



Bay County Employees' **VEBA**

Quarterly Investment Performance Report
For Periods Ending March 31, 2012



Becker, Burke

ASSOCIATES

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April 25, 2012

Board of Trustees
Bay County VEBA
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Bay City, MI 48708-5753

Dear Trustees:

The following pages contain Becker, Burke's performance evaluation report on the VEBA assets updated through March 31, 2012. Total assets at the end of this quarter were \$29,921,414. In the quarter, assets from the two balanced funds were reallocated according to the fund's new investment policy adopted in the last quarter of 2011. 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 | 17.3% | 16.5% | 14% - 19% |
| 2. Dodge & Cox | US Large Cap | 17.0% | 16.5% | 14% - 19% |
| 3. Lord Abbett | US Small/Mid Cap | 20.1% | 20.0% | 15% - 25% |
| 4. CS McKee | Fixed Income | 45.1% | 47.0% | 42% - 52% |
| 5. Cash | Cash | 0.5% | 0.0% | |

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

Despite the transitions, the total fund again had strong performance over the quarter. The return of 7.6% outperformed the passive policy benchmark by 0.8% and ranked near top third against the universe of institutional plans. Asset transfers occurred throughout the quarter. Because of this, no quarterly rates of return were calculated for individual managers. Next quarter will mark the first quarter of performance measurement for your new managers.

For reference, this program was funded at year-end 2001 with \$879,000 in contributions. This money was initially invested in a Northern Trust money market fund. Dodge & Cox was funded with \$2 million on a balanced fund mandate during the third quarter of 2002. In the second quarter of 2009, Atalanta Sosnoff was hired as a complement to Dodge & Cox. As fund assets have grown over the years, additional manager diversification was justified. In 2011, the Trustees initiated an investment policy and allocation study. This resulted 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 March 31, 2012

Commentary and Benchmark Index Returns

Domestic stock markets performed well in the March quarter. Improving economic data, including slightly lower unemployment statistics and increased consumer spending, helped to push stock prices higher. All capitalization categories performed about the same, while growth beat value.

International developed market results were slightly below domestic, but emerging markets were just above.

Treasury rates increased during the quarter, resulting in government bonds posting negative performance and trailing the slightly positive returns for corporate issues. Spreads tightened in the quarter. Longer duration bonds trailed short and intermediate issues.

Real estate continued to rebound and posted solid results.

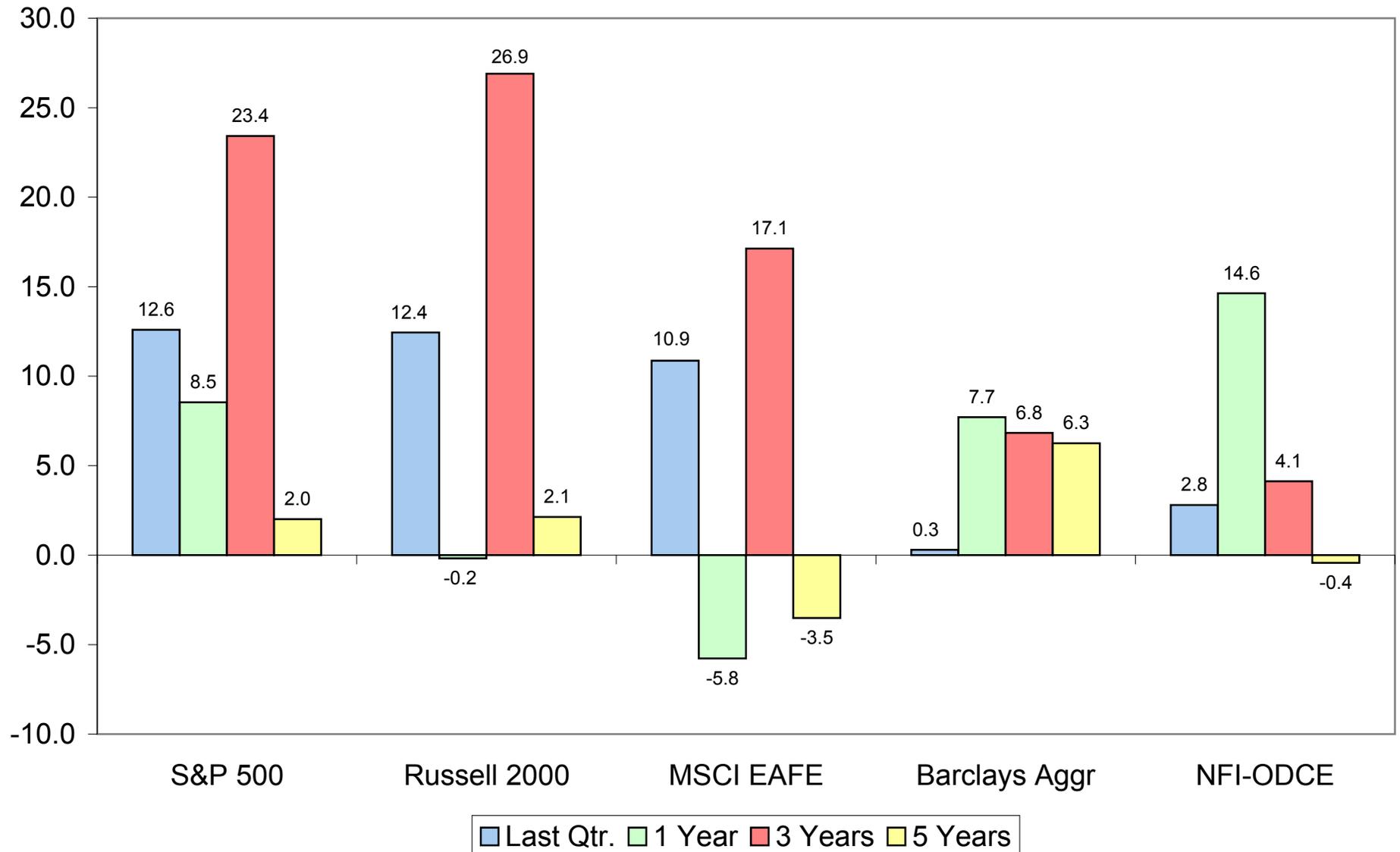
Index Returns - Periods Ending March 31, 2012

| | <u>1 Quarter</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|-----------------------------------|------------------|---------------|----------------|----------------|-----------------|
| S&P 500 | 12.6 % | 8.5 % | 23.4 % | 2.0 % | 4.1 % |
| S&P Mid Cap | 13.5 | 2.0 | 28.6 | 4.8 | 7.7 |
| Russell 2000 | 12.4 | -0.2 | 26.9 | 2.1 | 6.5 |
| MSCI EAFE | 10.9 | -5.8 | 17.1 | -3.5 | 5.7 |
| ACWI Ex US | 11.2 | -7.2 | 19.1 | -1.6 | 7.3 |
| MSCI Emerging Markets | 14.1 | -8.8 | 25.1 | 4.7 | 14.1 |
| Barclays Aggregate | 0.3 | 7.7 | 6.8 | 6.3 | 5.8 |
| Barclays Govt/Credit | 0.1 | 8.5 | 7.1 | 6.3 | 5.9 |
| Barclays Govt/Credit Intermediate | 0.6 | 6.1 | 5.9 | 5.7 | 5.3 |
| Barclays Govt/Credit Long | -2.1 | 19.9 | 12.8 | 9.0 | 8.4 |
| Barclays Govt | -1.1 | 7.9 | 4.0 | 6.0 | 5.5 |
| Barclays Govt Intermediate | -0.4 | 5.7 | 3.4 | 5.5 | 4.9 |
| Barclays Gov't Long | -5.6 | 23.0 | 7.4 | 9.3 | 8.5 |
| Barclays Mortgage Backed | 0.6 | 6.2 | 5.3 | 6.3 | 5.7 |
| Barclays U.S. Credit | 2.0 | 9.6 | 12.3 | 6.9 | 6.6 |
| Barclays Corporate High Yield | 5.3 | 6.5 | 23.9 | 8.1 | 9.2 |
| NFI-ODCE (Real Estate) | 2.8 | 14.6 | 4.1 | -0.4 | 6.4 |
| NAREIT (REIT) | 10.8 | 12.8 | 42.3 | -0.1 | 10.5 |
| 90-Day Treasury Bills | 0.0 | 0.1 | 0.1 | 1.2 | 1.9 |
| CPI | 0.9 | 2.7 | 2.5 | 2.2 | 2.5 |

INVESTMENT MARKET ENVIRONMENT

Periods Ending March 31, 2012

Commentary and Benchmark Index Returns



BAY COUNTY EMPLOYEES' RETIREMENT VEBA

COMBINED - VEBA

Periods Ending March 31, 2012

Total Fund Asset Growth Summary (\$000)

| | One Quarter | Year to Date | One Year | Since Inception |
|------------------------|-------------|--------------|----------|-----------------|
| COMBO - VEBA | | | | |
| Beginning Market Value | 27,606 | 27,606 | 29,255 | 879 |
| Net External Growth | 158 | 158 | 436 | 21,861 |
| Return on Investment | 2,158 | 2,158 | 231 | 7,181 |
| Income Received | 69 | 69 | 614 | 4,208 |
| Gain/Loss | 2,089 | 2,089 | -383 | 2,973 |
| Ending Market Value | 29,921 | 29,921 | 29,921 | 29,921 |

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

Quarter Ending March 31, 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 | 27,606 | 158 | 2,158 | 69 | 2,089 | 29,921 |
| BALANCED MANAGERS | | | | | | |
| ATALANTA SOSNOFF BALANCED | 11,130 | -6,777 | 422 | 84 | 338 | |
| DODGE & COX | 16,410 | -17,267 | 857 | 0 | 857 | |

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

Quarter Ending March 31, 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 | 394 | 12 | 382 | 5,169 |
| DODGE & COX STOCK FUND | 0 | 4,767 | 318 | 23 | 295 | 5,085 |
| LORD ABBETT | 0 | 5,779 | 234 | 0 | 234 | 6,013 |
| EQUITY COMBINED MANAGERS | | | | | | |
| VEBA - EQUITY COMBO | | 0 | 965 | 35 | 930 | 16,267 |
| BOND MANAGERS | | | | | | |
| CS MCKEE | 0 | 13,565 | -67 | -50 | -17 | 13,498 |
| CASH MANAGERS | | | | | | |
| VEBA - CASH | 65 | 91 | 0 | 0 | 0 | 156 |

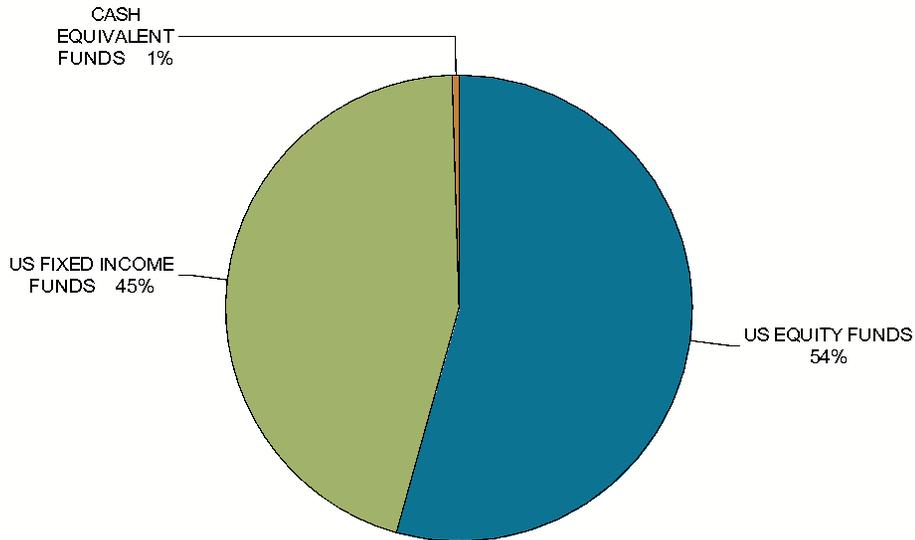
BAY COUNTY EMPLOYEES' RETIREMENT VEBA

COMBINED - VEBA

As of March 31, 2012

Allocation by Manager Type

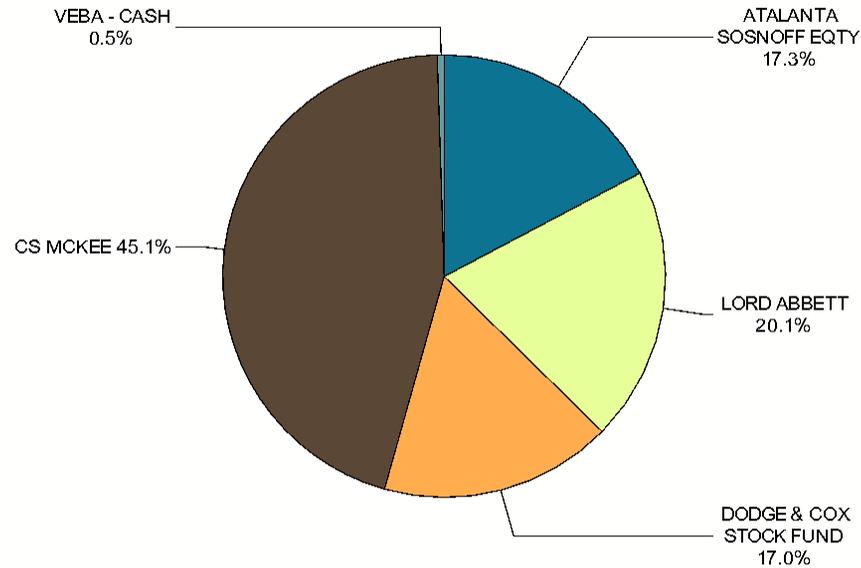
| <u>MANAGER TYPE</u> | <u>Ending Market Value</u> | <u>% of Plan</u> |
|-----------------------|--------------------------------|------------------|
| US EQUITY FUNDS | 16,267,083 | 54.4 |
| US FIXED INCOME FUNDS | 13,498,263 | 45.1 |
| CASH EQUIVALENT FUNDS | 156,068 | 0.5 |
| <u>TOTAL</u> | <u>29,921,414</u> | <u>100.0</u> |



BAY COUNTY EMPLOYEES' RETIREMENT VEBA

As of March 31, 2012

Portfolio Asset Allocation by Manager



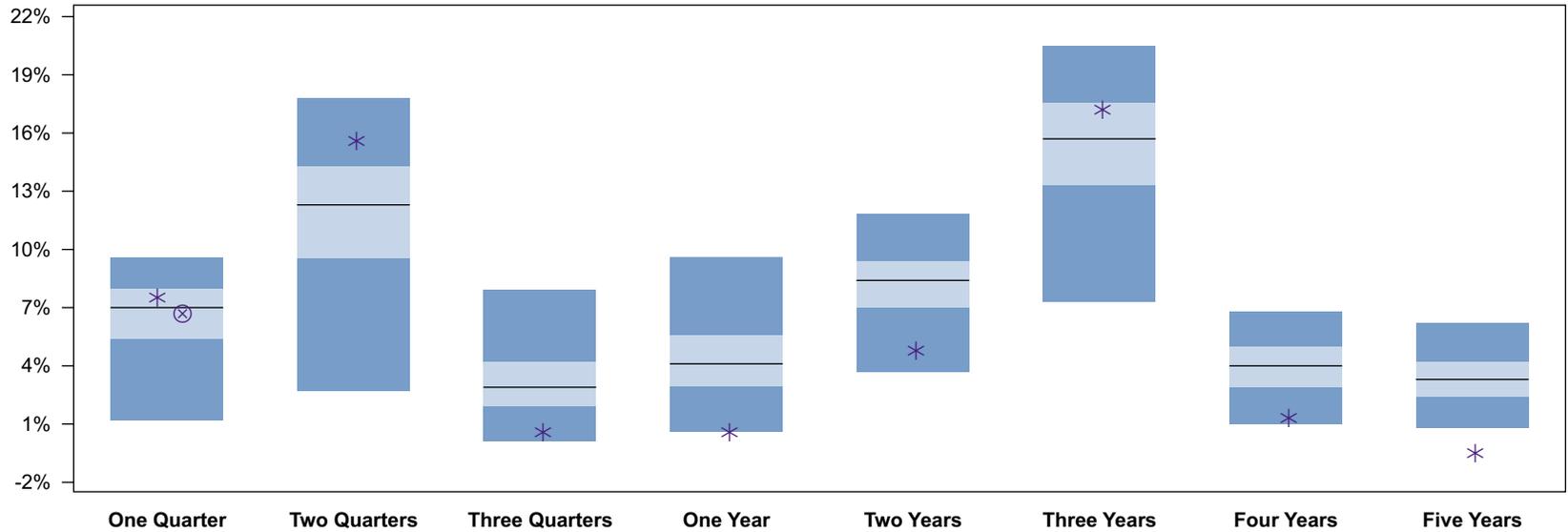
| FUND | Ending Market Value | % of Plan |
|------------------------|---------------------|--------------|
| ATALANTA SOSNOFF EQTY | 5,169,111 | 17.3 |
| LORD ABBETT | 6,012,771 | 20.1 |
| DODGE & COX STOCK FUND | 5,085,201 | 17.0 |
| CS MCKEE | 13,498,263 | 45.1 |
| VEBA - CASH | 156,068 | 0.5 |
| TOTAL | 29,921,414 | 100.0 |

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

Master Trust Funds

Periods Ending March 31, 2012

Total Fund Performance - Trailing Periods



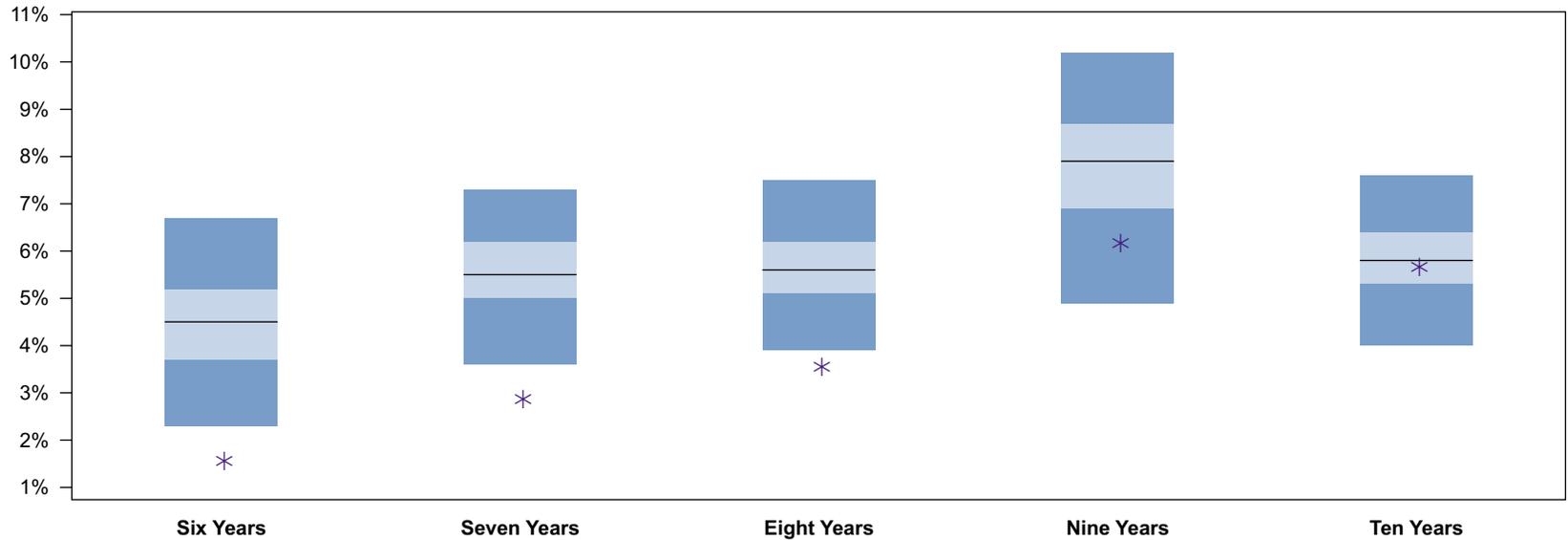
| | One Quarter | Two Quarters | Three Quarters | One Year | Two Years | Three Years | Four Years | Five Years |
|---------------------|-------------|--------------|----------------|----------|-----------|-------------|------------|------------|
| * COMBO - VEBA | 7.6 35 | 15.7 15 | 0.7 91 | 0.7 95 | 4.9 92 | 17.3 28 | 1.4 94 | -0.4 99 |
| ⊗ VEBA COMBO POLICY | 6.8 55 | | | | | | | |
| Median | 7.0 | 12.3 | 2.9 | 4.1 | 8.4 | 15.7 | 4.0 | 3.3 |

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

Master Trust Funds

Periods Ending March 31, 2012

Total Fund Performance - Trailing Periods



* **COMBO - VEBA**
Median

1.6 99
4.5

2.9 99
5.5

3.6 97
5.6

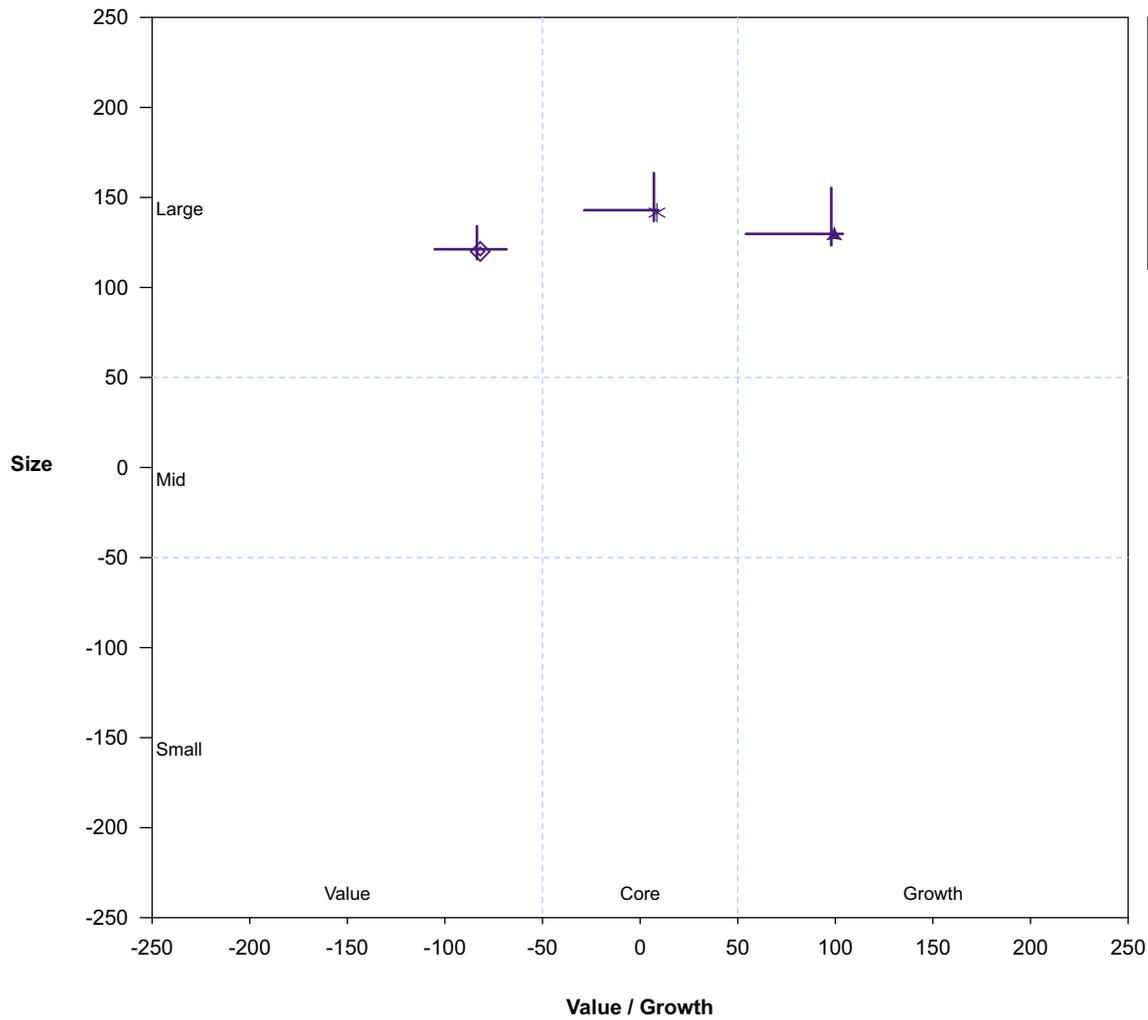
6.2 87
7.9

5.7 56
5.8

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

Period Ending March 31, 2012

Equity Style Analysis - Drift Over Time



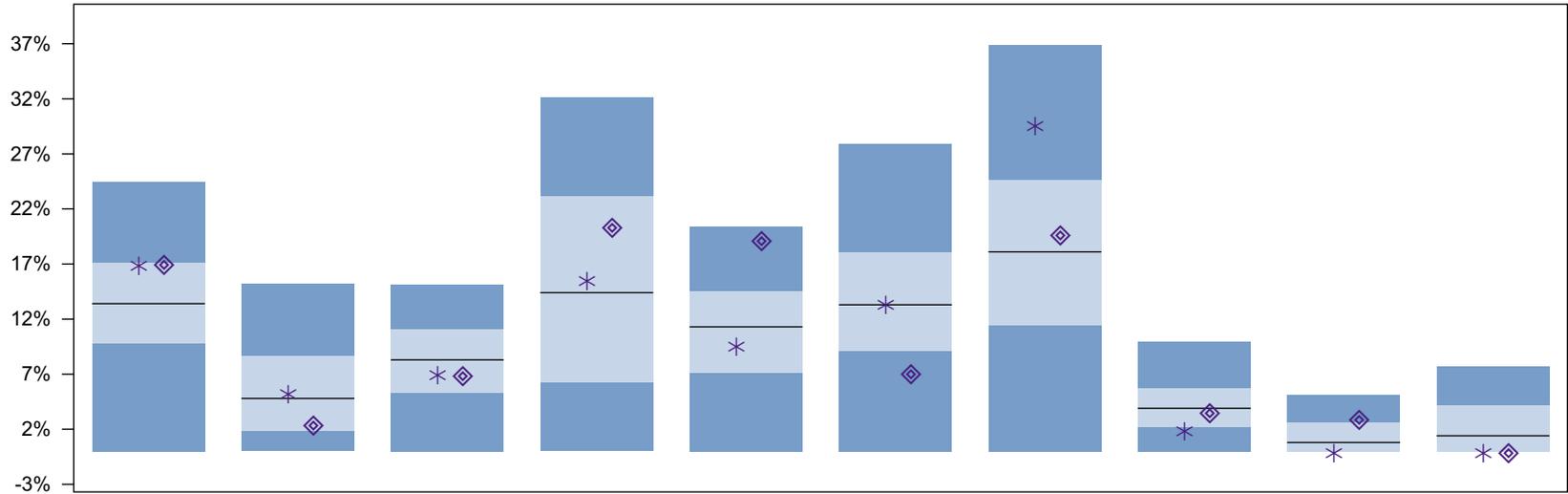
| FUND | Value / Growth | Size |
|----------------------------|----------------|--------|
| ⊙ ATLANTA SOSNOFF BALANCED | | |
| ⊗ DODGE & COX | | |
| ▲ RUSSELL 1000 GROWTH | 97.92 | 129.76 |
| ◆ RUSSELL 1000 VALUE | -83.61 | 121.23 |
| * S&P 500 | 7.09 | 142.96 |

BAY COUNTY EMPLOYEES' RETIREMENT VEBA

US Equity Funds (Active)

As of March 31, 2012

Economic Sector Allocation



| | Consumer Discretionary | | Consumer Staples | | Energy | | Financials | | Health Care | | Industrials | | Information Technology | | Materials | | Telecom Services | | Utilities | |
|--------------------------------|------------------------|----|------------------|----|--------|----|------------|----|-------------|----|-------------|----|------------------------|----|-----------|----|------------------|----|-----------|----|
| * ATALANTA SOSNOFF E | 17.0 | 26 | 5.4 | 44 | 7.1 | 62 | 15.6 | 45 | 9.7 | 65 | 13.5 | 49 | 29.7 | 18 | 2.0 | 78 | 0.0 | 60 | 0.0 | 59 |
| ◇ DODGE & COX STOCK | 17.1 | 26 | 2.5 | 69 | 7.0 | 64 | 20.5 | 31 | 19.3 | 7 | 7.2 | 85 | 19.8 | 46 | 3.6 | 55 | 3.0 | 19 | 0.0 | 59 |
| Median | 13.4 | | 4.8 | | 8.3 | | 14.4 | | 11.3 | | 13.3 | | 18.1 | | 3.9 | | 0.8 | | 1.4 | |

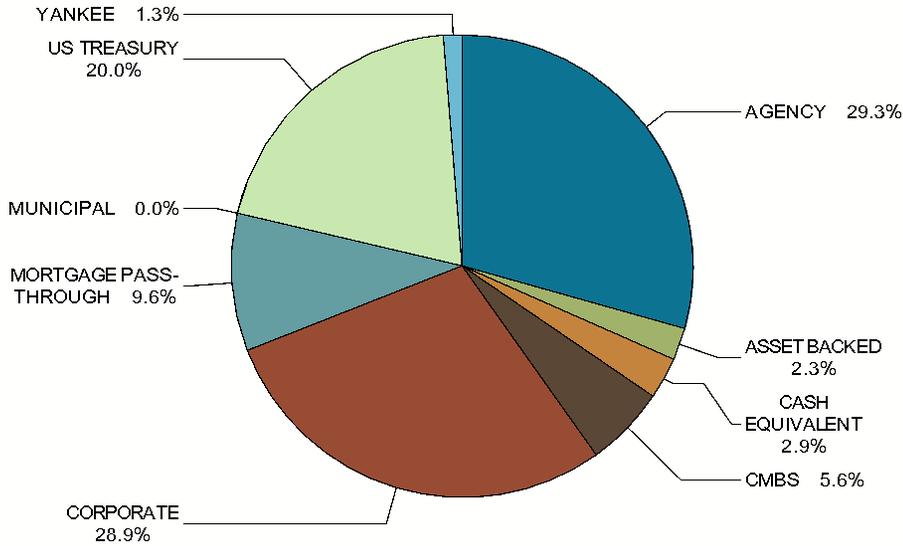
BAY COUNTY EMPLOYEES' RETIREMENT VEBA

CS MCKEE

INDEX: BARCLAYS AGGREGATE BOND

AS OF: March 31, 2012

FIXED INCOME SECTOR ALLOCATION



| SECTOR | PORTFOLIO WEIGHT % | INDEX WEIGHT % | DIFF % |
|-----------------------|--------------------|----------------|------------|
| AGENCY | 29.3 | 5.6 | 23.8 |
| ASSET BACKED | 2.3 | 0.2 | 2.1 |
| CASH EQUIVALENT | 2.9 | 0.0 | 2.9 |
| CMBS | 5.6 | 2.0 | 3.6 |
| CORPORATE | 28.9 | 20.6 | 8.3 |
| MORTGAGE PASS-THROUGH | 9.6 | 30.0 | -20.4 |
| MUNICIPAL | 0.0 | 0.1 | -0.1 |
| US TREASURY | 20.0 | 36.0 | -16.0 |
| YANKEE | 1.3 | 5.4 | -4.0 |
| TOTAL | 100.0 | 100.0 | 0.0 |

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