzerland, and Japan. Furthermore, the outlook for low rates is supported by Federal Reserve policy, as our central bank is probably "on hold" until 2017, with no increase in policy rates anticipated. While low interest rates are frequently lamented as a byproduct of tepid growth expectations, they also provide opportunity. Financially strong companies can borrow cheaply to finance capital spending, acquisitions, and other growth initiatives. Governments can borrow cheaply for much-needed infrastructure improvements.

- **Antipathy to free trade will likely increase.** Both U.S. Presidential candidates are embracing economic nationalism, quite a change from the bipartisan free trade consensus that characterized post-WWII leadership. This may not manifest in tariffs and quotas, but it seems all but certain that initiatives like the Trans-Pacific Partnership won't happen. Nationalistic economic tendencies are even stronger in Europe. While this may not impact investment markets in a noticeable way anytime soon, it is a long-term concern for it reduces economic growth potential.

- **Equity market volatility will be higher.** We are accustomed to turbulence. History teaches us that, on average, stock markets have 5% setbacks three times per year and 10% declines once per year. So you should expect more "stress tests" similar to recent experiences in January-February of this year and in August of last year.

- **Investment policy is all-important.** The "BREXIT" fallout is another great reminder of the importance of thoughtful financial planning, realistic risk assessment, appropriate asset allocation, and careful recognition of liquidity requirements. These vital factors help Bartlett guard against seeking "safety" after market selloffs when others incur "behavioral penalties" by selling low. Moreover, with appropriate balance and related portfolio safeguards in place, setbacks can be looked at as opportunities, with an eye to judiciously purchasing at lower prices.

Bartlett is accustomed to the vexing challenges of recent times – "BREXIT" is the latest in a litany featuring the European crisis over Greece, the U.S. debt downgrade, the "fiscal cliff" stalemate, China's slowdown, terrorism, etc. Over the long haul stock markets do indeed "climb a wall of worry." We have every confidence this will continue. The pace may be slower – perhaps 7-8% total returns instead of the long-term expectation of 10-11% that was once an article of faith for investors – but stock prices should parallel the higher earnings and dividends that good companies will achieve. These companies will be buoyed by factors that have characterized strong businesses for years – research, innovation, cost control, and financial strength. This is the "North Star" that keeps us anchored to long-term investing amid all the worries and apprehensions. We feel very good about the long-term prospects of our holdings and believe we have been careful as to risk management. This allows us to view this current dislocation objectively and dispassionately – maintaining holdings, opportunistically increasing positions, and contemplating new investments in securities that have been marked down to more realistic prices.

We recognize that market turbulence is always sensationalized by the media. This can prompt worries and apprehensions for otherwise patient long-term investors. Please remember we're just a phone call or email away if you have questions and concerns about your holdings.

All of us at Bartlett feel privileged to work for you, never more than during these bouts of turbulence when we most appreciate your trust and confidence.

KELLEY J. DOWNING
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