Eastman Kodak Employees' Savings and Investment Plan

Fixed Income Fund (Fund #562)

November, 2011

The Fixed Income Fund in SIP has been the mainstay of Kodak Retirees and Employees since 1975. At its inception the Fixed Income Fund was referred to as "Fund D" and was earning 9% per year. The best year for the fund was in 1985, when it reached 13.6%. Since that high point, the rate of return has declined almost every year. Currently, as of November 1, 2011, the rate is 3.15% per year. During this same period of time, outside interest rates have declined as well. Generally, the Fixed Income Fund rate of return has exceeded the prevailing interest rate of bonds.

Initially, the underlying investments were Guaranteed Investment Contracts (GICs). GICs are investment contracts usually issued by insurance companies and sometimes banks. The year 2000 SIP Annual Report indicates that the fund included 32 contracts, with 31 issued by insurance companies and 1 issued by a bank. The guarantees of the fund come from the issuers. Beginning in 2000, as some of the traditional GICs matured, many were being replaced by diversified investment grade bonds. There is reference to a portfolio manager by the name of NISA Investment Managers. Several years ago, a representative of NISA gave a presentation on the Fixed Income Fund in the Building 28 auditorium. The most recent SIP Annual Report indicates that NISA Investment Advisors, LLC is still involved in the management of the Fixed Income Fund.

The Fixed Income Fund is also referred to as a "stable value" fund. Stable Value funds generally invest in GICs *or* synthetic GICs. Synthetic GICs invest in investment grade bonds issued by agencies such as the US government, corporations, or other investment securities. As of December 31, 2010 the allocation was approximately 53% in US Government Bonds, 37% Corporate Bonds, and 10% in Asset Backed Securities. The plan trustee has a contract with the asset manager. This portfolio of bonds then gets an insurance "wrap" where the wrap provider (insurance company and/or banks) agrees to insure the principal (face value) and accumulated interest. As of July 5, 2011, when the last GIC matured, the Fixed Income Fund is exclusively invested in these Synthetic GICs and a money market fund. The 2010 Annual report indicated that the issuers of the insurance are: "Commonwealth General Corp (AEGON)"; "JP Morgan Chase"; "Pacific Life"; and "State Street Bank & Trust".

The Fund managers are SIPCO (The Savings and Investment Plan Committee which is comprised of a committee of Kodak managers that helps administer SIP); NISA Investment Advisors, LLC; BlackRock Capital Management, Inc; Merganser Capital Management JP; and BNY Mellon Cash Investment Strategies.

As a SIP participant, it is important to know the responsibilities of all parties involved. The "Eastman Kodak Employees' Savings and Investment Plan" is the *plan*. Eastman Kodak Company and certain subsidiaries operating in the US is the plan *sponsor*. SIPCO (referred to above) is the *Plan Administrator* and named fiduciary. The Trust is administered by BNY Mellon Financial Corporation (the *plan trustee*). The *record keeper* is T. Rowe Price Retirement Plan Services, Inc.

There has been some speculation recently about what would happen to SIP and more specifically the Fixed Income Fund in SIP if Kodak gets acquired, files bankruptcy or just goes out of business. When other companies have experienced any of these situations, the result has been termination of the 401k plan. We do not know for sure what specifically will happen to SIP if Kodak experiences any of these situations. A participant of SIP can only look at examples of what other companies have experienced to assess any risk exposure.

Concern #1: One of the many concerns we have heard is "Does Kodak have any access to my funds?" The Summary Plan Description dated January, 2010 is posted on the SIP website. On page 17 of this document under "Plan Modification and Termination", the following is a word for word excerpt:

"However, no amendment or modification may be made which will deprive you or your beneficiary of any amount credited to your account. Nor may the plan or trust be amended to make it possible for any part of the principle or income to be used for, or diverted to, purposes other than providing benefits to Participants or their beneficiaries, prior to the satisfaction of all liabilities to such Participants and their beneficiaries, and defraying reasonable expenses of administering the plan. In the event that future deferrals to the plan are terminated, the Trustee will continue to administer the trust fund in accordance with relevant provisions of the plan and the trust agreement. In the event of termination of the trust, the value of all Participant accounts, determined as of the effective date of the termination, will be paid to the Participants, their beneficiaries, or their estate in accordance with the distribution provisions of the plan."

Based on the above excerpt it appears that the balances in SIP are not at risk of the company having access to your funds. These are your savings.

Concern #2: Another concern is "Will I be able to access my SIP account in the event of a bankruptcy?" If the plan is required to terminate, and if Kodak owes the record keeper (T. Rowe Price) any fees, the record keeper becomes a creditor, and all participants could be locked out for a period of time. The funds are not at risk during this period of time other than you may not be able to manage your fund during any lock down period.

It is important to understand that if the plan terminates, all of the investments in the plan will have to be sold. Once all investments have been sold and converted to cash, your balance can then be transferred to another tax qualified plan such as an IRA or a 401(k) of a current employer. This transfer will not result in a taxable event as long as it is transferred as a "trustee to trustee" transfer or as a rollover within the time limits.

Concern #3: The final concern that I will address in this paper goes back to the subject of the Fixed Income Fund. As I have described above, the Fixed Income Fund is now primarily a Stable Value Fund that invests in Synthetic Guaranteed Investment Contracts. There are real investments (bonds) in this fund, consisting of U.S. government securities of $2,103,330,000; corporate debt instruments of $1,746,383,000; Other investments $148,187,000 and other miscellaneous accounts. These were the values as of December 31, 2010. The total Fixed Income Fund value on that date was $4,546,712,000. The total value of SIP on the same date was $6,697,035,000, which means that almost 68% of the funds are in the Fixed Income Fund. The values quoted are from SIP's most recent filing with the Securities and Exchange Commission (Form 11-K, 12/31/2010).

It is important to understand that this represents real investments and the size indicates that when the assets in this fund are sold, it will have an impact on most of the participants in SIP.

In the case of total liquidation of the Fixed Income Fund, the providers of the “wrapper” take over the process of the liquidation of the investments of the fund. This is done to insure an orderly disposition of the securities in the portfolio. Participants can expect periods of time during this process to have a lack of access to these funds. It is anybody’s guess of how long this process would take.

The wrapper insures face value of the investments in the portfolio. If there is a difference between face value and market value, the wrapper would make up the difference. Most articles that I read on the subject indicate that in a total liquidation, the wrapper may not insure the difference. There have been well publicized cases where plan participants did not receive total face value but received market value such as the Chrysler bankruptcy liquidation. The Chrysler liquidation yielded 89% of face value, or $.89 cents on the dollar on the participants’ “Stable Value” fund.

Bonds tend to have an inverse relationship with market value versus interest rates. With today’s interest rates being held down to historically low levels, the market value of existing bonds increases. Our SIP Fixed Income Fund valuation could very well be at or above market value. I have unofficially heard that the recent price to book ratio of the Fixed Income Fund is approximately 103%. This means that, if liquidated when the price to book value is higher than 100%, the participants would receive an amount that is greater than the insured amount.

The golden era of “Fund D” is in the past. Still, with a rate of 3.15%, its return is greater than other quality bonds. The 10 year US Government bond is currently yielding only 1.98%. With the Fund D rate being this low, it may not be keeping up with inflation. Social Security payment increases are based on some measure of inflation and were just increased by 3.6% for 2012. It will be wise to keep track of interest rates in general. If inflation becomes an issue, and interest rates rise, remember, the Fixed Income Fund is a bond portfolio, and as interest rates rise, the market value decreases. This would put pressure on the insurance wrapper providers, and may expose us to risks that we have not yet experienced.

In order to keep up with inflation, you may now need to have other investments in addition to the Fixed Income Fund. It is my opinion that SIP participants should diversify their investments and not rely on the return of just one fund. You now need to have other investments in addition to the Fixed Income Fund just to keep up with inflation.

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