



Bay County Employees' **VEBA**

Quarterly Investment Performance Report
For Periods Ending September 30, 2012



Becker, Burke

ASSOCIATES

225 West Wacker Drive, Suite 400

Chicago, IL 60606

(312)782-5665

October 25, 2012
Board of Trustees
Bay County VEBA
515 Center Avenue, 7th Floor
Bay City, MI 48708-5753

Dear Trustees:

The following pages contain Becker, Burke's quarterly performance evaluation report on the VEBA Fund. Total assets at the end of this quarter were \$30,853,247. This was the second full quarter measurement period following the implementation of the new asset allocation and manager structure. The assets are 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	17.1%	16.5%	14% - 19%
2. Dodge & Cox	US Large Cap	17.3%	16.5%	14% - 19%
3. Lord Abbett	US Small/Mid Cap	19.0%	20.0%	15% - 25%
4. CS McKee	Fixed Income	45.9%	47.0%	42% - 52%
5. Cash	Cash	0.9%	0.0%	

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

In contrast to last quarter, capital markets produced positive returns across the board. US stock indices were up between +4.1% (S&P 600 Small Cap Growth Index) and +6.8% (S&P 600 Small Cap Value Index). Large cap indices generally outperformed small and mid cap, but the range of returns was narrow. In fixed income markets returns were heavily dependent on quality and duration, lower quality and longer duration performed best. The broadly diversified Barclays Aggregate Index was up +1.6%.

For the quarter the total fund returned +4.8%, above both the median fund return of +4.5% and the policy index return of +3.9%. The performance ranks at the 40th percentile against the universe of total funds.

The spread between Fund performance and the policy index was attributable to strong returns by equity managers Atalanta Sosnoff and Dodge & Cox. It continues to be a challenging environment for fundamentally based investment strategies, as markets have been volatile and sensitive to short-term news and 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 performance at this time.

For reference, this program was initially funded at year-end 2001. 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



Jeffrey T. Black
Associate

INVESTMENT MARKET ENVIRONMENT

Periods Ending September 30, 2012

Commentary and Benchmark Index Returns

Domestic stock markets rebounded in the September quarter despite concerns over slowing economic growth and job creation. Large capitalization stocks performed better than mid and small caps for the quarter, but small caps led for the year. Growth lagged value for the second consecutive quarter and also trailed for the year.

International developed and emerging market equities performed above domestic for the quarter, but were well below for the year. The European debt crisis and poor economic growth, factors hurting results in earlier quarters, were ignored in September.

Bond performance trailed equities for the quarter and year. Corporate bonds were the best performing area, beating government and mortgage backed issues.

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

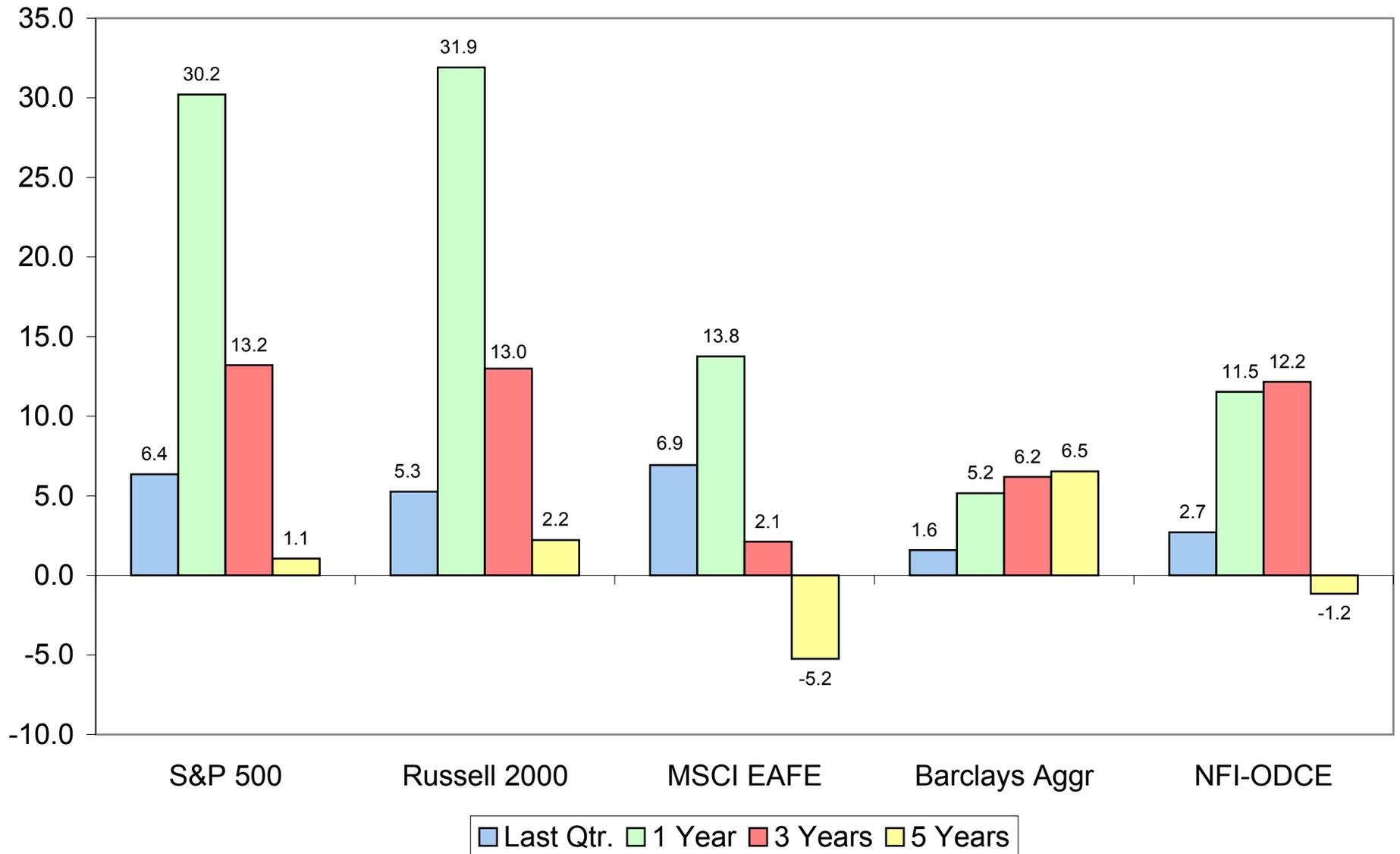
Index Returns - Periods Ending September 30, 2012

	<u>1 Quarter</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
S&P 500	6.4	30.2	13.2	1.1	8.0 %
S&P Mid Cap	5.4	28.5	14.3	3.8	10.8
Russell 2000	5.3	31.9	13.0	2.2	10.2
MSCI EAFE	6.9	13.8	2.1	-5.2	8.2
ACWI Ex US	7.4	14.5	3.2	-4.1	9.8
MSCI Emerging Markets	7.7	16.9	5.6	-1.3	17.0
Barclays Aggregate	1.6	5.2	6.2	6.5	5.3
Barclays Govt/Credit	1.7	5.7	6.5	6.6	5.4
Barclays Govt/Credit Intermediate	1.4	4.4	5.2	5.7	4.8
Barclays Govt/Credit Long	3.1	11.1	12.5	10.9	8.1
Barclays Govt	0.6	2.9	5.2	6.0	4.7
Barclays Govt Intermediate	0.6	2.4	4.1	5.2	4.2
Barclays Gov't Long	0.3	6.4	11.9	10.9	7.7
Barclays Mortgage Backed	1.1	3.7	5.0	6.4	5.2
Barclays U.S. Credit	3.5	10.1	8.7	7.9	6.4
Barclays Corporate High Yield	4.5	19.4	12.9	9.3	11.0
NFI-ODCE (Real Estate)	2.7	11.5	12.2	-1.2	6.7
NAREIT (REIT)	0.2	32.6	20.4	2.1	11.4
90-Day Treasury Bills	0.0	0.1	0.1	0.7	1.8
CPI	1.2	2.0	2.3	2.1	2.5

INVESTMENT MARKET ENVIRONMENT

Periods Ending September 30, 2012

Commentary and Benchmark Index Returns



BAY COUNTY VEBA

Quarter Ending September 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	44	1,384	118	1,267	30,853
EQUITY MANAGERS						
ATALANTA SOSNOFF EQTY	4,917	0	347	18	329	5,263
DODGE & COX STOCK FUND	4,929	0	396	18	378	5,325
LORD ABBETT	5,588	0	263		263	5,851
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO	15,433	0	1,006	36	970	16,439
BOND MANAGERS						
CS MCKEE	13,773	0	379	82	297	14,152
CASH MANAGERS						
VEBA - CASH	218	44	0	0	0	262

BAY COUNTY VEBA

Year Ending September 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	25,620	338	4,895	549	4,346	30,853
BALANCED MANAGERS						
ATALANTA SOSNOFF BALANCED	10,494	-6,777	1,058	181	876	
DODGE & COX	15,064	-17,197	2,133	99	2,034	

BAY COUNTY VEBA

Year Ending September 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	488	49	439	5,263
DODGE & COX STOCK FUND		4,767	558	68	489	5,325
LORD ABBETT		5,779	72	0	72	5,851
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO		0	1,137	118	1,020	16,439
BOND MANAGERS						
CS MCKEE		13,565	587	151	436	14,152
CASH MANAGERS						
VEBA - CASH	61	201	0	0	0	262

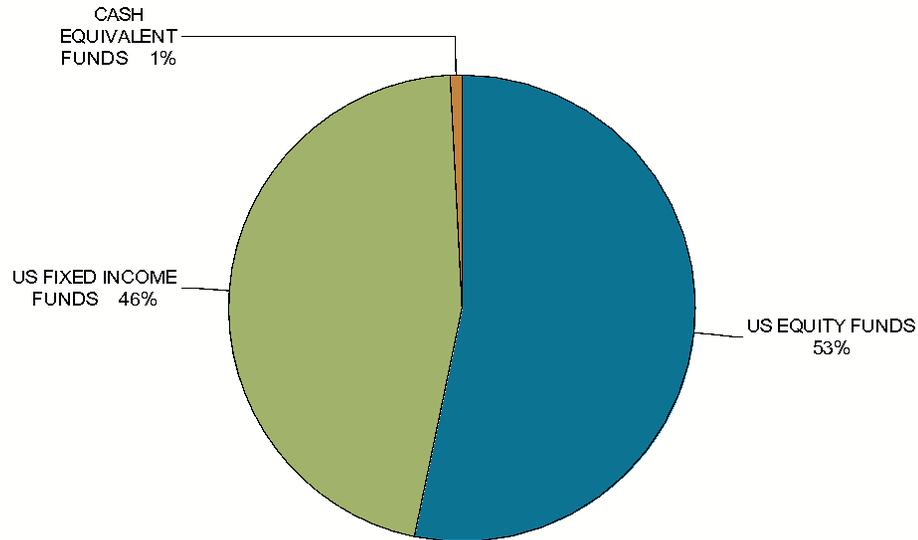
BAY COUNTY VEBA

COMBINED - VEBA

As of September 30, 2012

Allocation by Manager Type

<u>MANAGER TYPE</u>	<u>Ending Market Value</u>	<u>% of Plan</u>
US EQUITY FUNDS	16,438,956	53.3
US FIXED INCOME FUNDS	14,151,931	45.9
CASH EQUIVALENT FUNDS	262,360	0.9
<u>TOTAL</u>	<u>30,853,247</u>	<u>100.0</u>

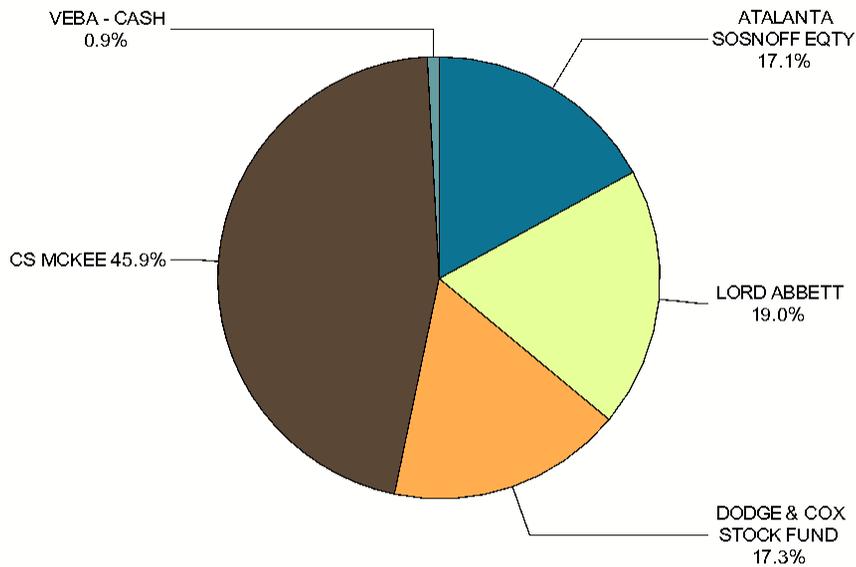


BAY COUNTY VEBA

As of September 30, 2012

Portfolio Asset Allocation by Manager

FUND	Ending Market Value	% of Plan
ATLANTA SOSNOFF EQTY	5,263,322	17.1
LORD ABBETT	5,850,653	19.0
DODGE & COX STOCK FUND	5,324,981	17.3
CS MCKEE	14,151,931	45.9
VEBA - CASH	262,360	0.9
TOTAL	30,853,247	100.0

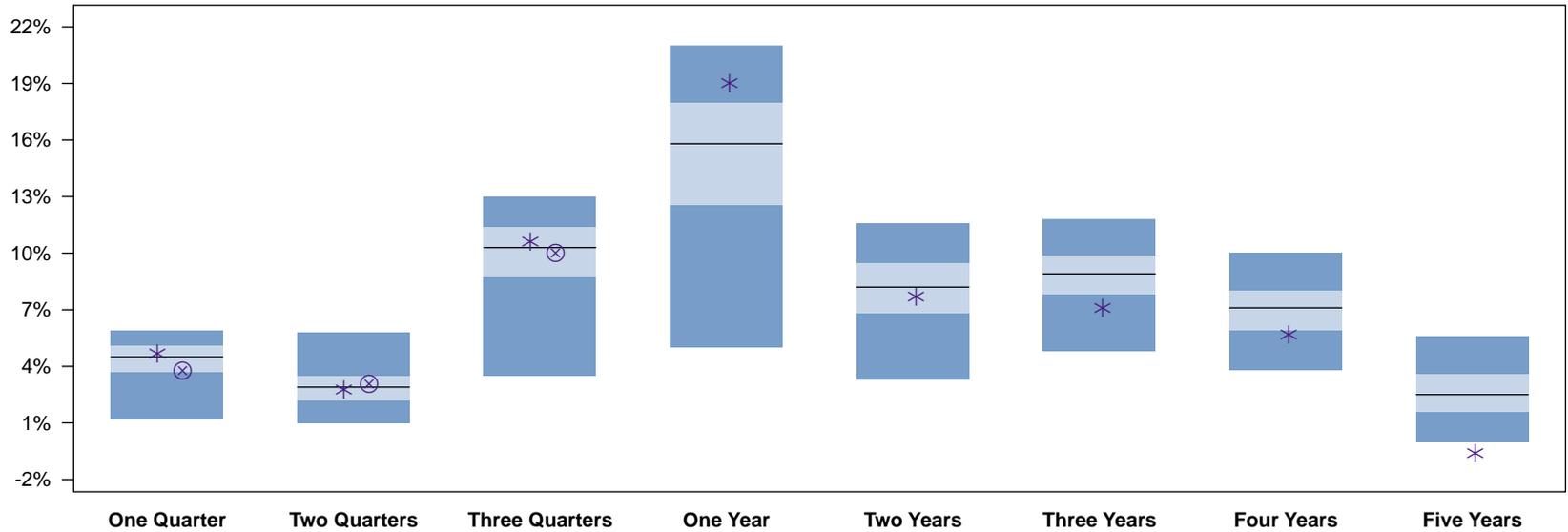


BAY COUNTY VEBA

Master Trust Funds

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



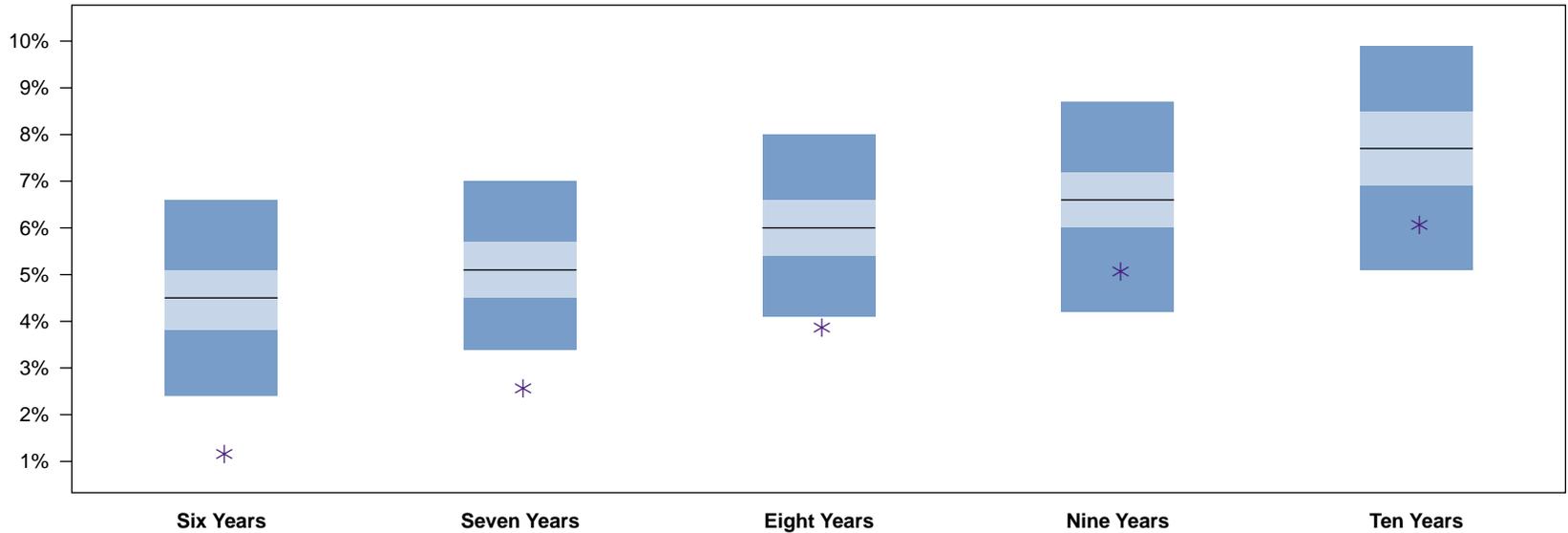
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years		Three Years		Four Years		Five Years	
* COMBO - VEBA	4.8	40	2.9	50	10.7	40	19.1	16	7.8	61	7.2	84	5.8	76	-0.5	98
⊗ VEBA COMBO POLICY	3.9	72	3.2	40	10.1	53										
Median	4.5		2.9		10.3		15.8		8.2		8.9		7.1		2.5	

BAY COUNTY VEBA

Master Trust Funds

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



* **COMBO - VEBA**
Median

1.2 100
4.5

2.6 98
5.1

3.9 97
6.0

5.1 91
6.6

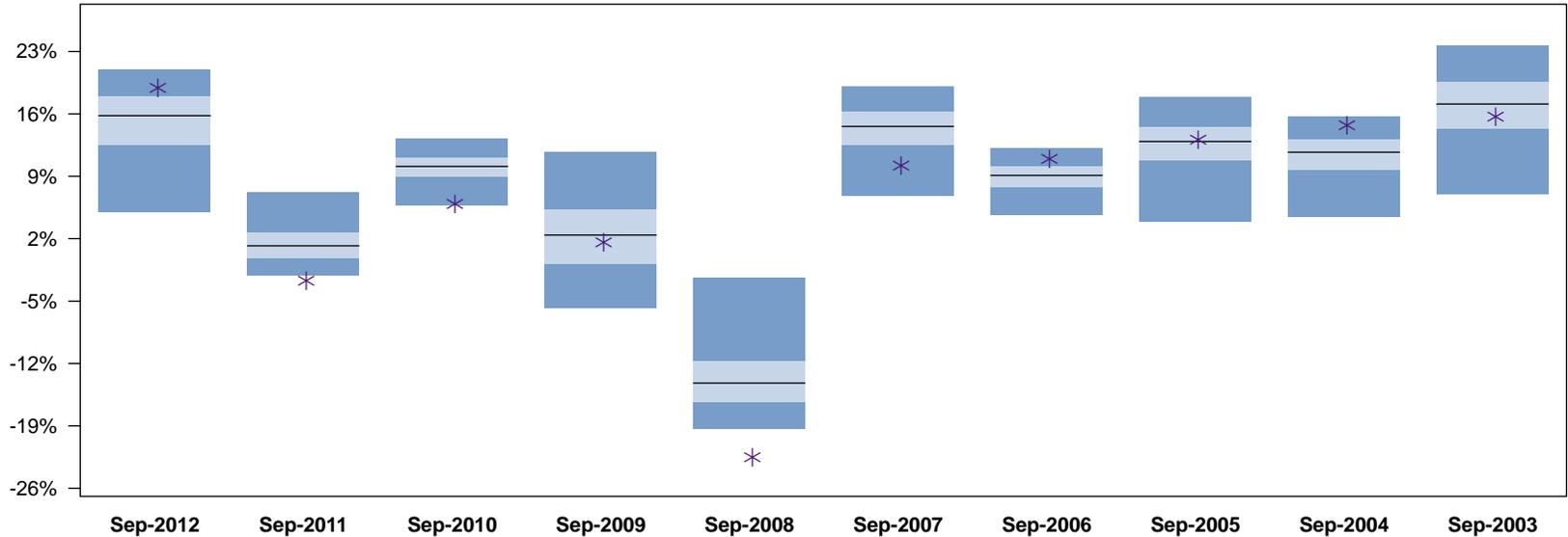
6.1 88
7.7

BAY COUNTY VEBA

Master Trust Funds

Years Ending September

Total Fund Performance - Annual Periods



* **COMBO - VEBA**
Median

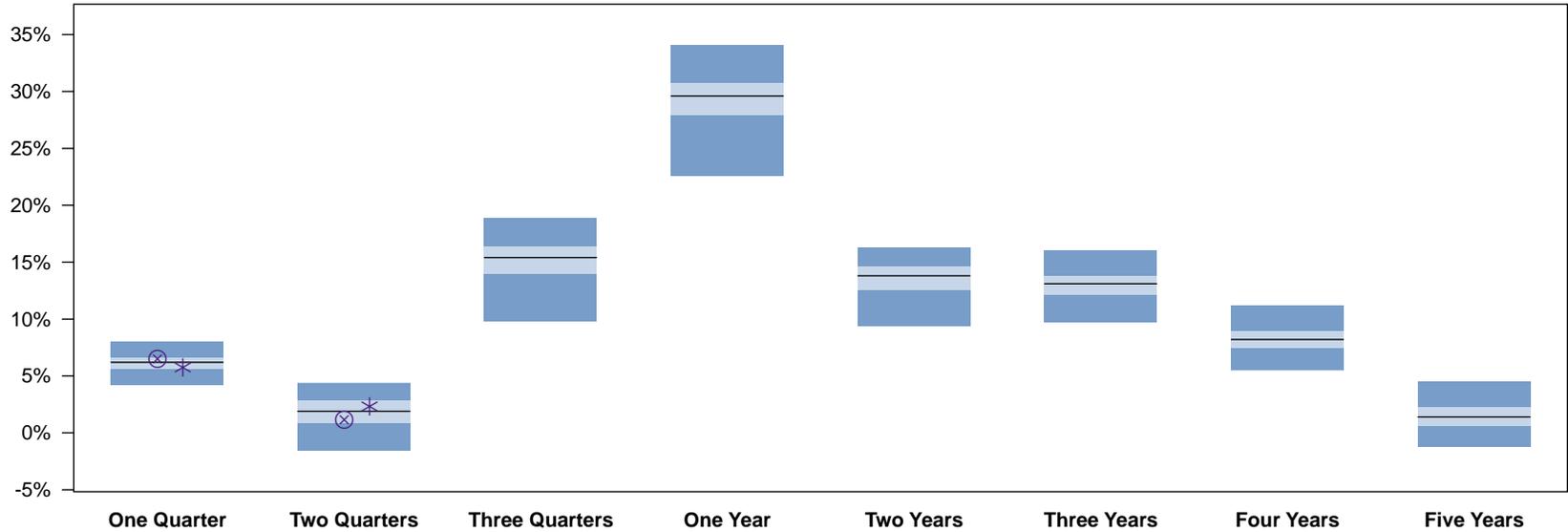
	Sep-2012	Sep-2011	Sep-2010	Sep-2009	Sep-2008	Sep-2007	Sep-2006	Sep-2005	Sep-2004	Sep-2003
COMBO - VEBA	19.1 16	-2.5 97	6.1 95	1.8 55	-22.3 100	10.4 87	11.2 12	13.3 45	15.0 9	15.9 63
Median	15.8	1.2	10.1	2.4	-14.2	14.6	9.1	12.9	11.7	17.1

BAY COUNTY VEBA

US Equity Pools

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



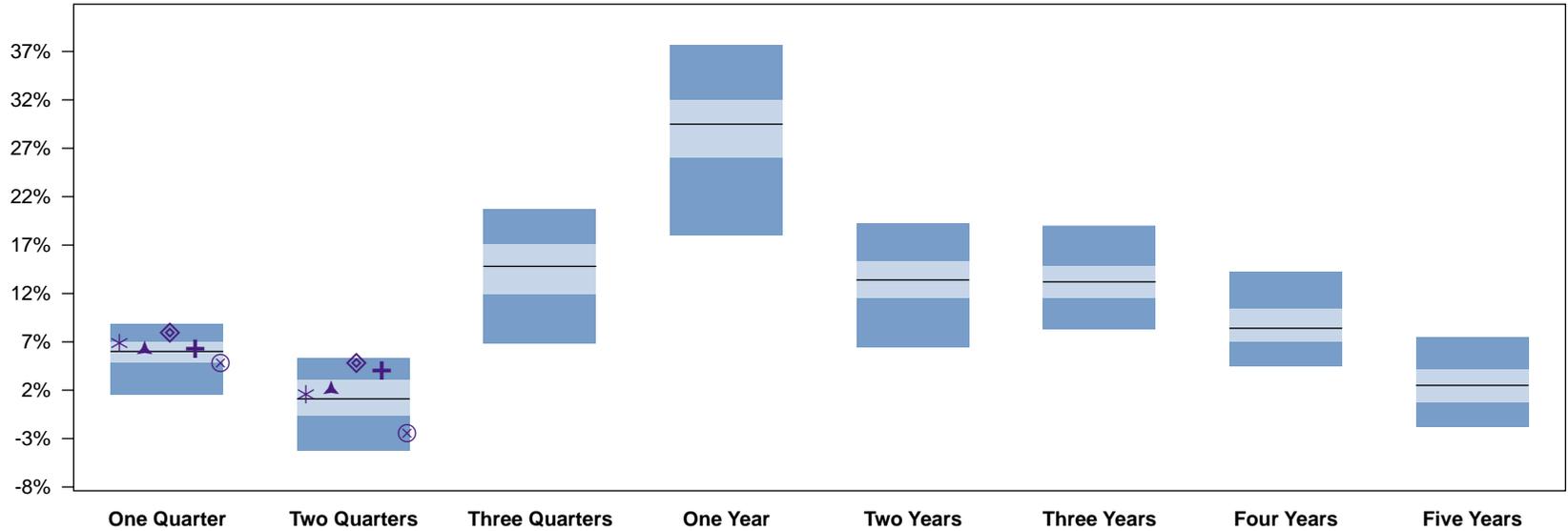
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ VEBA - EQUITY COMBO	6.7	1.3						
* VEBA EQUITY COMBO PO	5.9	2.5						
Median	6.2	1.9	15.4	29.6	13.8	13.1	8.2	1.4

BAY COUNTY VEBA

US Equity Funds (Active)

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



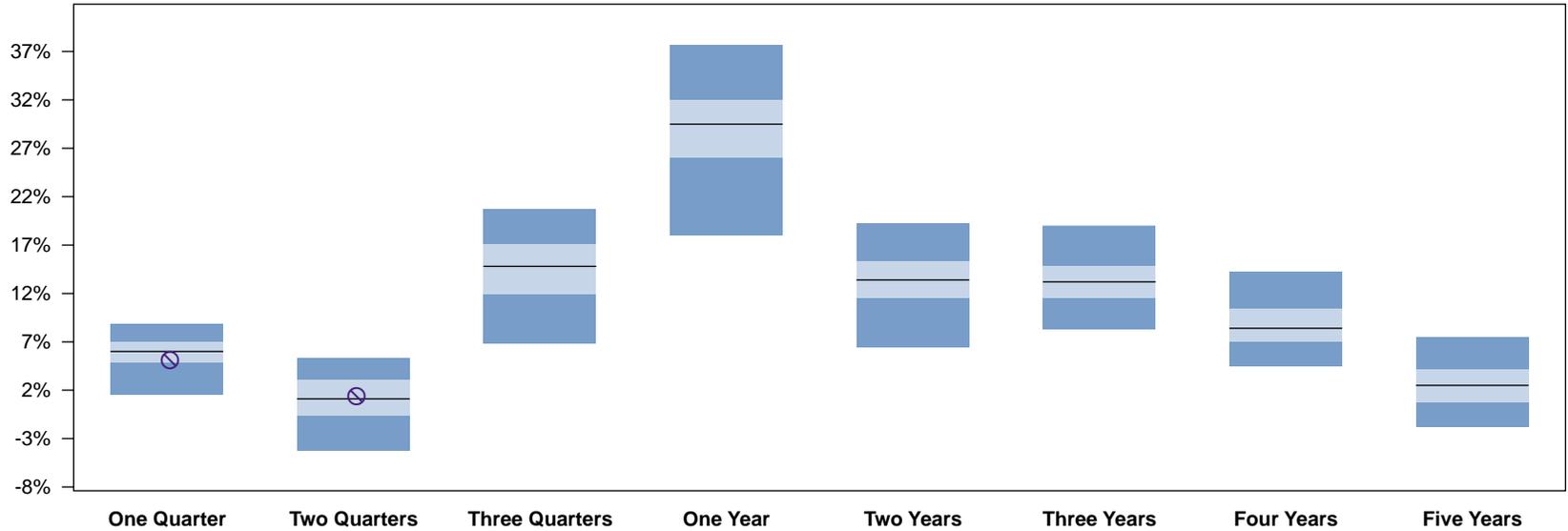
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	7.1	24	1.8	41				
▲ ATALANTA SOSNOFF POLI	6.4	40	2.3	33				
◆ DODGE & COX STOCK FU	8.2	11	5.0	8				
+ Russell 1000 Value Index	6.5	37	4.2	14				
⊗ LORD ABBETT	5.0	72	-2.2	89				
Median	6.0	1.1	14.8	29.5	13.4	13.2	8.4	2.5

BAY COUNTY VEBA

US Equity Funds (Active)

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



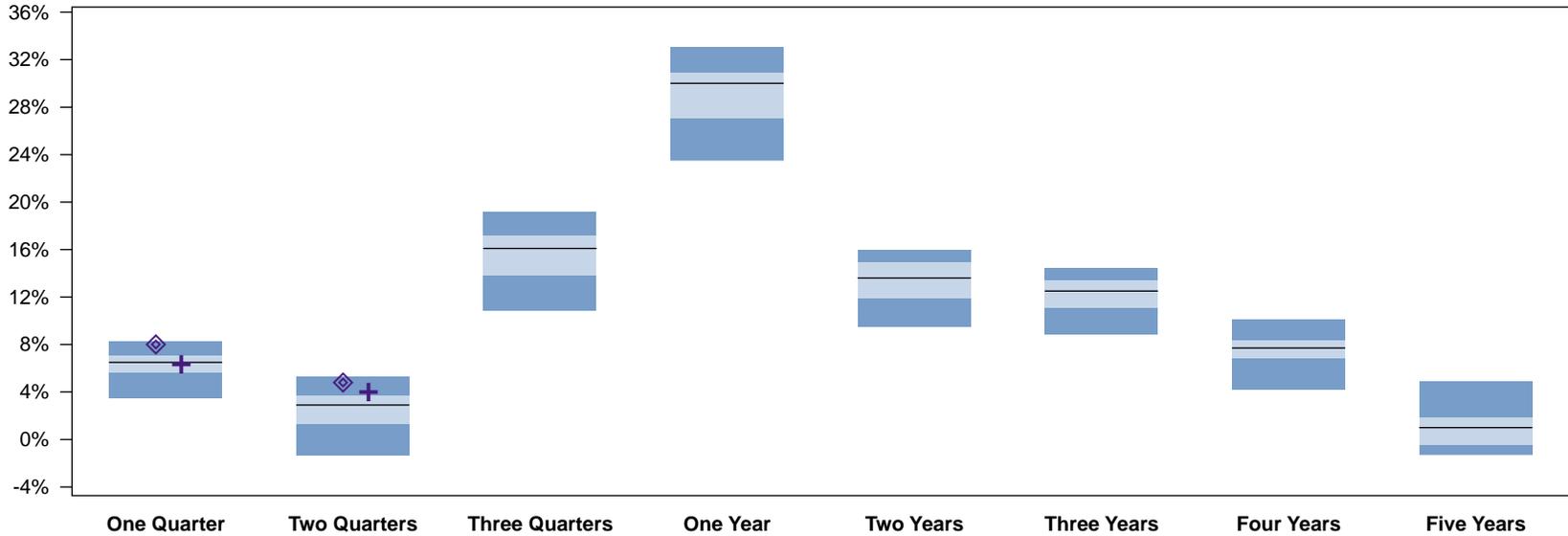
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
○ RUSSELL 2000	5.3	1.6	14.8	29.5	13.4	13.2	8.4	2.5
Median	6.0	1.1	14.8	29.5	13.4	13.2	8.4	2.5

BAY COUNTY VEBA

US Equity Funds (Active) - Large Core

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods

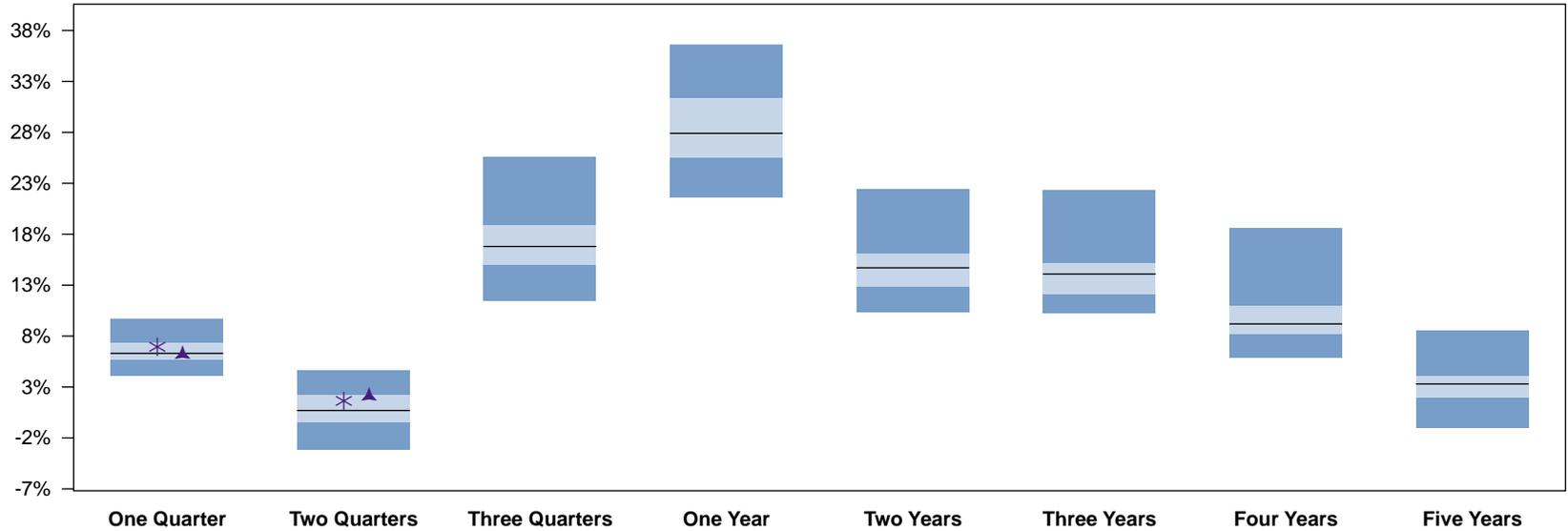


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
◆ DODGE & COX STOCK FU	8.2	5.0						
+ Russell 1000 Value Index	6.5	4.2						
Median	6.5	2.9	16.1	30.0	13.6	12.5	7.7	1.0

BAY COUNTY VEBA

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

Total Fund Performance - Trailing Periods

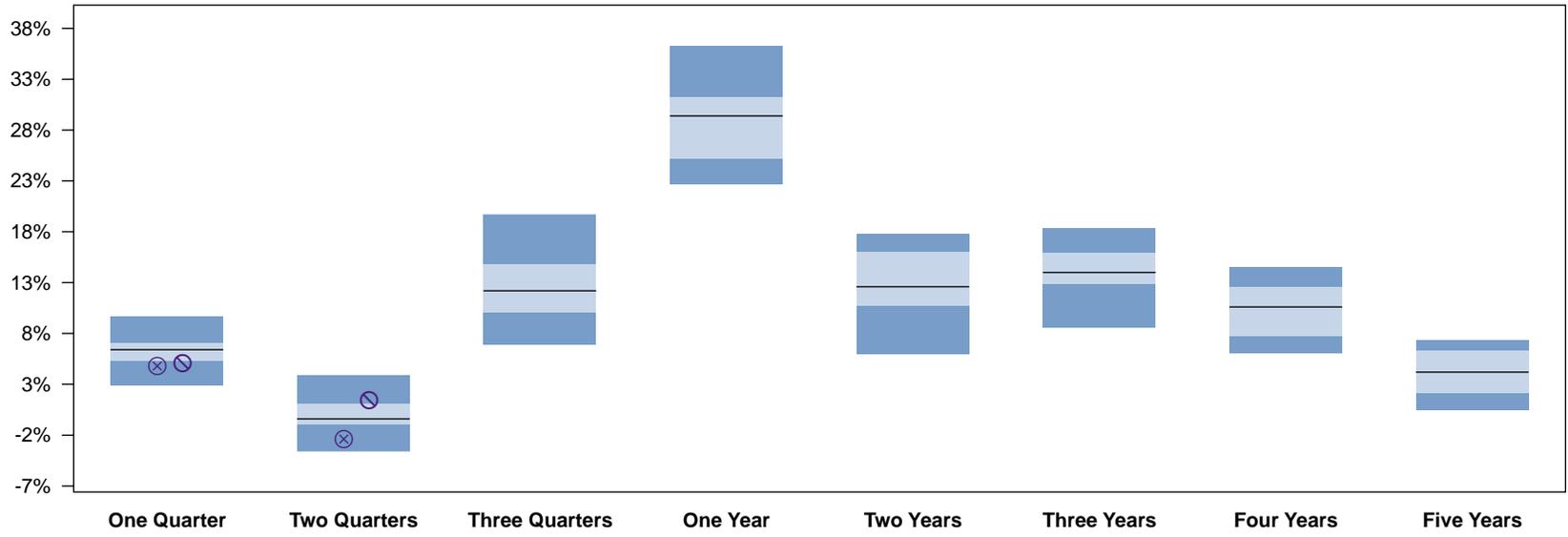


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	7.1	1.8						
▲ ATALANTA SOSNOFF POLI	6.4	2.3						
Median	6.3	0.7	16.8	27.9	14.7	14.1	9.2	3.3

BAY COUNTY VEBA

US Equity Funds (Active) - Mid Core
 Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods

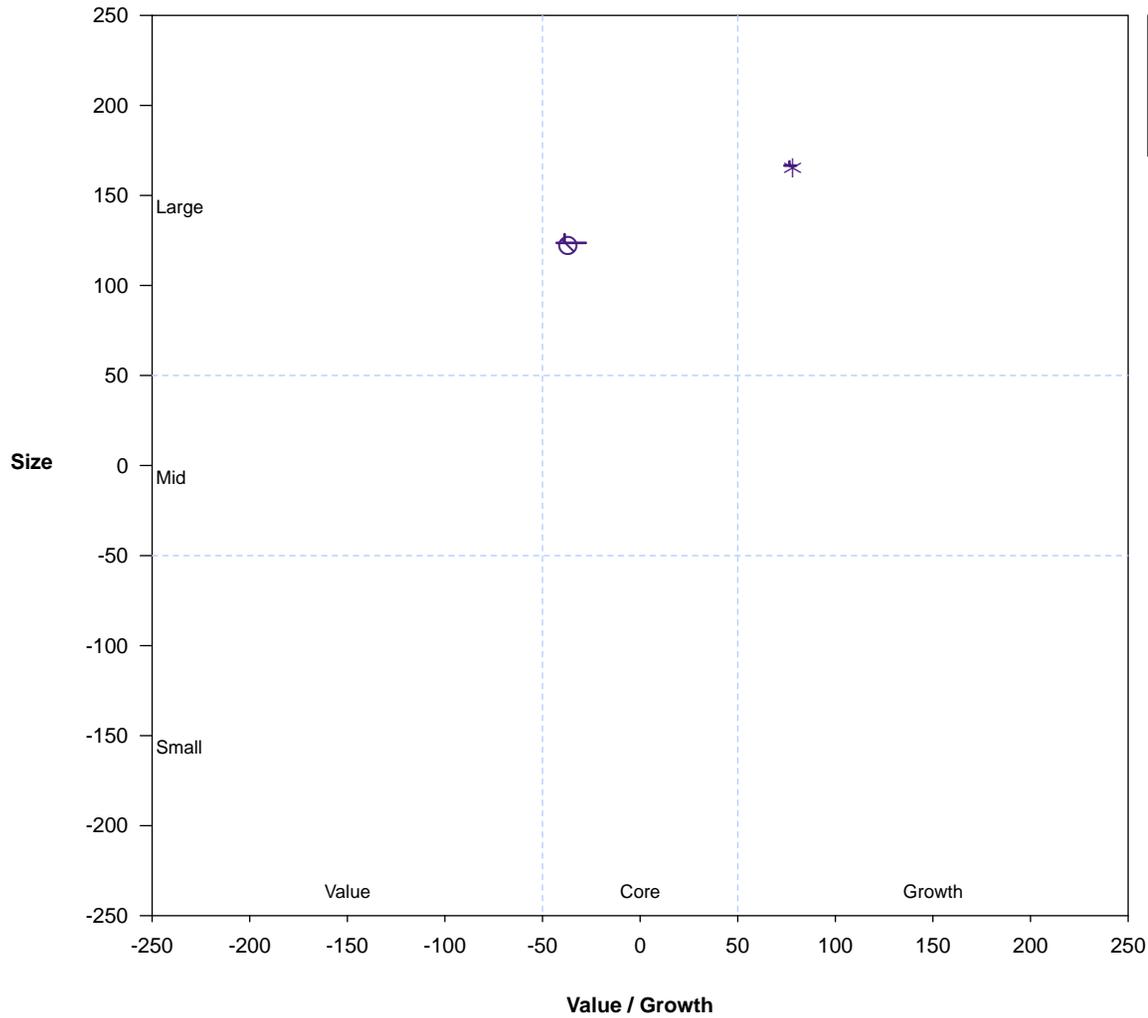


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ LORD ABBETT	5.0	79	-2.2	93				
⊙ RUSSELL 2000	5.3	75	1.6	18				
Median	6.4	-0.4	12.2	29.4	12.6	14.0	10.6	4.2

BAY COUNTY VEBA

Period Ending September 30, 2012

Equity Style Analysis - Drift Over Time



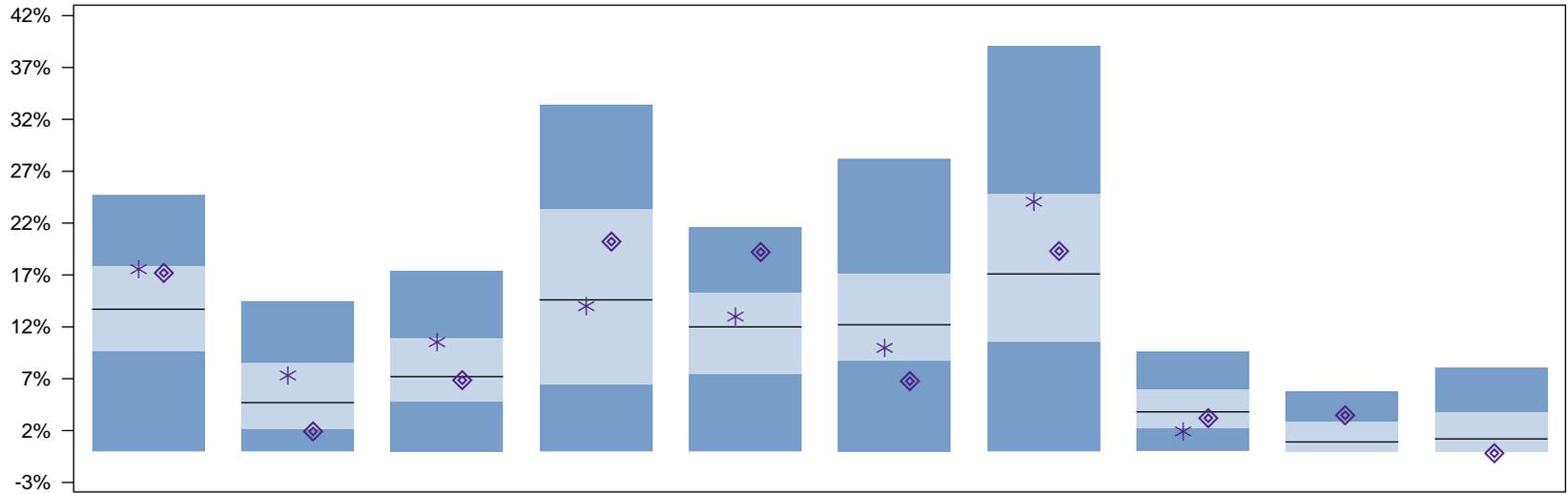
FUND	Value / Growth	Size
* ATALANTA SOSNOFF EQTY	76.45	166.56
⊙ DODGE & COX STOCK FUND	-38.68	123.62

BAY COUNTY VEBA

US Equity Funds (Active)

As of September 30, 2012

Economic Sector Allocation



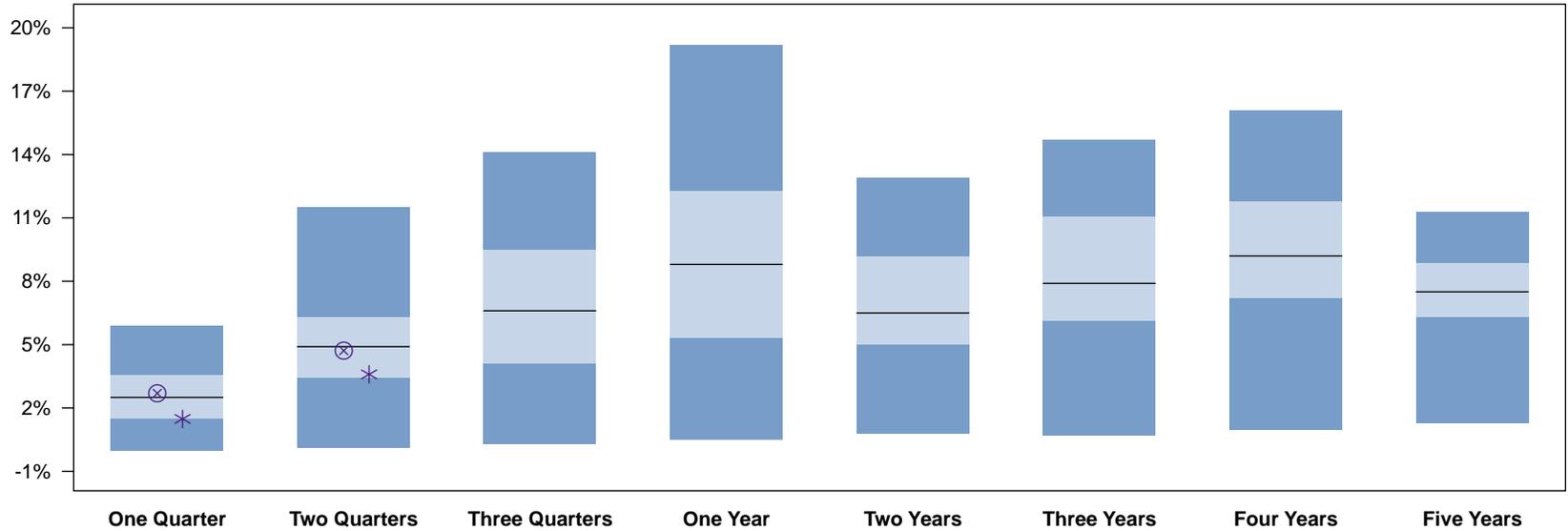
	Consumer Discretionary		Consumer Staples		Energy		Financials		Health Care		Industrials		Information Technology		Materials		Telecom Services		Utilities	
* ATALANTA SOSNOFF E	17.8	27	7.5	30	10.7	27	14.2	52	13.2	40	10.2	63	24.2	28	2.1	77				
◇ DODGE & COX STOCK	17.4	28	2.1	77	7.1	52	20.4	33	19.4	9	7.0	85	19.5	44	3.4	58	3.7	16	0.0	58
Median	13.7		4.7		7.2		14.6		12.0		12.2		17.1		3.8		0.9		1.2	

BAY COUNTY VEBA

US Fixed Income Funds

Periods Ending September 30, 2012

Total Fund Performance - Trailing Periods



⊗ CS MCKEE

* Barclays Aggregate Bond

Median

2.8 45

4.8 52

1.6 72

3.7 72

2.5

4.9

6.6

8.8

6.5

7.9

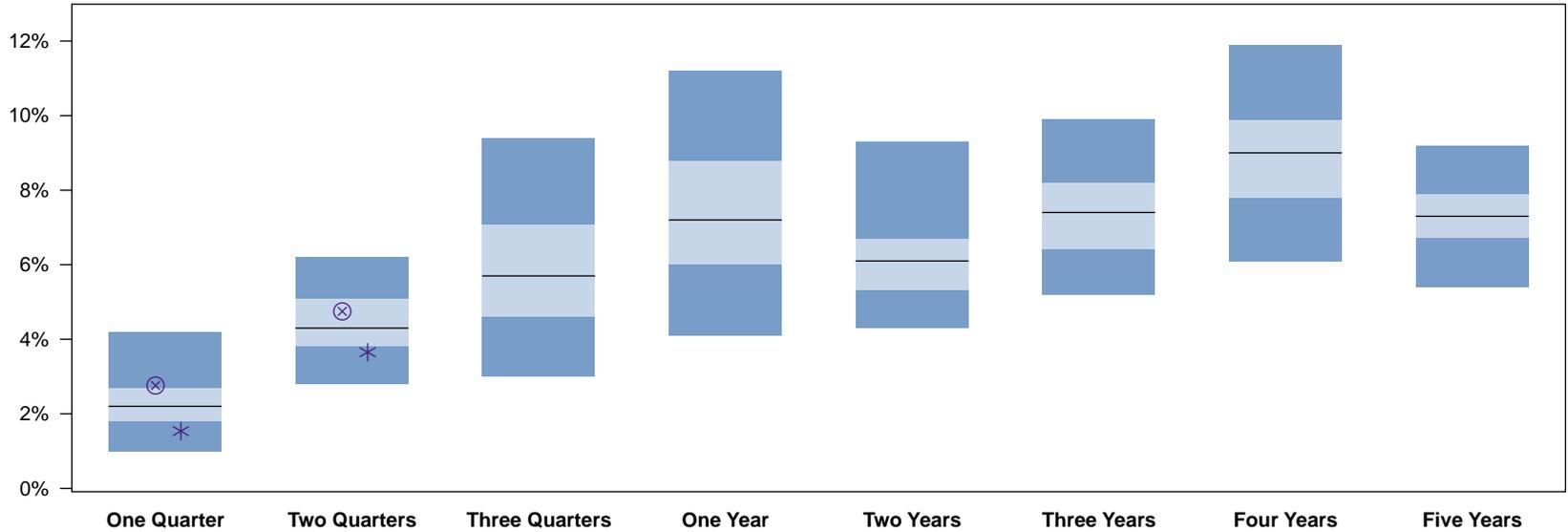
9.2

7.5

BAY COUNTY VEBA

US Fixed Income Funds (Active) - Core
 Periods Ending September 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	2.8	4.8						
* Barclays Aggregate Bond	1.6	3.7						
Median	2.2	4.3	5.7	7.2	6.1	7.4	9.0	7.3

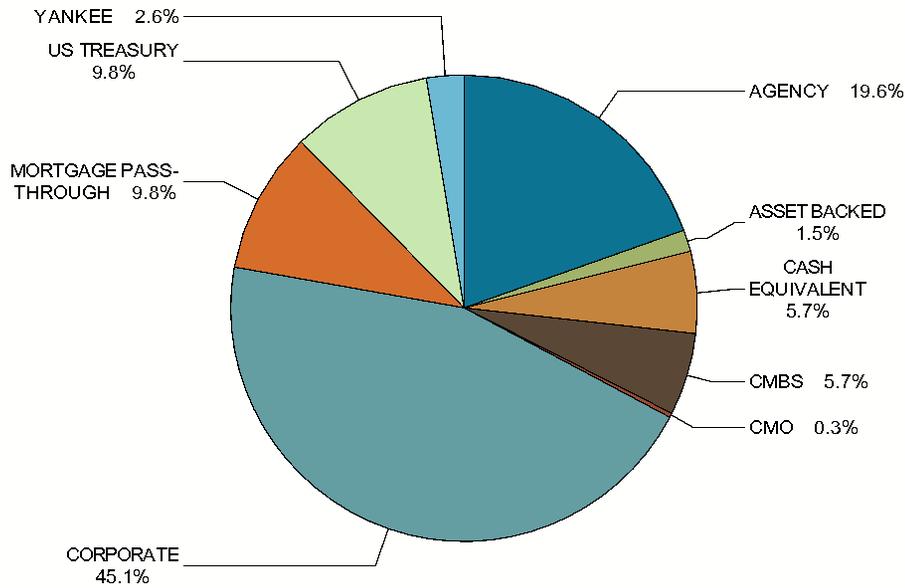
BAY COUNTY VEBA

CS MCKEE

INDEX: Barclays Aggregate Bond

AS OF: September 30, 2012

FIXED INCOME SECTOR ALLOCATION



SECTOR	PORTFOLIO WEIGHT %	INDEX WEIGHT %	DIFF %
AGENCY	19.6	4.9	14.7
ASSET BACKED	1.5	0.3	1.1
CASH EQUIVALENT	5.7	0.0	5.7
CMBS	5.7	1.9	3.8
CMO	0.3	0.0	0.3
CORPORATE	45.1	21.0	24.1
MORTGAGE PASS-THROUGH	9.8	29.7	-20.0
US TREASURY	9.8	36.0	-26.2
YANKEE	2.6	6.2	-3.6
TOTAL	100.0	100.0	0.0

BAY COUNTY VEBA

As of September 30, 2012

Portfolio Characteristics - Fixed Income

	Coupon	Current Yield	Average Life	Modified Duration	Duration-Adj Yield to Maturity	Option Adjusted Spread	Convexity	Quality Rating
CS MCKEE	3.5	3.2	6.9	6.3	2.9	72.2	0.2	AA-2

Utilization Disclaimer Copyright Notice

Becker, Burke Associates has exercised reasonable professional care in the preparation of this report. However, we cannot guarantee the accuracy of all information contained herein. Information in this report on market indices and security characteristics is obtained from sources external to Becker, Burke Associates. While efforts are made to ensure that this data is accurate, Becker, Burke Associates cannot accept responsibility or liability for any errors that may occur. Frank Russell Company is the owner of the trademarks and service relating to the Russell Indexes. Russell™ is a trademark of the Frank Russell Company. Standard & Poor's: Company 2001 The McGraw-Hill Companies, Inc. Standard & Poor's including its subsidiary corporations (S&P) is a division of The McGraw-Hill Companies, Inc. Reproduction of Standard & Poor's Index Service in any form is prohibited except with the written permission of S&P. Because of the possibility of human or mechanical error by S&P's sources, S&P or others, S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Barclays Capital Indices are a proprietary product of Barclays Capital. Barclays Capital shall maintain exclusive ownership of and rights to the Indices. The Indices were compiled, prepared, revised, selected and arranged through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money by Barclays Capital and constitute valuable commercial property and/or trade secrets of Barclays Capital. The user may not remove any copyright notice or other notification or trade name or marks of Barclays Capital that may appear in the Indices, and any reproduction and/or distribution of the Indices must contain such notices and/or marks as they appear in the Indices.

THE INDICES ARE PROVIDED FOR INFORMATION PURPOSES ONLY. UNDER NO CIRCUMSTANCES SHOULD THEY BE USED OR CONSIDERED AS AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY THE SECURITIES OR OTHER INSTRUMENTS MENTIONED IN THEM. THE INFORMATION IN THE INDICES HAS BEEN OBTAINED FROM VARIOUS SOURCES BUT BECKER, BURKE ASSOCIATES AND ITS DATA VENDORS DO NOT REPRESENT THAT IT IS ACCURATE OR COMPLETE AND IT SHOULD NOT BE RELIED UPON AS SUCH. OPINIONS EXPRESSED IN THE INDICES ARE SUBJECT TO CHANGE WITHOUT NOTICE. THE PRODUCTS MENTIONED IN IT MAY NOT BE ELIGIBLE FOR SALE IN SOME STATES OR COUNTRIES, NOR SUITABLE FOR ALL TYPES OF INVESTORS; THEIR VALUE AND THE INCOME THEY PRODUCE MAY FLUCTUATE AND/OR BE ADVERSELY AFFECTED BY EXCHANGE RATES.

Fee Disclosure

Becker, Burke Associates does not receive any type of compensation, from any person or entity, beyond the fees that are charged to and paid by the Fund/Plan, for services provided to the Fund/Plan.