

BAY COUNTY VEBA

Investment Performance Analysis

June 30, 2012

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August 6, 2012

Board of Trustees
Bay County VEBA
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Dear Trustees:

The following pages contain Becker, Burke's performance evaluation report on the VEBA Fund assets updated through June 30, 2012. Total assets at the end of this quarter were \$29,424,817. This quarter was the first full measurement period following the implementation of the new asset allocation and manager structure. The assets are now diversified across two large cap managers, Atalanta Sosnoff and Dodge & Cox (Large Growth and Large Value respectively), a small/mid cap manager, Lord Abbett and a fixed income manager, CS McKee.

As of quarter end the assets were allocated according to the chart below:

Manager	Asset Class	Allocation	Policy Target	Policy Range
1. Atalanta Sosnoff	US Large Cap	16.7%	16.5%	14% - 19%
2. Dodge & Cox	US Large Cap	16.8%	16.5%	14% - 19%
3. Lord Abbett	US Small/Mid Cap	19.0%	20.0%	15% - 25%
4. CS McKee	Fixed Income	46.8%	47.0%	42% - 52%
5. Cash	Cash	0.7%	0.0%	

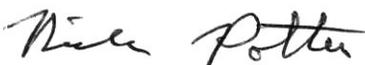
The fund's assets are allocated in compliance with the ranges specified in the investment policy.

All equity market indices produced negative returns this quarter. However, the recent allocation changes have benefited the Fund in this respect. Relative to one year ago, the Fund now holds about 10% more of the total assets in fixed income. Unfortunately, this was not enough to prevent negative total fund returns. For the quarter the fund returned -1.8%, slightly under the median return of -1.6% and lagging the policy index return of -0.7%.

The spread between the Fund performance and the policy index was attributable to underperformance by the equity managers, particularly Atalanta Sosnoff and Lord Abbett. The environment continues to be exceptionally challenging for fundamentally based investment strategies as markets have been unusually volatile and sensitive to short-term events. We continue to have confidence in your managers' abilities to add value over the long term and do not have any immediate concerns regarding their underperformance at this time.

For reference, this program was funded at year-end 2001 with \$879,000 in contributions. Dodge & Cox Balanced was funded with \$2 million during the third quarter of 2002. In the second quarter of 2009, Atalanta Sosnoff Balanced was hired as a complement to Dodge & Cox. As the Fund's assets have grown, additional manager diversification was justified. In 2011, the Trustees initiated an investment policy and allocation study, resulting in the hiring of two new managers for small cap and fixed income. Meanwhile, the mandate for the existing managers was converted from balanced to large cap.

Cordially,

Richard L. Potter
Principal

INVESTMENT MARKET ENVIRONMENT

Periods Ending June 30, 2012

Commentary and Benchmark Index Returns

Domestic stock markets declined in the June quarter as concerns over slowing economic growth and job creation offset good news on lower energy prices and improved consumer spending. Large capitalization stocks performed better than mid and small caps for the quarter and year. Growth lagged value for the quarter, but led for the year in large caps, while it trailed mid and small.

International developed and emerging market equities performed below domestic for the quarter and year. The European debt crisis and tepid economic growth were primary factors impacting results.

Bond performance, especially long duration issues, was helped by declining interest rates. Spreads widened slightly in the quarter, while government and corporate returns were similar.

Real estate again posted solid results for the quarter and year.

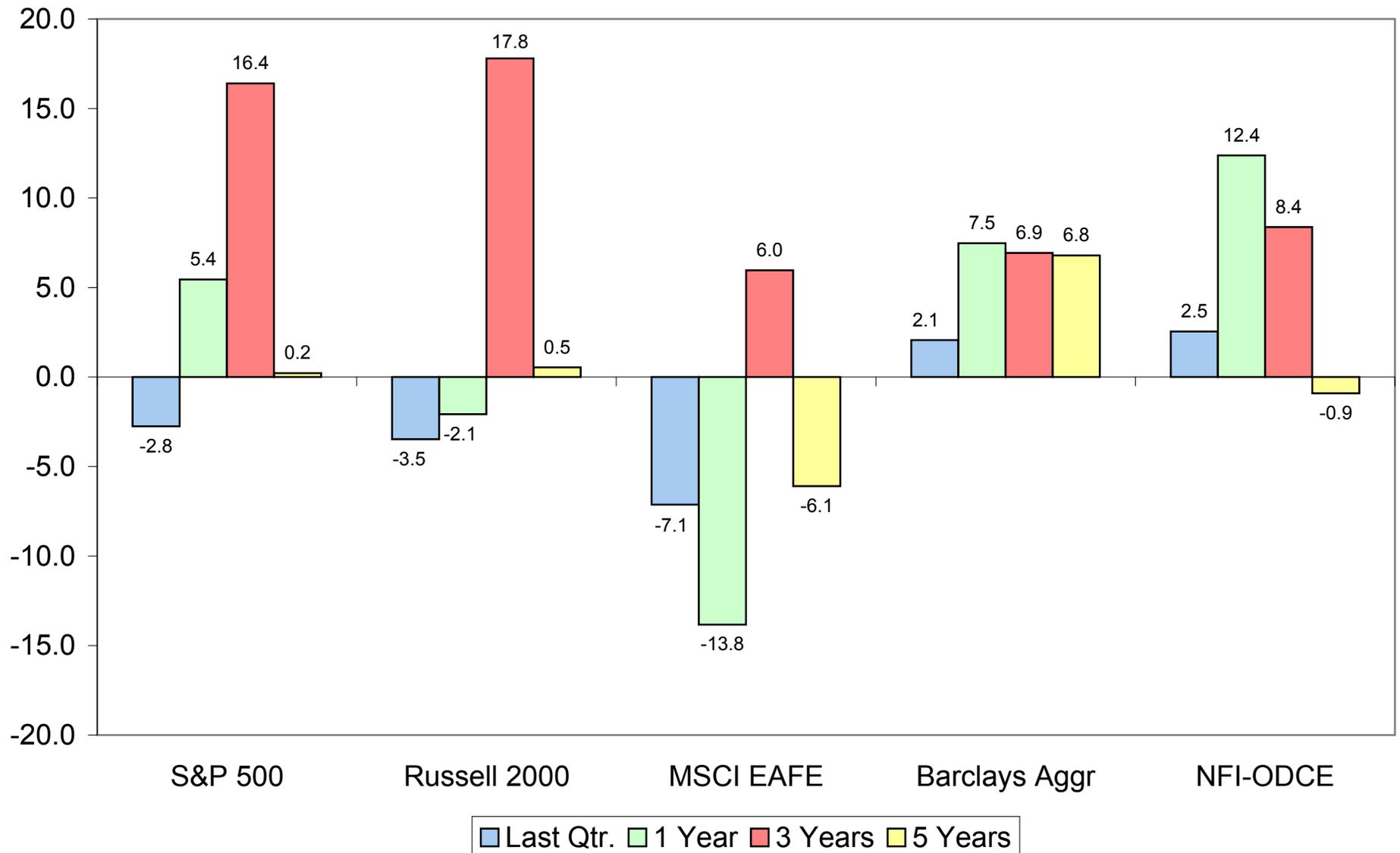
Index Returns - Periods Ending June 30, 2012

	<u>1 Quarter</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
S&P 500	-2.8	5.4	16.4	0.2	5.3 %
S&P Mid Cap	-4.9	-2.3	19.4	2.6	8.2
Russell 2000	-3.5	-2.1	17.8	0.5	7.0
MSCI EAFE	-7.1	-13.8	6.0	-6.1	5.1
ACWI Ex US	-7.6	-14.6	7.0	-4.6	6.7
MSCI Emerging Markets	-8.9	-16.0	9.8	-0.1	14.1
Barclays Aggregate	2.1	7.5	6.9	6.8	5.6
Barclays Govt/Credit	2.6	8.8	7.3	6.9	5.8
Barclays Govt/Credit Intermediate	1.5	5.4	5.8	6.0	5.1
Barclays Govt/Credit Long	7.3	24.6	14.4	11.0	8.7
Barclays Govt	2.6	8.3	5.6	6.6	5.4
Barclays Govt Intermediate	1.5	5.0	4.4	5.8	4.6
Barclays Gov't Long	10.3	31.4	13.5	11.9	8.9
Barclays Mortgage Backed	1.1	5.0	5.4	6.7	5.4
Barclays U.S. Credit	2.5	9.5	10.1	7.6	6.5
Barclays Corporate High Yield	1.8	7.3	16.3	8.4	10.2
NFI-ODCE (Real Estate)	2.5	12.4	8.4	-0.9	6.6
NAREIT (REIT)	3.7	12.9	32.4	2.6	10.3
90-Day Treasury Bills	0.0	0.1	0.1	1.0	1.9
CPI	-0.2	1.7	2.1	2.0	2.4

INVESTMENT MARKET ENVIRONMENT

Periods Ending June 30, 2012

Commentary and Benchmark Index Returns



BAY COUNTY VEBA

Quarter Ending June 30, 2012

Portfolio Asset Growth Summary (\$000)

	Beginning Market Value	Net External Growth	Return on Investment	Income	Gain/Loss	Ending Market Value
TOTAL FUND						
COMBO - VEBA	29,921	62	-559	165	-724	29,425
EQUITY MANAGERS						
ATLANTA SOSNOFF EQTY	5,169	0	-253	19	-271	4,917
DODGE & COX STOCK FUND	5,085	0	-156	28	-183	4,929
LORD ABBETT	6,013	0	-425		-425	5,588
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO	16,267	0	-834	46	-880	15,433
BOND MANAGERS						
CS MCKEE	13,498	0	275	119	156	13,773
CASH MANAGERS						
VEBA - CASH	156	62	0	0	0	218

BAY COUNTY VEBA

Year Ending June 30, 2012

Portfolio Asset Growth Summary (\$000)

	Beginning Market Value	Net External Growth	Return on Investment	Income	Gain/Loss	Ending Market Value
TOTAL FUND						
COMBO - VEBA	29,425	329	-329	596	-925	29,425
BALANCED MANAGERS						
ATALANTA SOSNOFF BALANCED	11,875	-6,777	-323	246	-569	
DODGE & COX	17,548	-17,222	-326	200	-526	

BAY COUNTY VEBA

Year Ending June 30, 2012

Portfolio Asset Growth Summary (\$000)

	Beginning Market Value	Net External Growth	Return on Investment	Income	Gain/Loss	Ending Market Value
EQUITY MANAGERS						
ATLANTA SOSNOFF EQTY		0	141	31	110	4,917
DODGE & COX STOCK FUND		4,767	162	50	111	4,929
LORD ABBETT		5,779	-191	0	-191	5,588
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO		0	132	81	50	15,433
BOND MANAGERS						
CS MCKEE		13,565	208	69	139	13,773
CASH MANAGERS						
VEBA - CASH	1	217	0	0	-0	218

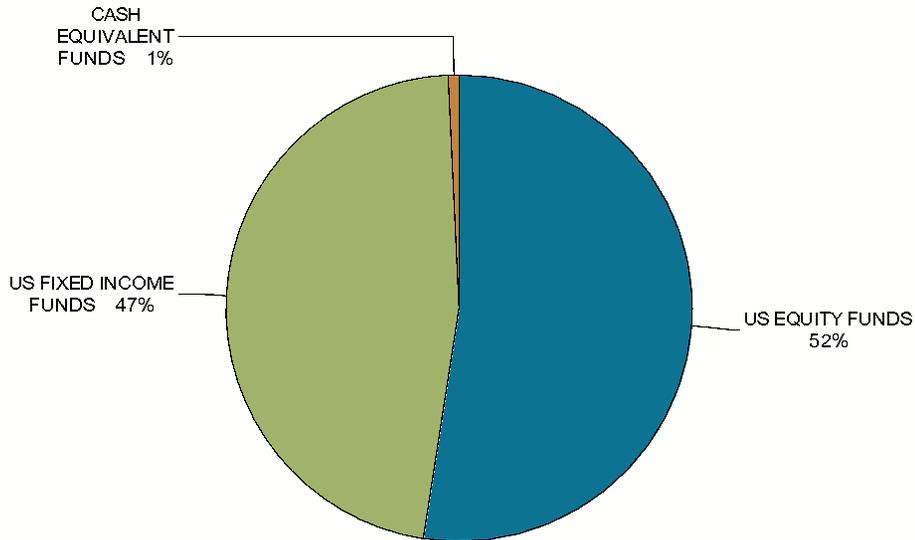
BAY COUNTY VEBA

COMBINED - VEBA

As of June 30, 2012

Allocation by Manager Type

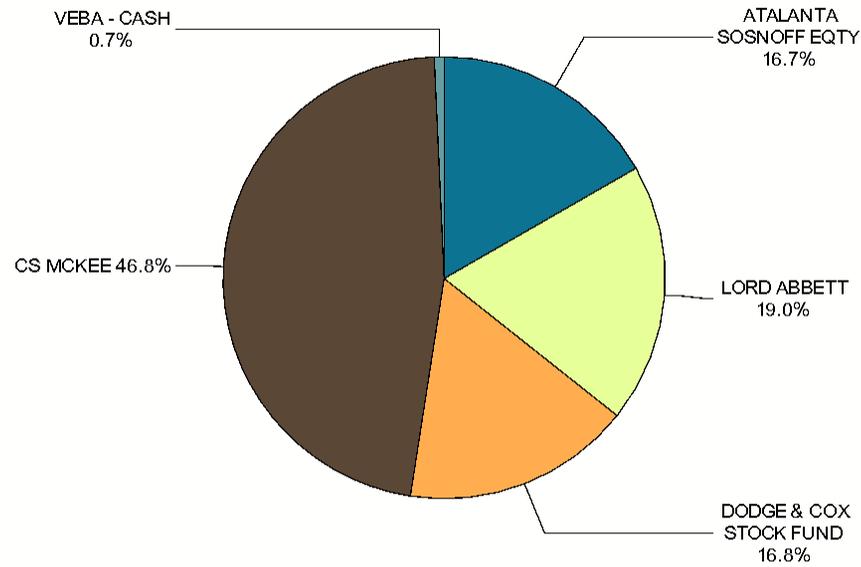
<u>MANAGER TYPE</u>	<u>Ending Market Value</u>	<u>% of Plan</u>
US EQUITY FUNDS	15,433,403	52.5
US FIXED INCOME FUNDS	13,773,136	46.8
CASH EQUIVALENT FUNDS	218,278	0.7
<u>TOTAL</u>	<u>29,424,817</u>	<u>100.0</u>



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As of June 30, 2012

Portfolio Asset Allocation by Manager



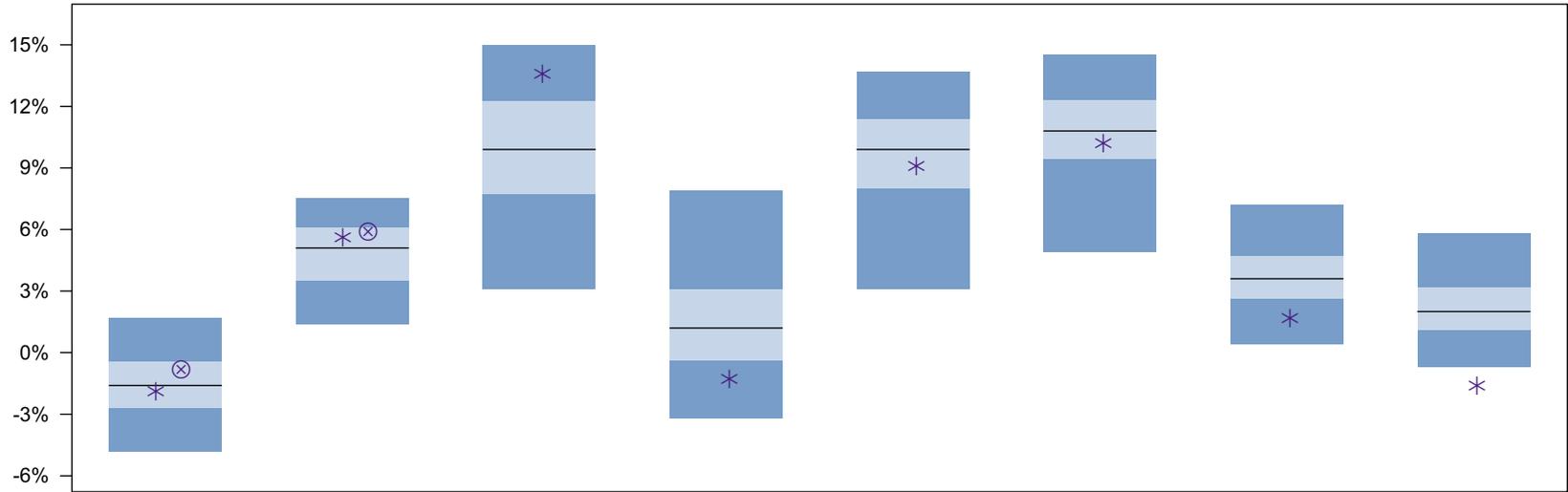
FUND	Ending Market Value	% of Plan
ATALANTA SOSNOFF EQTY	4,916,510	16.7
LORD ABBETT	5,587,662	19.0
DODGE & COX STOCK FUND	4,929,231	16.8
CS MCKEE	13,773,136	46.8
VEBA - CASH	218,278	0.7
TOTAL	29,424,817	100.0

BAY COUNTY VEBA

Master Trust Funds

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



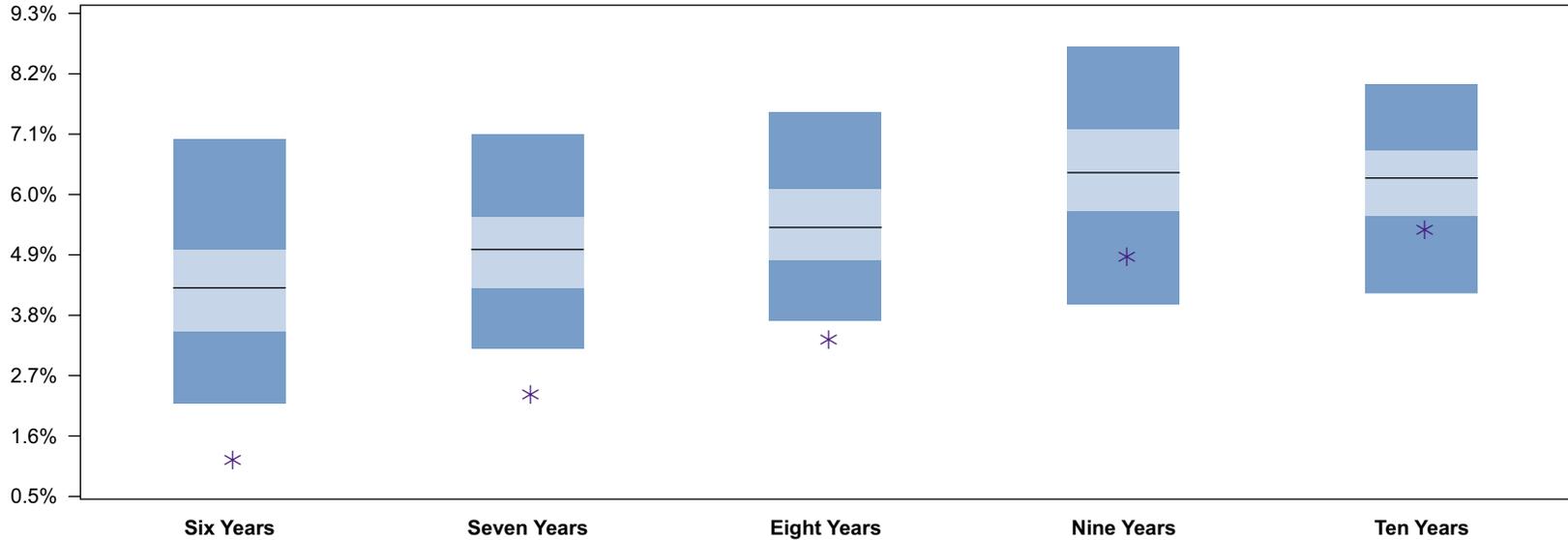
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years		Three Years		Four Years		Five Years	
* COMBO - VEBA	-1.8	55	5.7	37	13.7	13	-1.2	82	9.2	61	10.3	63	1.8	86	-1.5	98
⊗ VEBA COMBO POLICY	-0.7	30	6.0	27												
Median	-1.6		5.1		9.9		1.2		9.9		10.8		3.6		2.0	

BAY COUNTY VEBA

Master Trust Funds

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



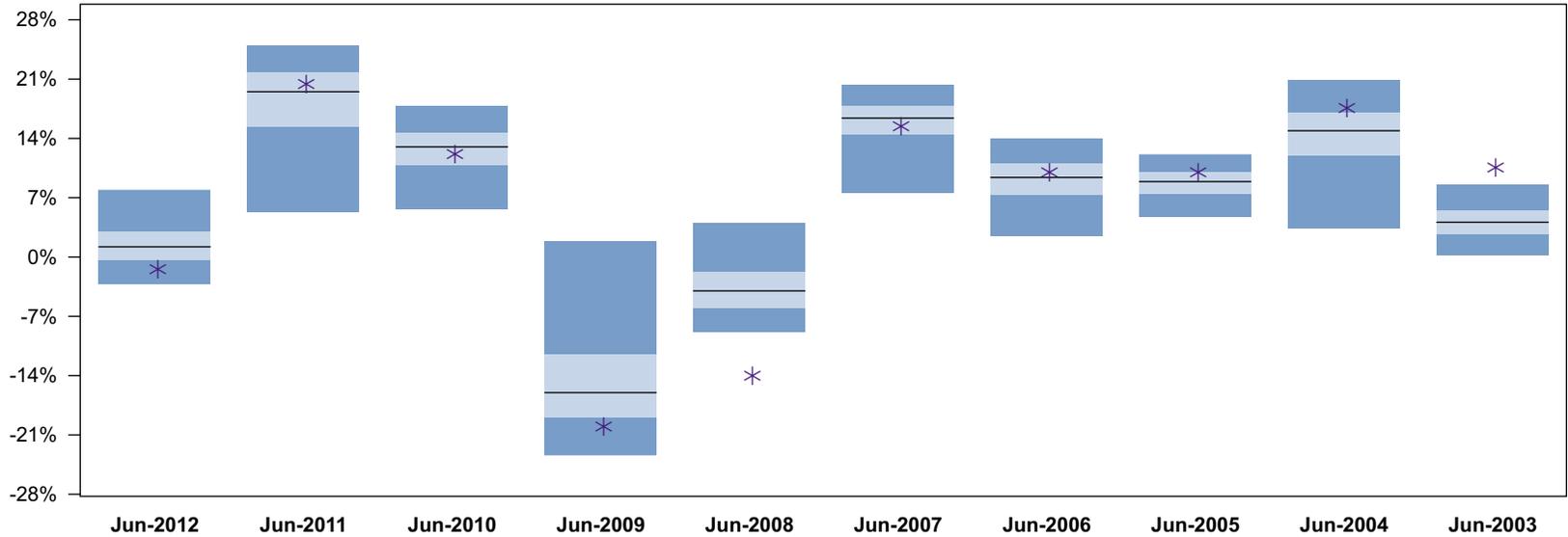
	Six Years	Seven Years	Eight Years	Nine Years	Ten Years
* COMBO - VEBA	1.2 99	2.4 99	3.4 98	4.9 90	5.4 80
Median	4.3	5.0	5.4	6.4	6.3

BAY COUNTY VEBA

Master Trust Funds

Years Ending June

Total Fund Performance - Annual Periods



* COMBO - VEBA
Median

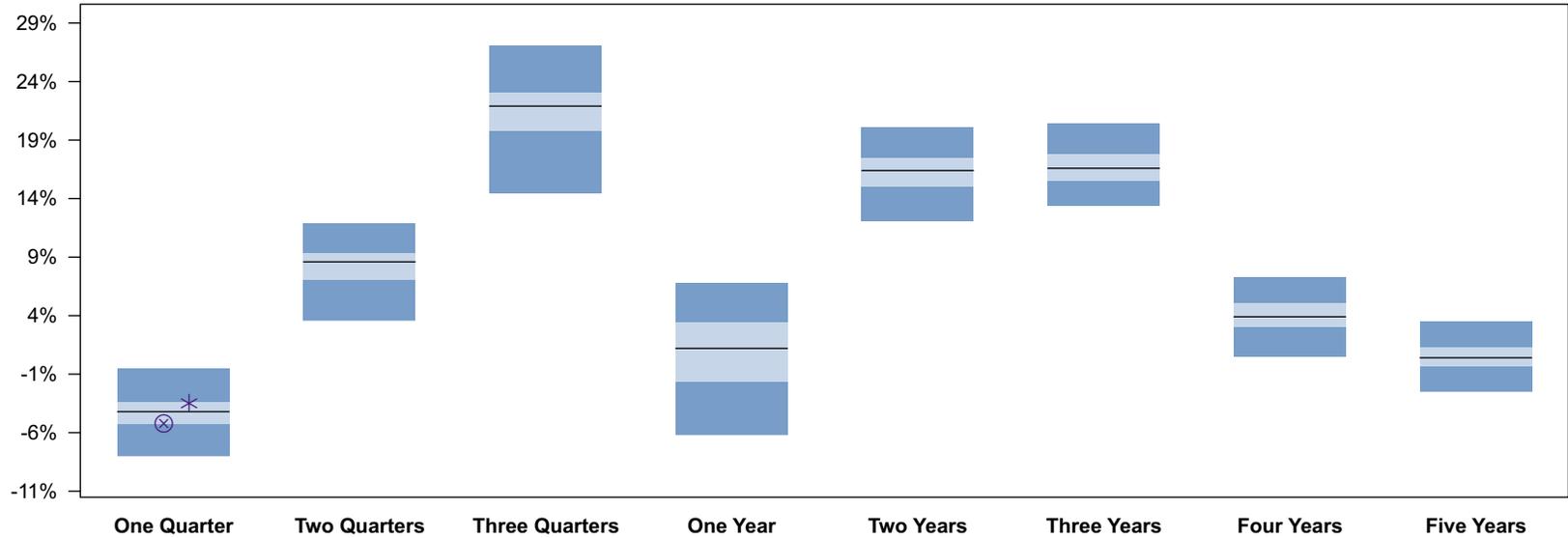
Year	Min	Q1	Median	Q3	Max	COMBO - VEBA
Jun-2012	-4.0	0.0	1.2	7.0	10.0	-1.2
Jun-2011	5.0	14.0	19.5	23.0	25.0	20.7
Jun-2010	5.0	10.0	13.0	16.0	18.0	12.4
Jun-2009	-23.0	-18.0	-16.0	-10.0	5.0	-19.8
Jun-2008	-10.0	-8.0	-4.0	2.0	5.0	-13.8
Jun-2007	7.0	10.0	16.4	20.0	22.0	15.7
Jun-2006	3.0	6.0	9.4	14.0	16.0	10.2
Jun-2005	4.0	6.0	8.9	11.0	13.0	10.2
Jun-2004	5.0	10.0	14.9	20.0	22.0	17.8
Jun-2003	1.0	3.0	4.1	8.0	10.0	10.8

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US Equity Pools

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



⊗	VEBA - EQUITY COMBO	-5.0	71
*	VEBA EQUITY COMBO POLI	-3.3	25
	Median	-4.2	

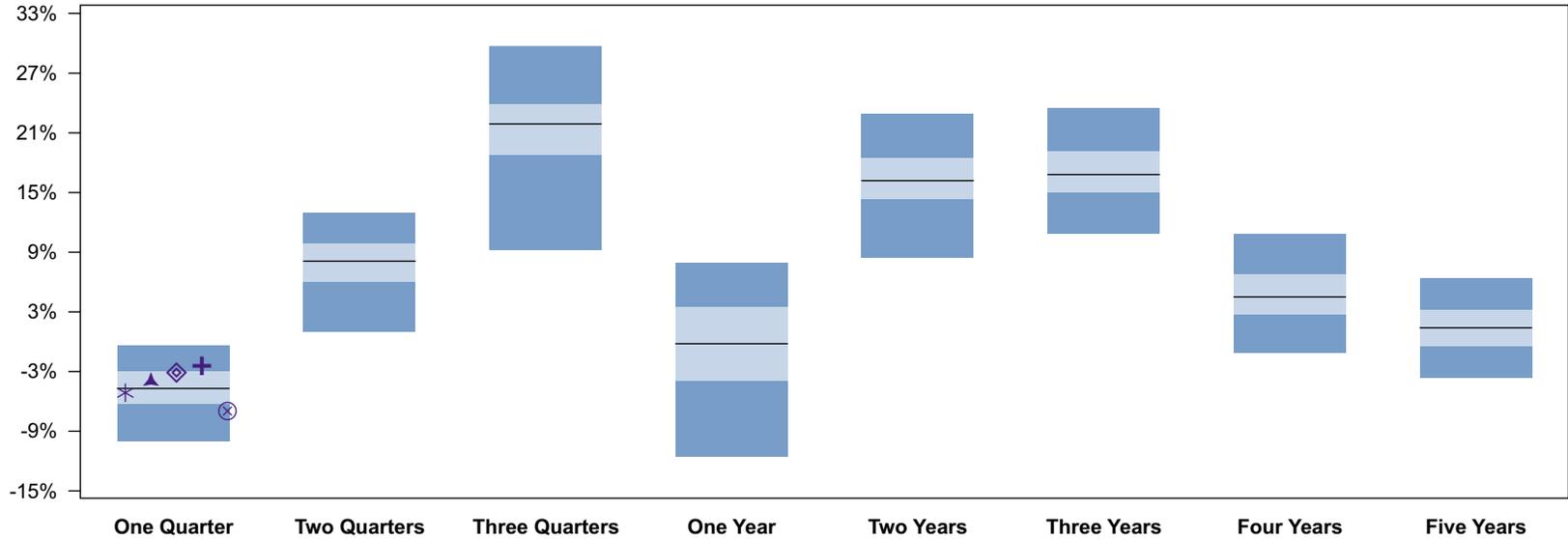
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
Median	-4.2	8.6	21.9	1.2	16.4	16.6	3.9	0.4

BAY COUNTY VEBA

US Equity Funds (Active)

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



Symbol	Fund Name	One Quarter	Count
*	ATALANTA SOSNOFF EQT	-4.9	56
▲	ATALANTA SOSNOFF POLI	-3.8	37
◆	DODGE & COX STOCK FUN	-2.9	25
+	Russell 1000 Value Index	-2.2	15
⊗	LORD ABBETT	-6.8	81
	Median	-4.7	

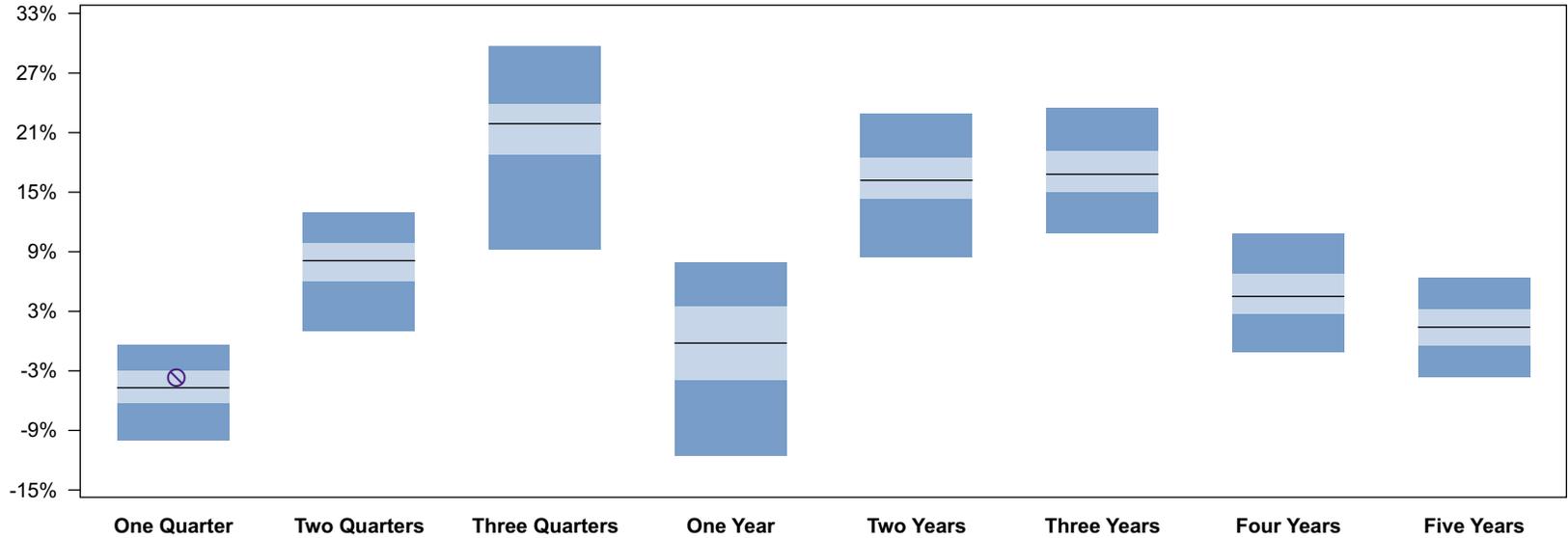
Period	Median
One Quarter	-4.7
Two Quarters	8.1
Three Quarters	21.9
One Year	-0.2
Two Years	16.2
Three Years	16.8
Four Years	4.5
Five Years	1.4

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US Equity Funds (Active)

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



○ RUSSELL 2000
Median

-3.5 32
-4.7

8.1

21.9

-0.2

16.2

16.8

4.5

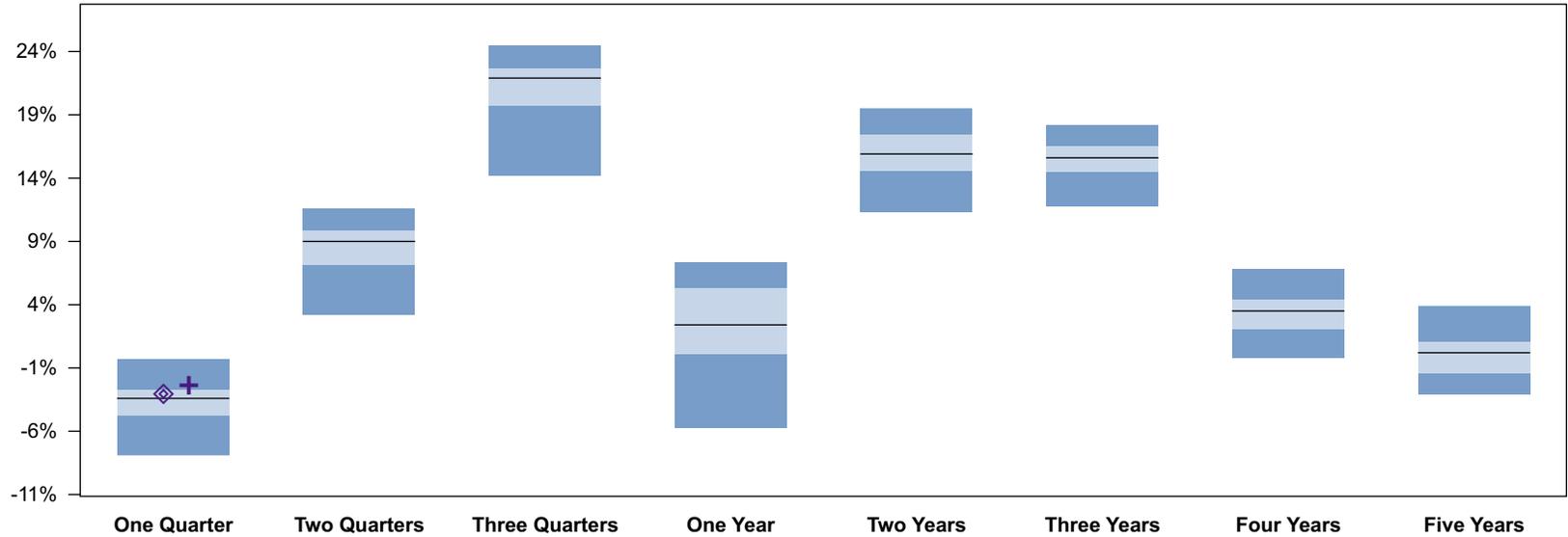
1.4

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US Equity Funds (Active) - Large Core

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



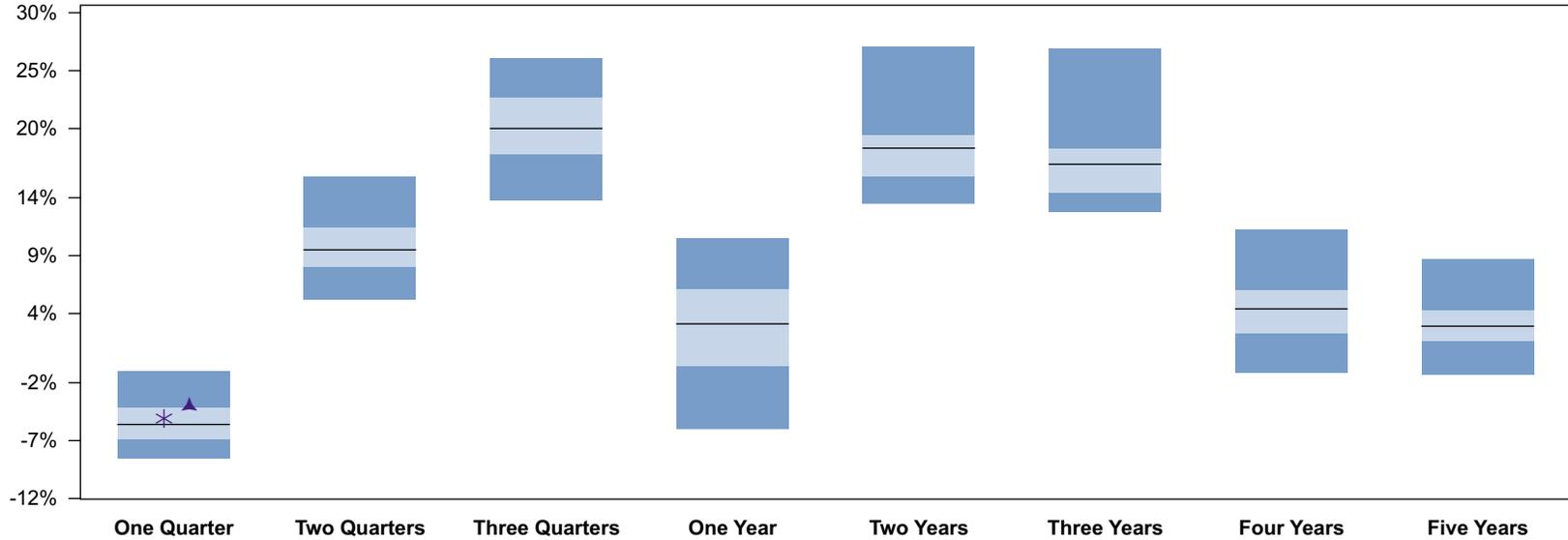
◆	DODGE & COX STOCK FUN	-2.9	35
+	Russell 1000 Value Index	-2.2	15
	Median	-3.4	

	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
◆	-2.9							
+	-2.2							
Median	-3.4	9.0	21.9	2.4	15.9	15.6	3.5	0.2

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US Equity Funds (Active) - Large Growth
 Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



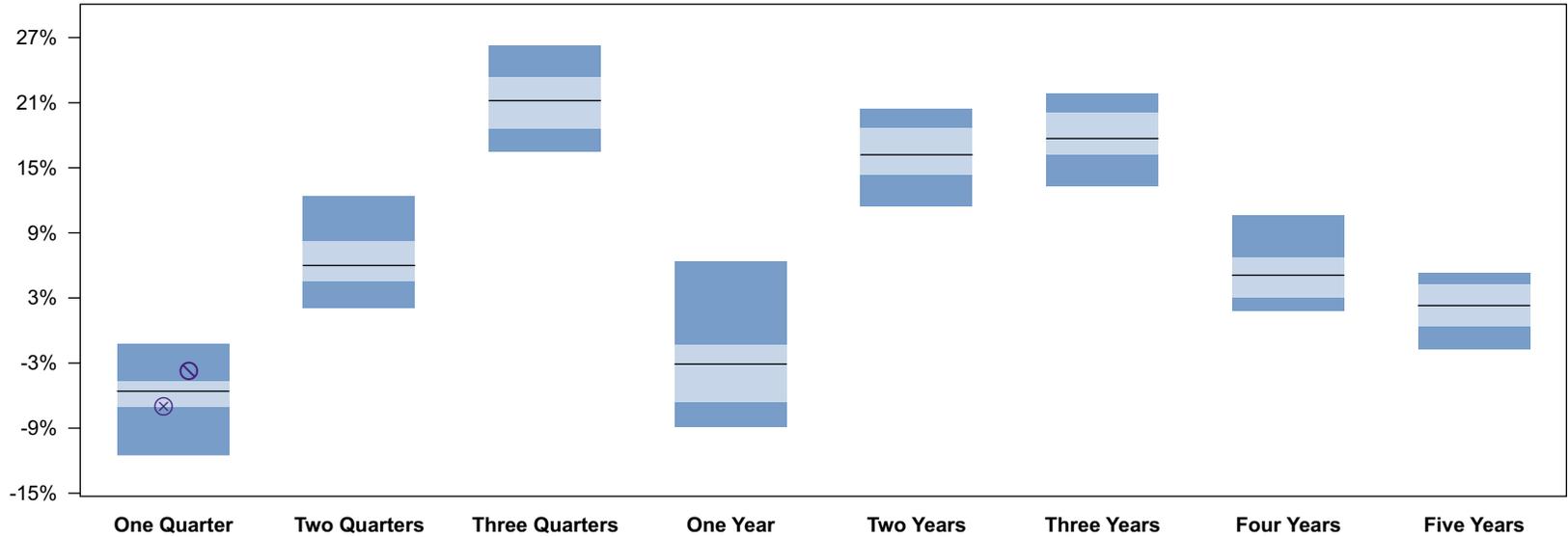
* ATALANTA SOSNOFF EQT	-4.9	37
▲ ATALANTA SOSNOFF POLI	-3.8	19
Median	-5.6	

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US Equity Funds (Active) - Mid Core

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods

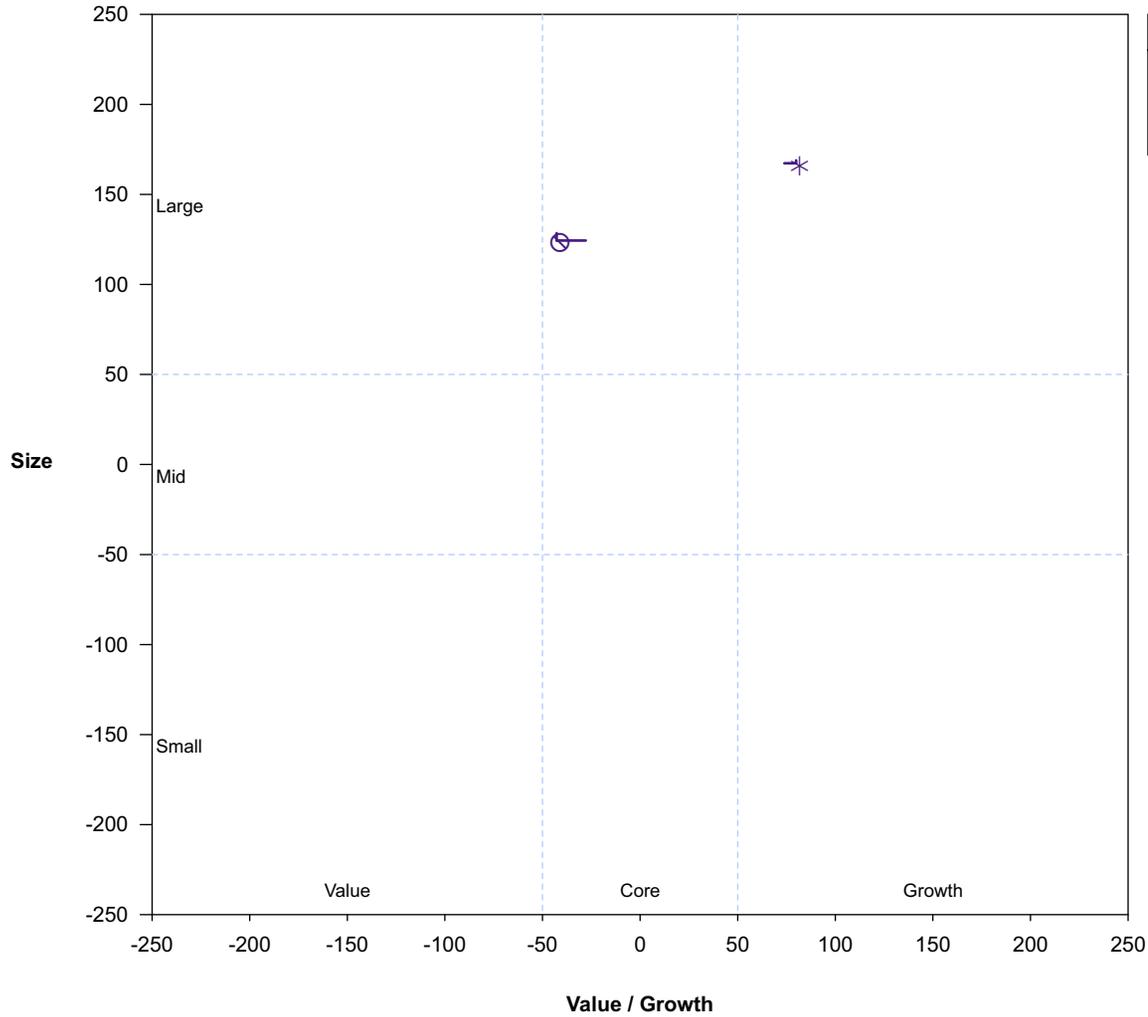


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ LORD ABBETT	-6.8							
⊙ RUSSELL 2000	-3.5							
Median	-5.6	6.0	21.2	-3.1	16.2	17.7	5.1	2.3

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Period Ending June 30, 2012

Equity Style Analysis - Drift Over Time



FUND	Value / Growth	Size
* ATALANTA SOSNOFF EQTY	79.96	167.29
⊗ DODGE & COX STOCK FUND	-42.75	124.40

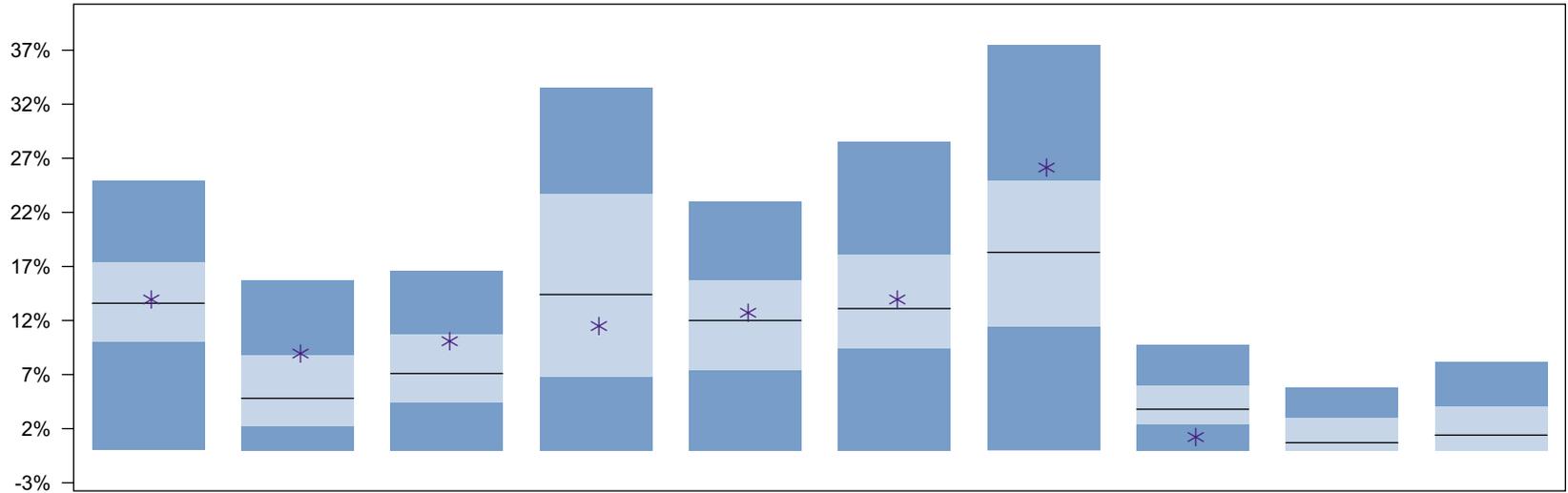
* Equity style analysis is based on Morningstar Size and VCG Scores and Morningstar Style Box(TM) methodology

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US Equity Funds (Active)

As of June 30, 2012

Economic Sector Allocation



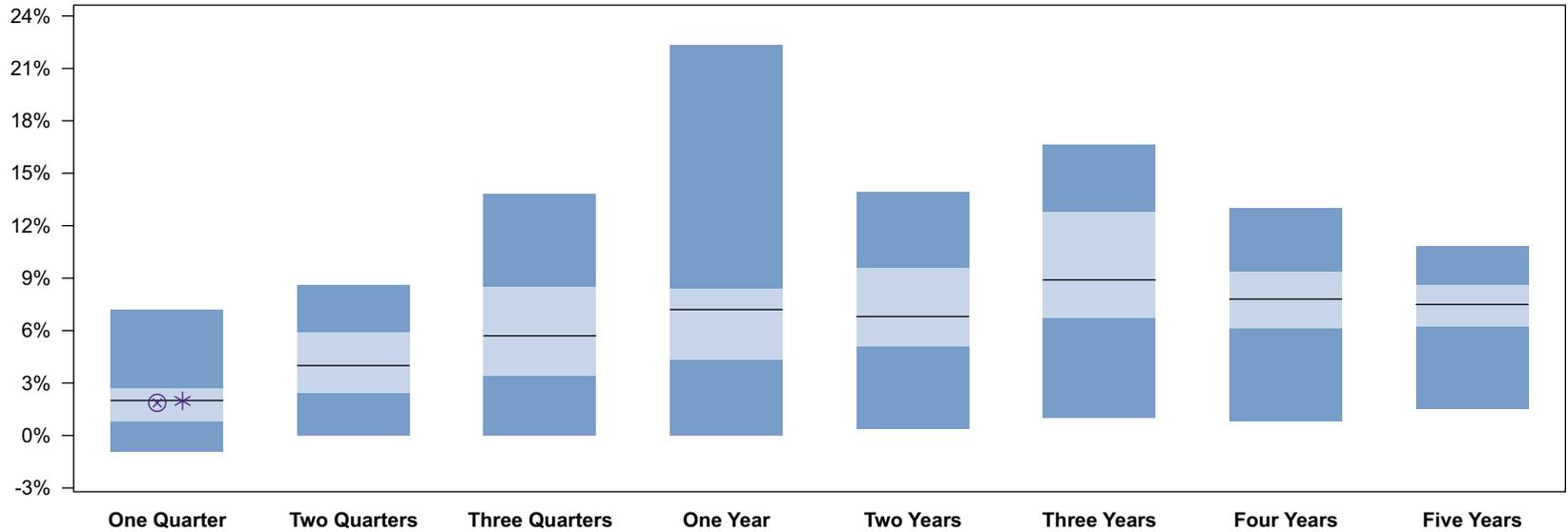
	Consumer Discretionary		Consumer Staples		Energy		Financials		Health Care		Industrials		Information Technology		Materials		Telecom Services		Utilities	
* ATALANTA SOSNOFF E	14.1	47	9.1	24	10.3	28	11.7	59	12.9	41	14.1	46	26.3	21	1.4	82				
Median	13.6		4.8		7.1		14.4		12.0		13.1		18.3		3.8		0.7		1.4	

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US Fixed Income Funds

Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods

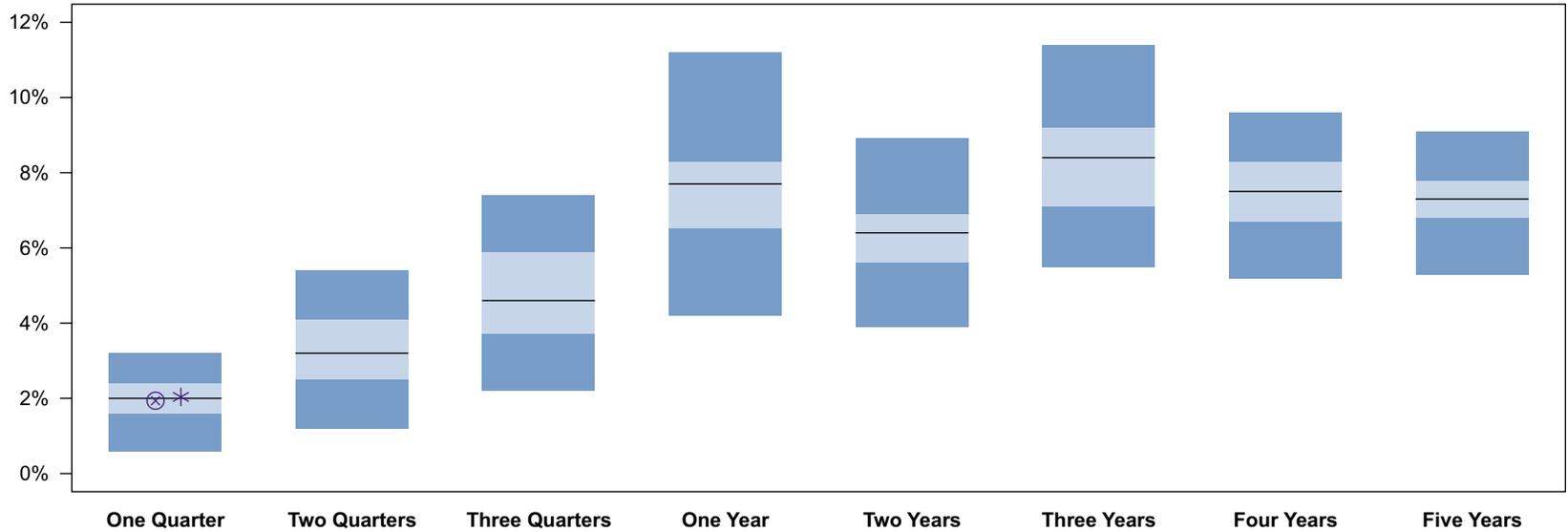


⊗	CS MCKEE	2.0	48
*	Barclays Aggregate Bond	2.1	46
	Median	2.0	

BAY COUNTY VEBA

US Fixed Income Funds (Active) - Core
 Periods Ending June 30, 2012

Total Fund Performance - Trailing Periods



	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ CS MCKEE	2.0							
* Barclays Aggregate Bond	2.1							
Median	2.0	3.2	4.6	7.7	6.4	8.4	7.5	7.3

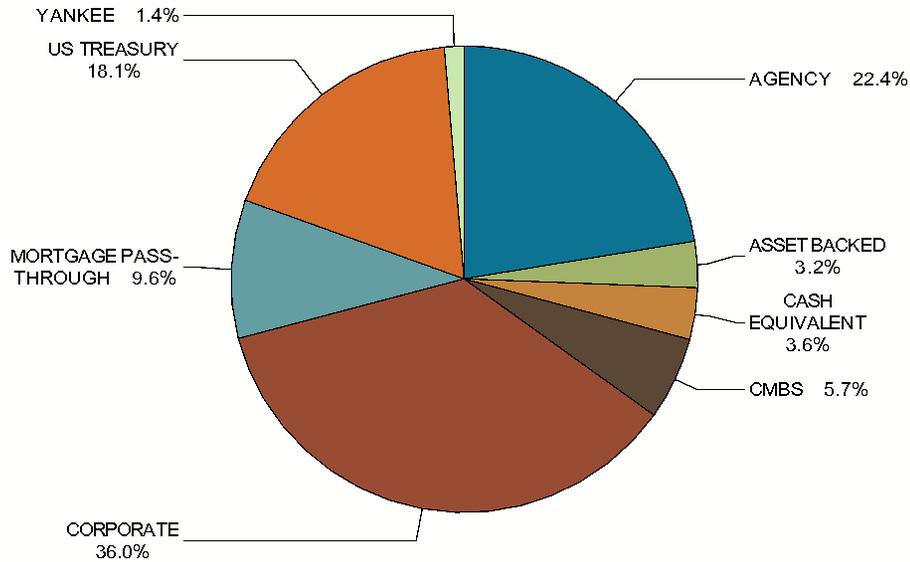
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CS MCKEE

INDEX: Barclays Aggregate Bond

AS OF: June 30, 2012

FIXED INCOME SECTOR ALLOCATION



SECTOR	PORTFOLIO WEIGHT %	INDEX WEIGHT %	DIFF %
AGENCY	22.4	5.2	17.2
ASSET BACKED	3.2	0.3	2.9
CASH EQUIVALENT	3.6	0.0	3.6
CMBS	5.7	1.9	3.8
CORPORATE	36.0	20.6	15.4
MORTGAGE PASS-THROUGH	9.6	30.5	-20.9
US TREASURY	18.1	36.2	-18.1
YANKEE	1.4	5.4	-4.0
TOTAL	100.0	100.0	0.0

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