



Bay County Employees' **VEBA**

Quarterly Investment Performance Report
For Periods Ending December 31, 2012



Becker, Burke

ASSOCIATES

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February 4, 2013
Board of Trustees
Bay County VEBA
515 Center Avenue, 7th Floor
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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 \$31,231,177.

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	16.9%	16.5%	14% - 19%
2. Dodge & Cox	US Large Cap	17.5%	16.5%	14% - 19%
3. Lord Abbett	US Small/Mid Cap	19.4%	20.0%	15% - 25%
4. CS McKee	Fixed Income	45.1%	47.0%	42% - 52%
5. Cash	Cash	1.1%	0.0%	

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

Capital markets produced mixed returns this quarter. US stock index returns were between -2.0% (S&P 500 Large Cap Growth Index) and +4.5% (S&P 400 Mid Cap Value Index). Large cap indices generally underperformed small and mid cap, and growth stocks lagged value stocks. 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 +0.2%.

For the quarter the total fund returned +1.1%, above the policy index return of +0.5% but below the median total fund return. The performance ranks at the 80th percentile against the universe of total funds.

The spread between Fund performance and the policy index was attributable to strong returns by the equity managers. 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 do not have any immediate concerns regarding manager performance at this time.

For reference, this program was initially funded at year-end 2001. In 2011, an investment policy and allocation study resulted in the decision to hire new managers for small cap and fixed income. Meanwhile, the mandate for Atalanta Sosnoff and Dodge & Cox was converted from balanced to large cap. The current investment structure utilizing specialized investment managers has been in place since January 2012.

Cordially,



Richard L. Potter
Principal



Jeffrey T. Black
Associate

INVESTMENT MARKET ENVIRONMENT

Periods Ending December 31, 2012

Commentary and Benchmark Index Returns

Domestic stock market performance was mixed in the December quarter with large capitalization stocks posting negative returns, while mid and small caps were positive. Mid caps led for the year, with small and large showing similar strong results. Growth lagged value for the third consecutive quarter and also trailed for the year.

International developed and emerging market equities performed above domestic for the second consecutive quarter, but had similar returns for the year. The European debt crisis and poor economic growth, factors hurting results in the first half of the year, were ignored in the last half.

Domestic bond performance was similar to domestic equity for the quarter, but was well below for the year. Corporate bonds were again the best performing area, beating government and mortgage backed issues.

Real estate continued its rebound and posted solid results for the quarter and year.

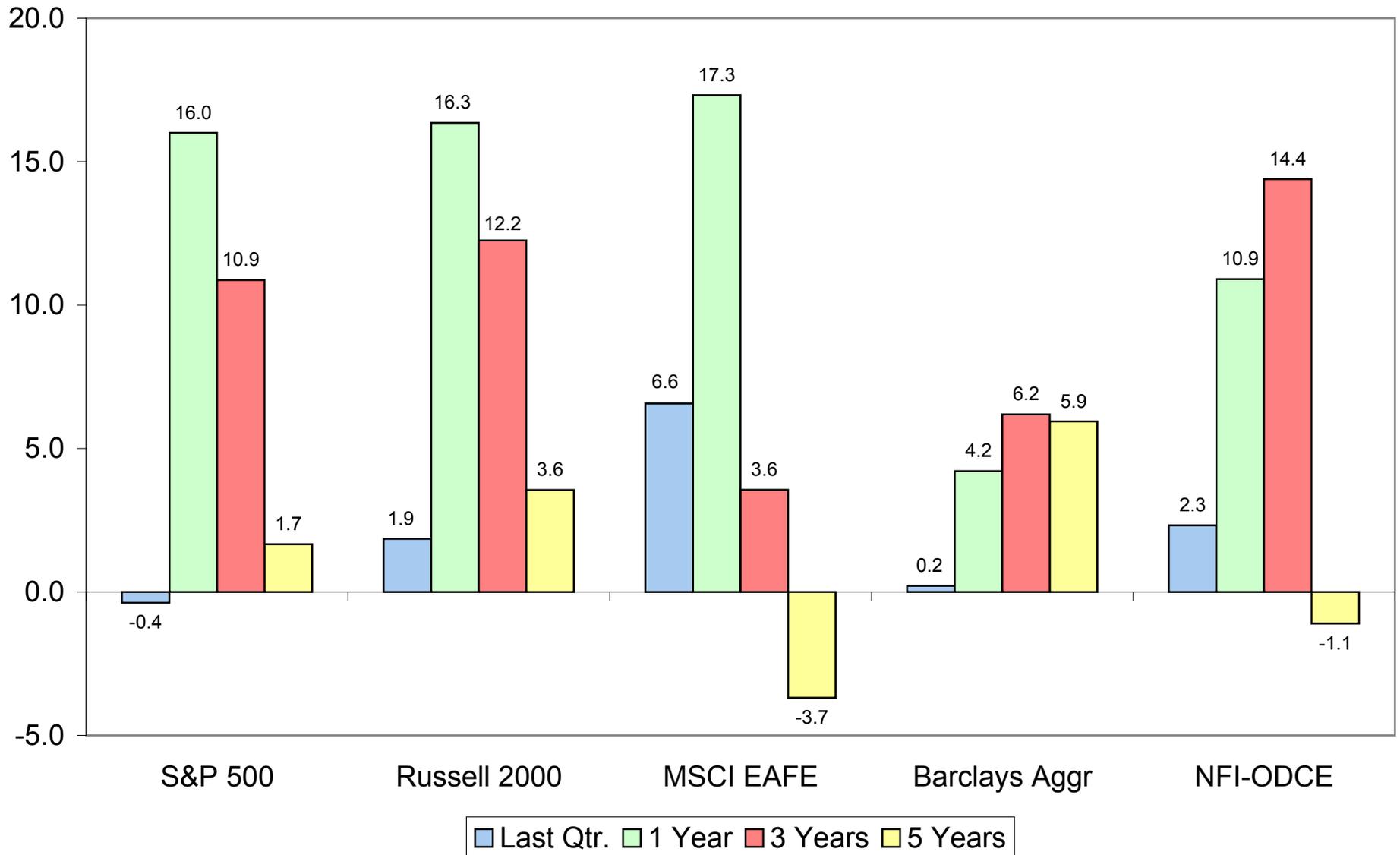
Index Returns - Periods Ending December 31, 2012

	<u>1 Quarter</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	
S&P 500	-0.4	16.0	10.9	1.7	7.1	%
S&P Mid Cap	3.6	17.9	13.6	5.1	10.5	
Russell 2000	1.9	16.3	12.2	3.6	9.7	
MSCI EAFE	6.6	17.3	3.6	-3.7	8.2	
ACWI Ex US	5.8	16.8	3.9	-2.9	9.7	
MSCI Emerging Markets	5.6	18.2	4.7	-0.9	16.5	
Barclays Aggregate	0.2	4.2	6.2	5.9	5.2	
Barclays Govt/Credit	0.4	4.8	6.7	6.1	5.2	
Barclays Govt/Credit Intermediate	0.3	3.9	5.2	5.2	4.6	
Barclays Govt/Credit Long	0.4	8.8	13.6	10.2	8.0	
Barclays Govt	-0.1	2.0	5.5	5.2	4.7	
Barclays Govt Intermediate	0.0	1.7	4.2	4.5	4.1	
Barclays Gov't Long	-0.7	3.8	13.6	9.6	7.6	
Barclays Mortgage Backed	-0.2	2.6	4.7	5.7	5.1	
Barclays U.S. Credit	1.0	9.4	8.7	7.7	6.2	
Barclays Corporate High Yield	3.3	15.8	11.9	10.3	10.6	
NFI-ODCE (Real Estate)	2.3	10.9	14.4	-1.1	6.7	
NAREIT (REIT)	2.6	18.1	17.8	5.5	11.6	
90-Day Treasury Bills	0.0	0.1	0.1	0.5	1.8	
CPI	-0.2	1.7	2.1	1.8	2.4	

INVESTMENT MARKET ENVIRONMENT

Periods Ending December 31, 2012

Commentary and Benchmark Index Returns



BAY COUNTY VEBA

Quarter Ending December 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	30,853	75	303	163	140	31,231
EQUITY MANAGERS						
ATLANTA SOSNOFF EQTY	5,263	0	5	23	-18	5,269
DODGE & COX STOCK FUND	5,325	0	152	19	132	5,477
LORD ABBETT	5,851	0	220		220	6,070
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO	16,439	0	377	42	334	16,816
BOND MANAGERS						
CS MCKEE	14,152	0	-74	121	-194	14,078
CASH MANAGERS						
VEBA - CASH	262	75	0	0	0	337

BAY COUNTY VEBA

Year Ending December 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	338	3,287	516	2,771	31,231
BALANCED MANAGERS						
ATALANTA SOSNOFF BALANCED	11,130	-6,777	422	84	338	
DODGE & COX	16,410	-17,267	857	0	857	

BAY COUNTY VEBA

Year Ending December 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	493	72	421	5,269
DODGE & COX STOCK FUND	0	4,767	710	88	622	5,477
LORD ABBETT	0	5,779	292	0	292	6,070
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO		0	1,514	160	1,354	16,816
BOND MANAGERS						
CS MCKEE	0	13,565	513	272	241	14,078
CASH MANAGERS						
VEBA - CASH	65	271	0	0	0	337

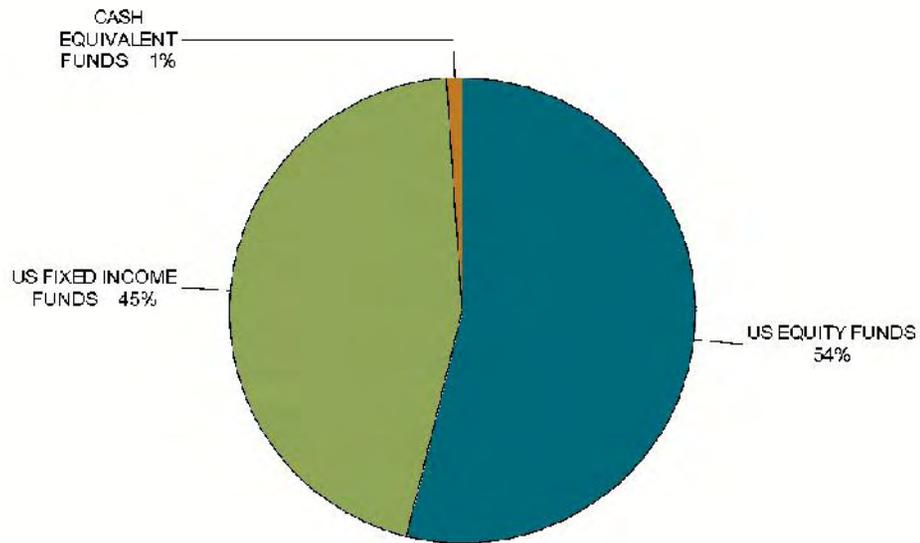
BAY COUNTY VEBA

COMBINED - VEBA

As of December 31, 2012

Allocation by Manager Type

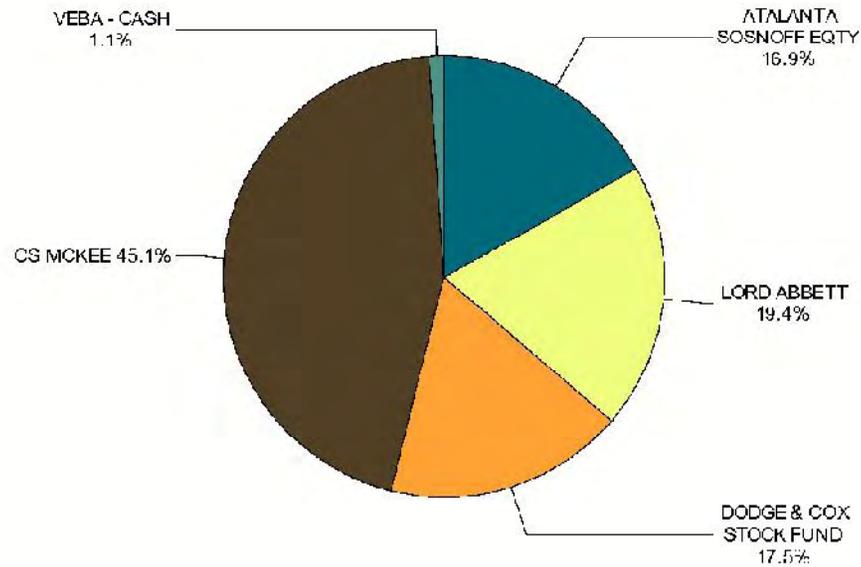
<u>MANAGER TYPE</u>	<u>Ending Market Value</u>	<u>% of Plan</u>
US EQUITY FUNDS	16,815,848	53.8
US FIXED INCOME FUNDS	14,078,404	45.1
CASH EQUIVALENT FUNDS	336,925	1.1
TOTAL	31,231,177	100.0



BAY COUNTY VEBA

As of December 31, 2012

Portfolio Asset Allocation by Manager



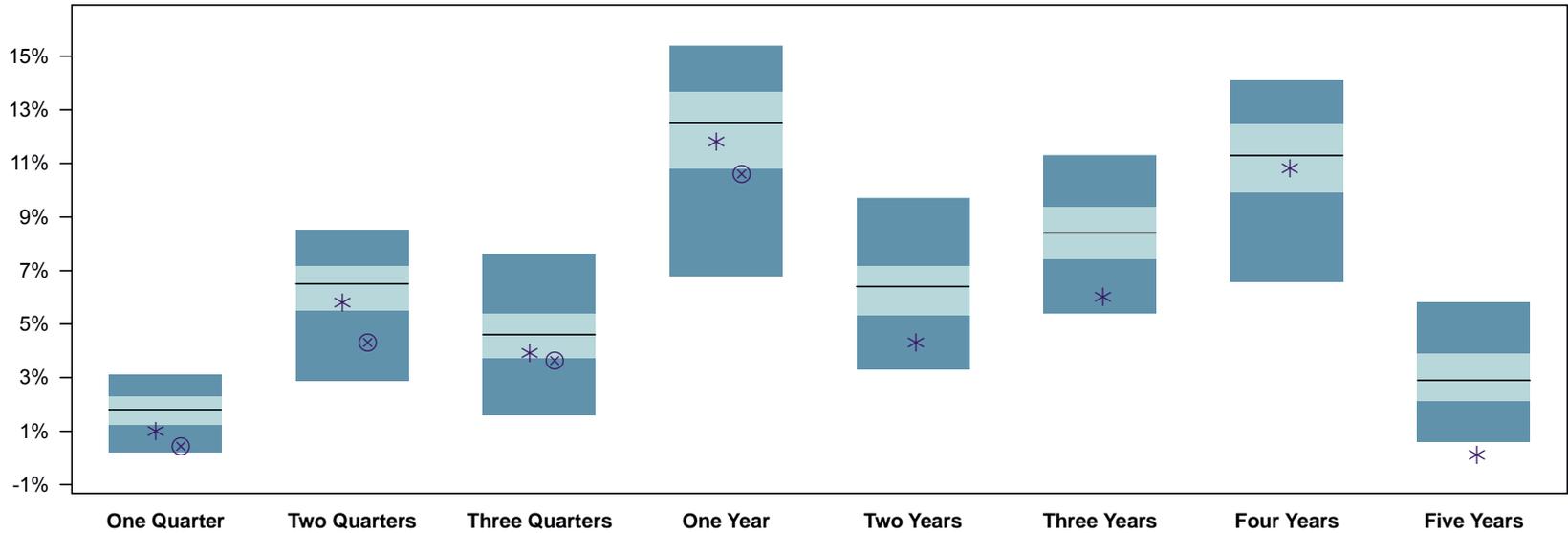
FUND	Ending Market Value	% of Plan
ATALANTA SOSNOFF EQTY	5,268,581	16.9
LORD ABBETT	6,070,413	19.4
DODGE & COX STOCK FUND	5,476,854	17.5
CS MCKEE	14,078,404	45.1
VEBA - CASH	336,925	1.1
TOTAL	31,231,177	100.0

BAY COUNTY VEBA

Master Trust Funds

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



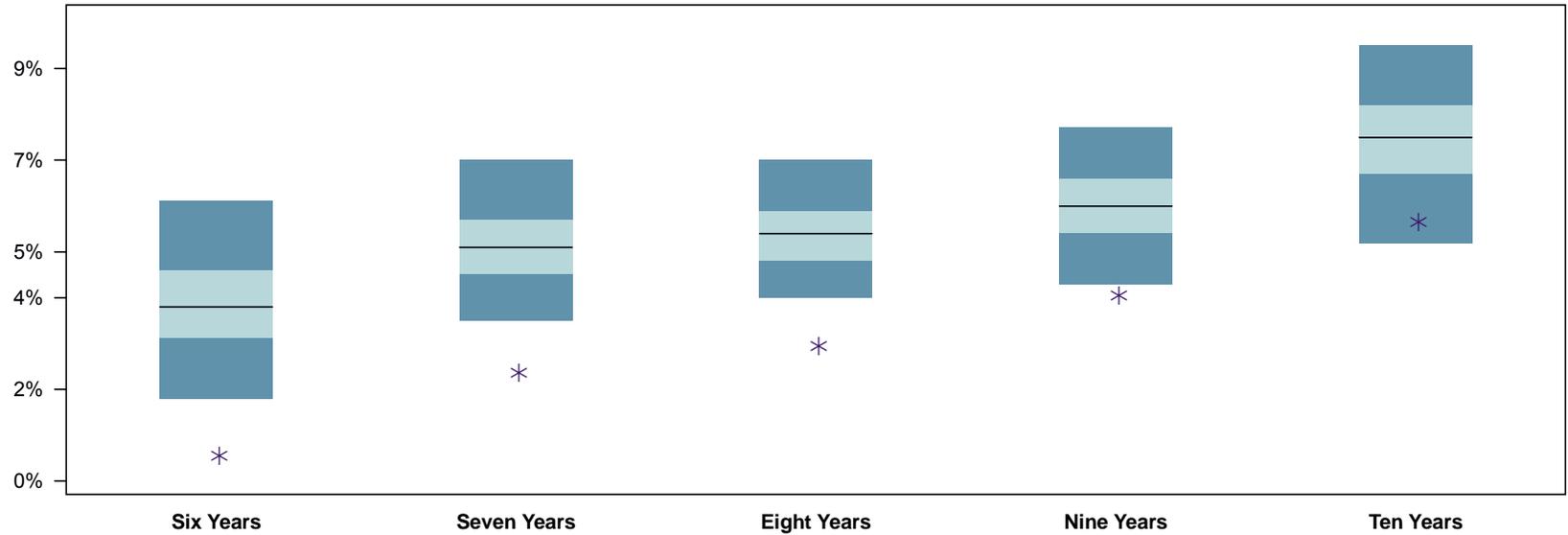
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years		Three Years		Four Years		Five Years	
* COMBO - VEBA	1.1	80	5.9	67	4.0	68	11.9	60	4.4	88	6.1	92	10.9	58	0.2	97
⊗ VEBA COMBO POLICY	0.5	91	4.4	89	3.7	74	10.7	76								
Median	1.8		6.5		4.6		12.5		6.4		8.4		11.3		2.9	

BAY COUNTY VEBA

Master Trust Funds

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



* **COMBO - VEBA**
Median

0.6 100
3.8

2.4 100
5.1

3.0 100
5.4

4.1 97
6.0

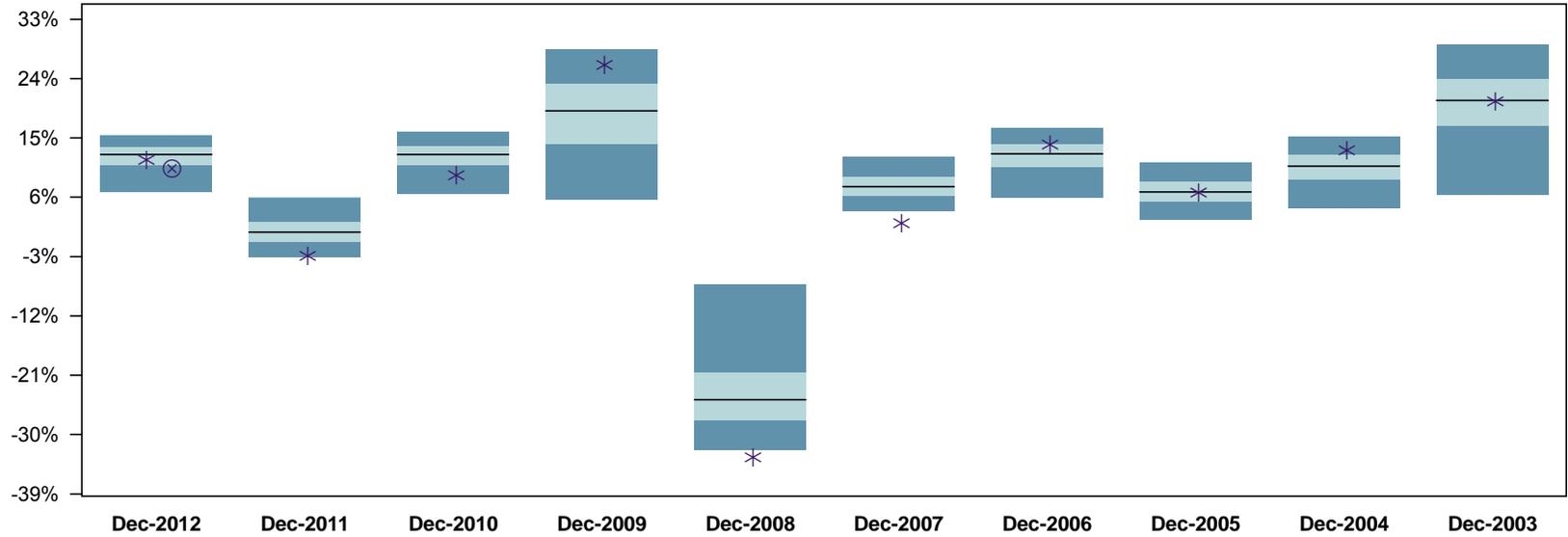
5.7 93
7.5

BAY COUNTY VEBA

Master Trust Funds

Years Ending December

Total Fund Performance - Annual Periods



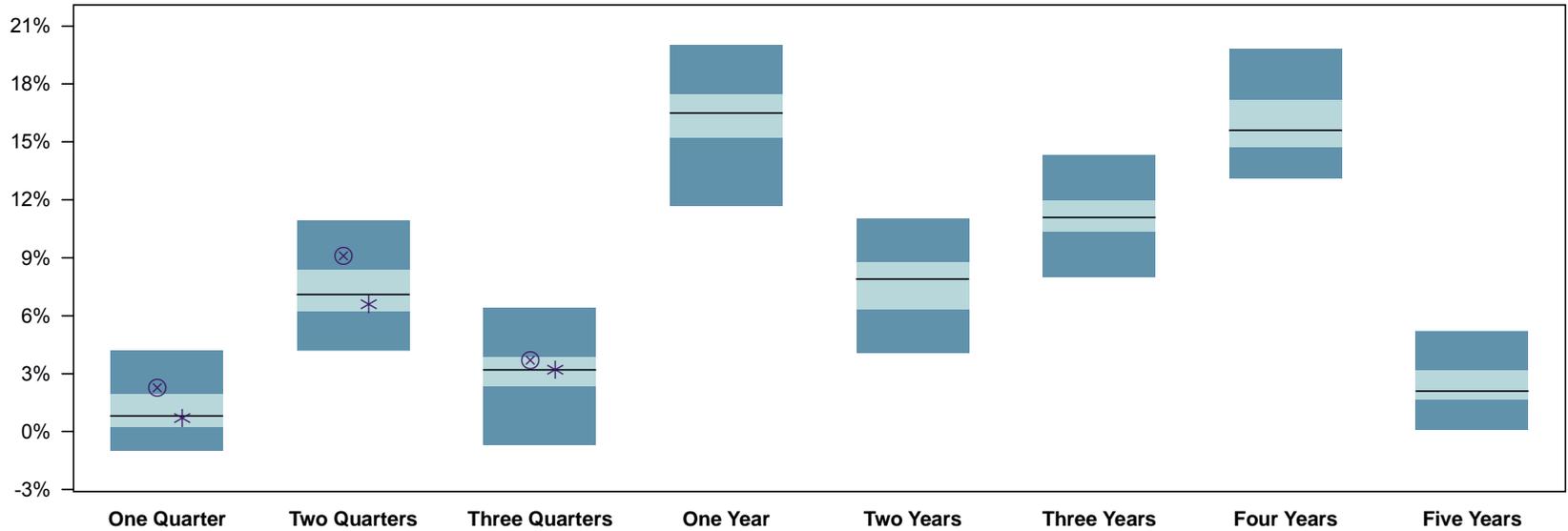
	Dec-2012	Dec-2011	Dec-2010	Dec-2009	Dec-2008	Dec-2007	Dec-2006	Dec-2005	Dec-2004	Dec-2003
* COMBO - VEBA	11.9	-2.5	9.6	26.4	-33.1	2.3	14.3	7.0	13.4	20.9
⊗ VEBA COMBO POLICY	10.7	-	-	-	-	-	-	-	-	20.7
Median	12.5	0.7	12.5	19.1	-24.7	7.6	12.6	6.8	10.7	20.7

BAY COUNTY VEBA

US Equity Pools

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



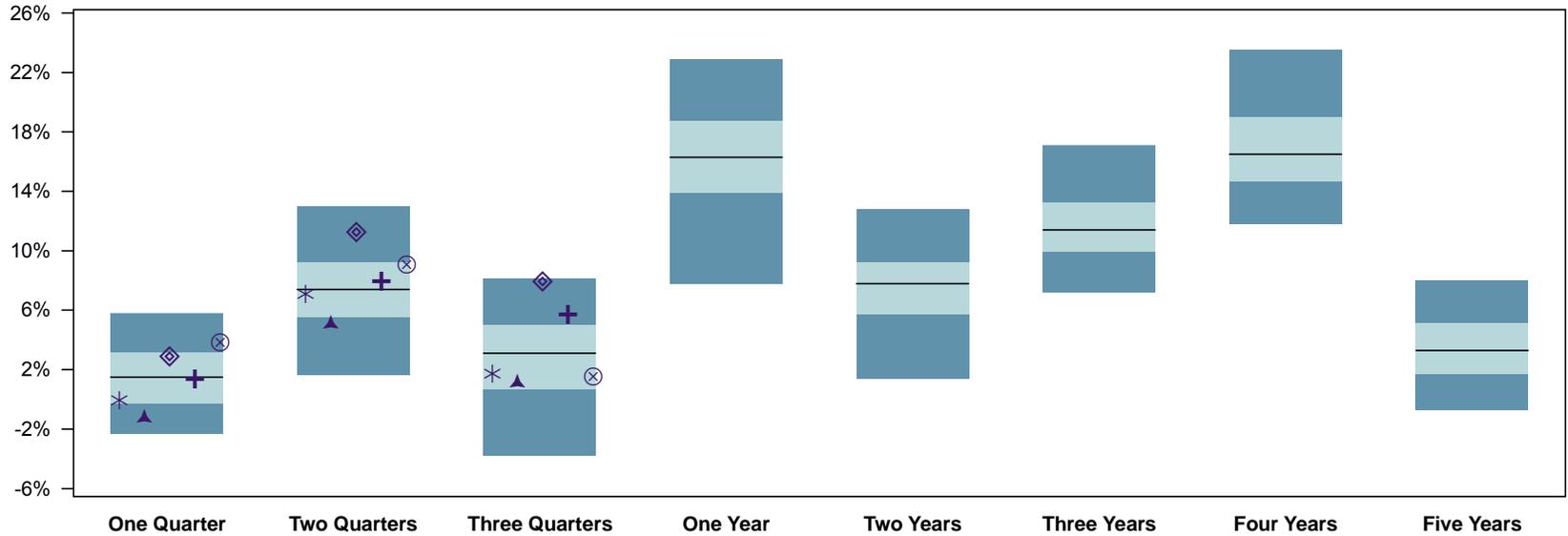
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ VEBA - EQUITY COMBO	2.4	9.2	3.8					
* VEBA EQUITY COMBO PO	0.8	6.7	3.3					
Median	0.8	7.1	3.2	16.5	7.9	11.1	15.6	2.1

BAY COUNTY VEBA

US Equity Funds (Active)

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



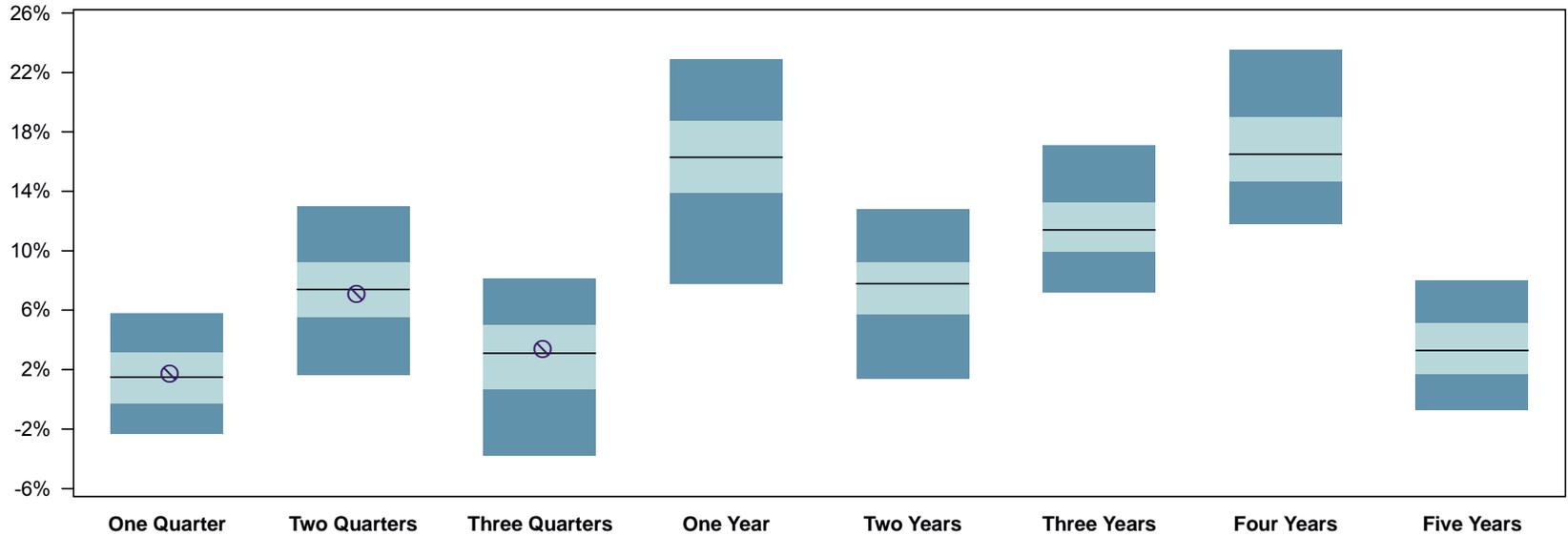
	One Quarter		Two Quarters		Three Quarters		One Year	Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	0.1	68	7.2	53	1.9	65					
▲ ATALANTA SOSNOFF POLI	-1.1	87	5.2	78	1.2	70					
◆ DODGE & COX STOCK FU	3.0	29	11.4	11	8.1	5					
+ Russell 1000 Value Index	1.5	49	8.1	40	5.8	20					
⊗ LORD ABBETT	4.0	16	9.2	27	1.7	66					
Median	1.5		7.4		3.1		16.3	7.8	11.4	16.5	3.3

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US Equity Funds (Active)

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



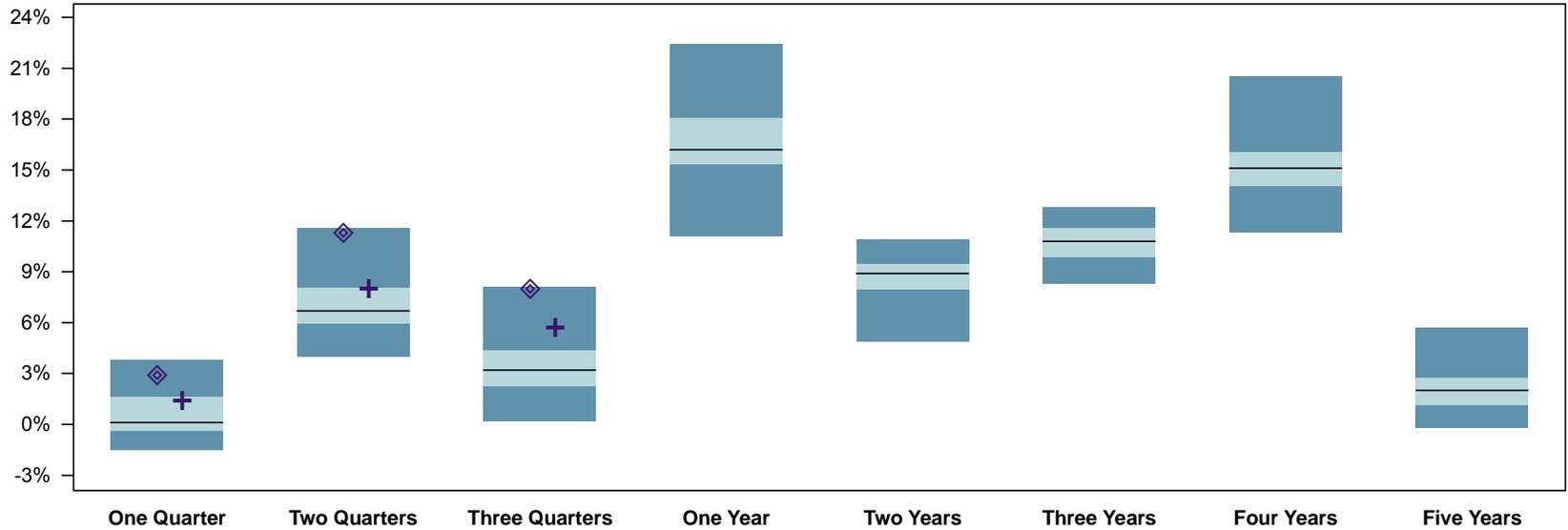
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
○ RUSSELL 2000	1.9 44	7.2 53	3.5 43	16.3	7.8	11.4	16.5	3.3
Median	1.5	7.4	3.1	16.3	7.8	11.4	16.5	3.3

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US Equity Funds (Active) - Large Core

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods

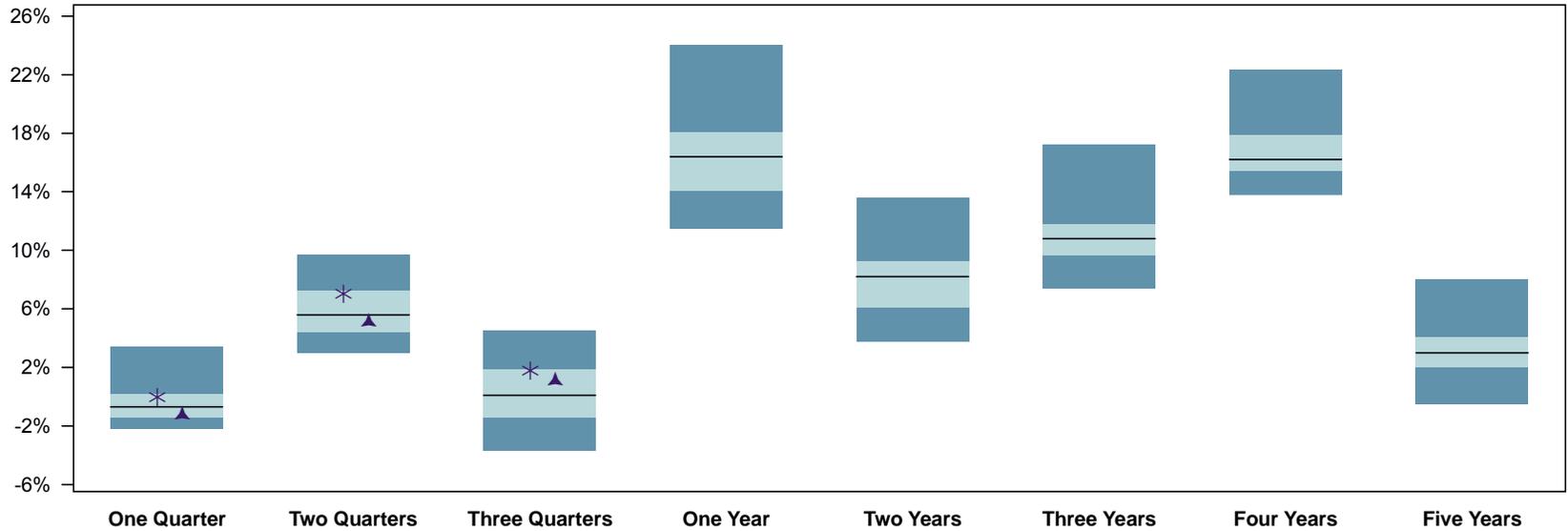


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
◆ DODGE & COX STOCK FU	3.0 11	11.4 7	8.1 5					
+ Russell 1000 Value Index	1.5 28	8.1 24	5.8 15					
Median	0.1	6.7	3.2	16.2	8.9	10.8	15.1	2.0

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US Equity Funds (Active) - Large Growth
 Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods

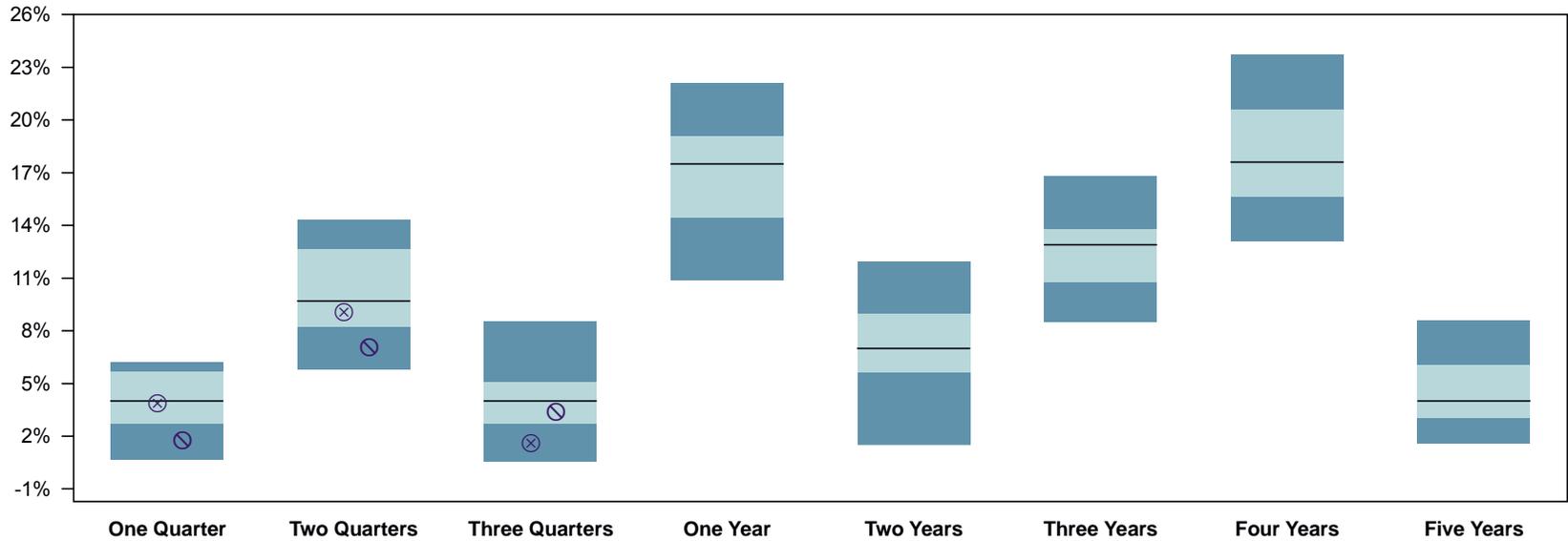


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	0.1 28	7.2 27	1.9 25					
▲ ATALANTA SOSNOFF POLI	-1.1 63	5.2 55	1.2 33					
Median	-0.7	5.6	0.1	16.4	8.2	10.8	16.2	3.0

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US Equity Funds (Active) - Mid Core
 Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods

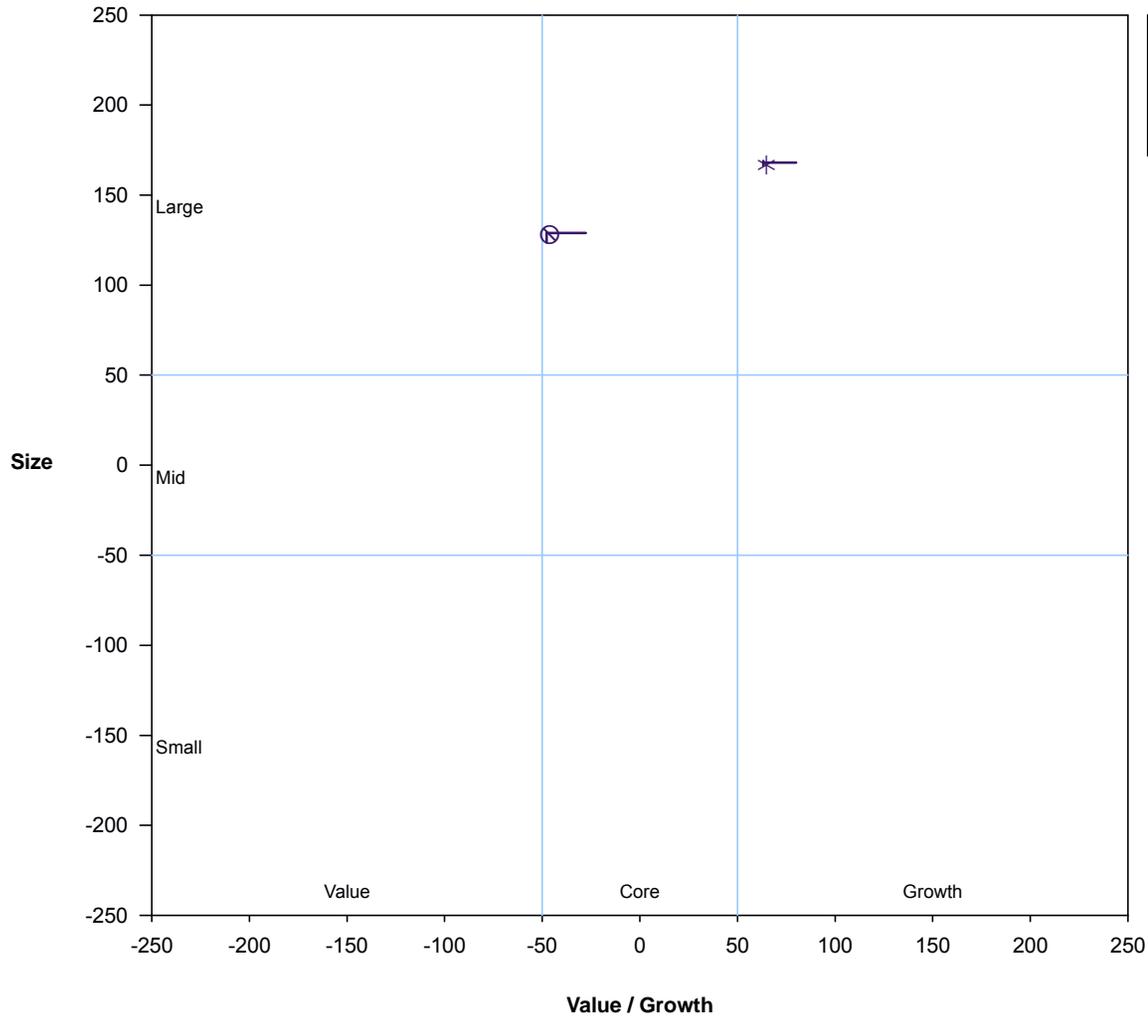


	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ LORD ABBETT	4.0 52	9.2 57	1.7 82					
○ RUSSELL 2000	1.9 93	7.2 84	3.5 55					
Median	4.0	9.7	4.0	17.5	7.0	12.9	17.6	4.0

BAY COUNTY VEBA

Period Ending December 31, 2012

Equity Style Analysis - Drift Over Time



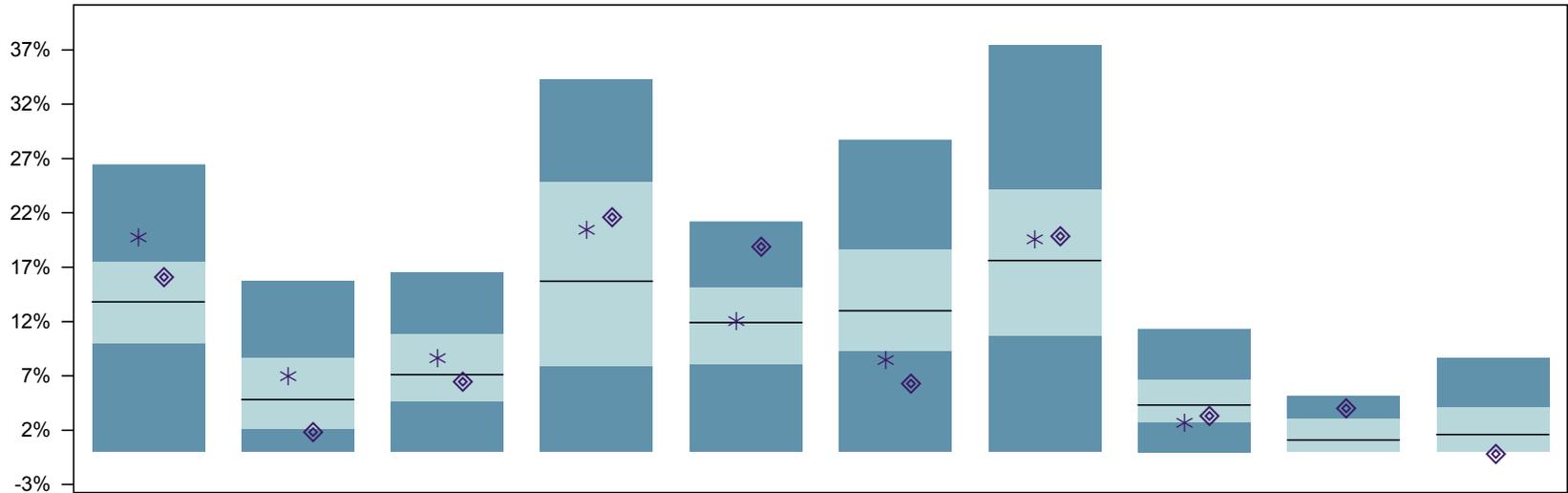
FUND	Value / Growth	Size
* ATALANTA SOSNOFF EQTY	63.16	168.05
⊙ DODGE & COX STOCK FUND	-47.76	129.06

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US Equity Funds (Active)

As of December 31, 2012

Economic Sector Allocation



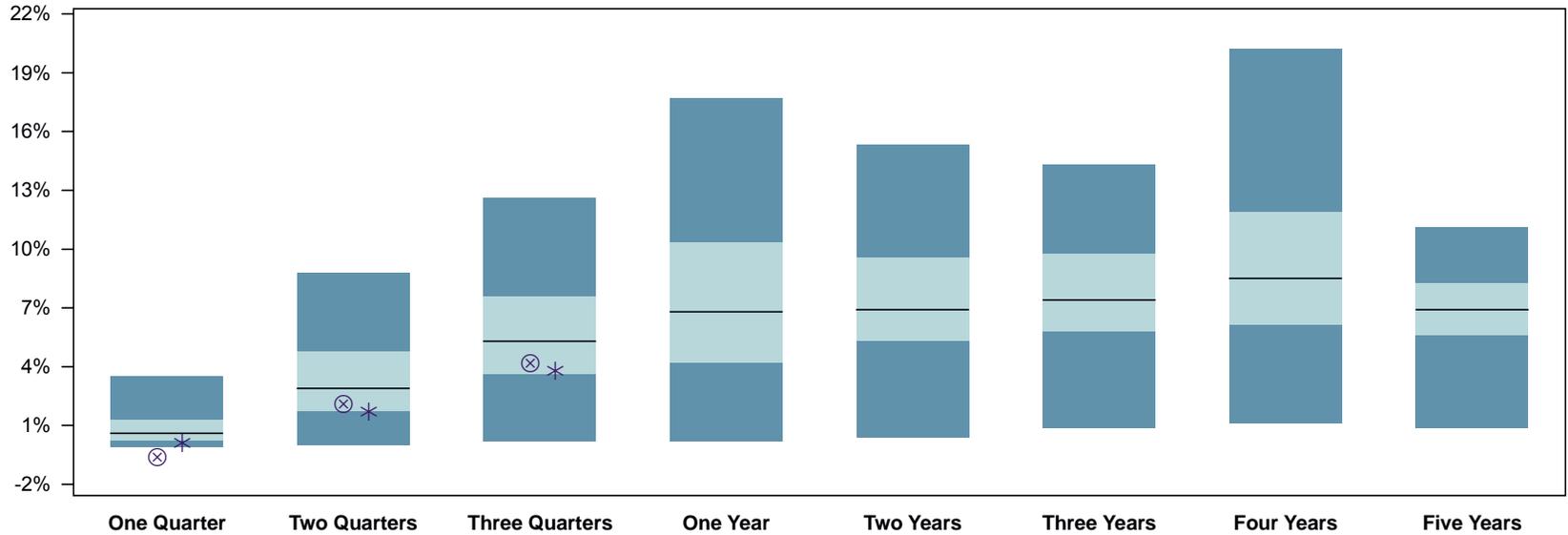
	Consumer Discretionary		Consumer Staples		Energy		Financials		Health Care		Industrials		Information Technology		Materials		Telecom Services		Utilities	
* ATALANTA SOSNOFF E	19.9	20	7.2	33	8.8	40	20.6	36	12.2	45	8.6	81	19.8	39	2.9	73				
◆ DODGE & COX STOCK	16.3	32	2.0	78	6.6	53	21.8	34	19.1	10	6.5	89	20.0	39	3.5	64	4.2	11	0.0	67
Median	13.8		4.8		7.1		15.7		11.9		13.0		17.6		4.3		1.1		1.6	

BAY COUNTY VEBA

US Fixed Income Funds

Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



⊗ **CS MCKEE**

* Barclays Aggregate Bond

Median

-0.5 98

0.2 75

0.6

2.2 65

1.8 74

2.9

4.3 63

3.9 72

5.3

6.8

6.9

6.9

6.9

7.4

7.4

7.4

8.5

8.5

8.5

6.9

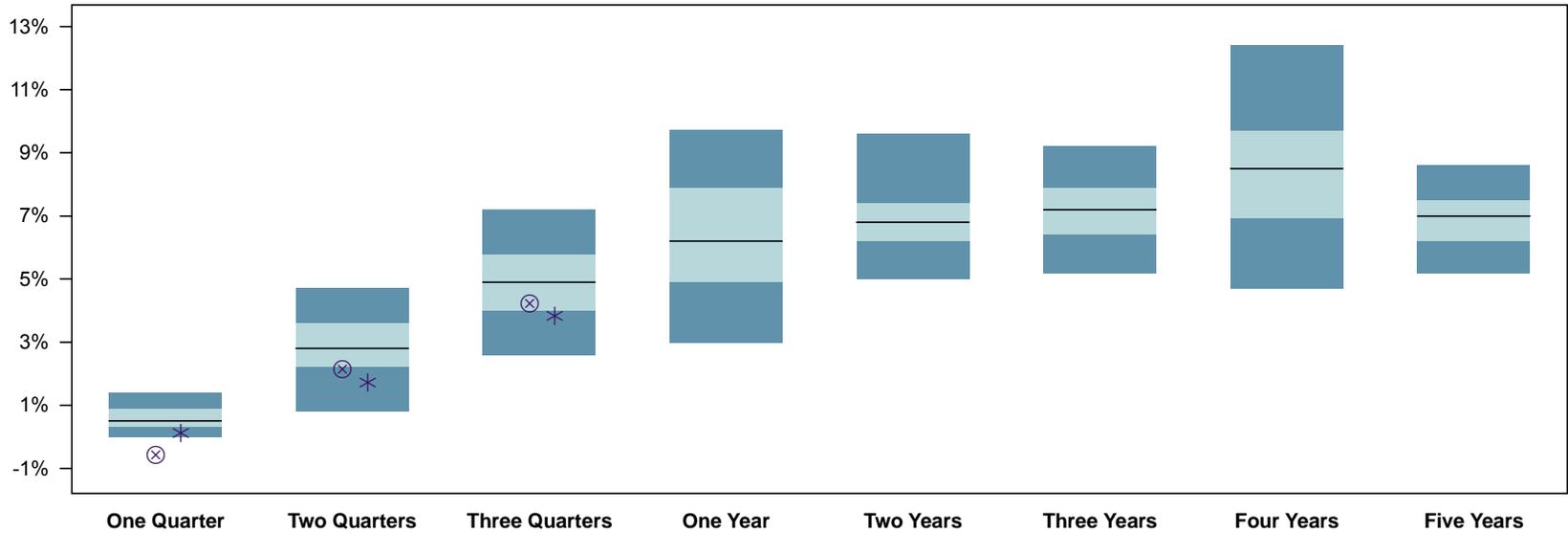
6.9

6.9

BAY COUNTY VEBA

US Fixed Income Funds (Active) - Core
 Periods Ending December 31, 2012

Total Fund Performance - Trailing Periods



	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ CS MCKEE	-0.5 100	2.2 73	4.3 70					
* Barclays Aggregate Bond	0.2 83	1.8 83	3.9 78					
Median	0.5	2.8	4.9	6.2	6.8	7.2	8.5	7.0

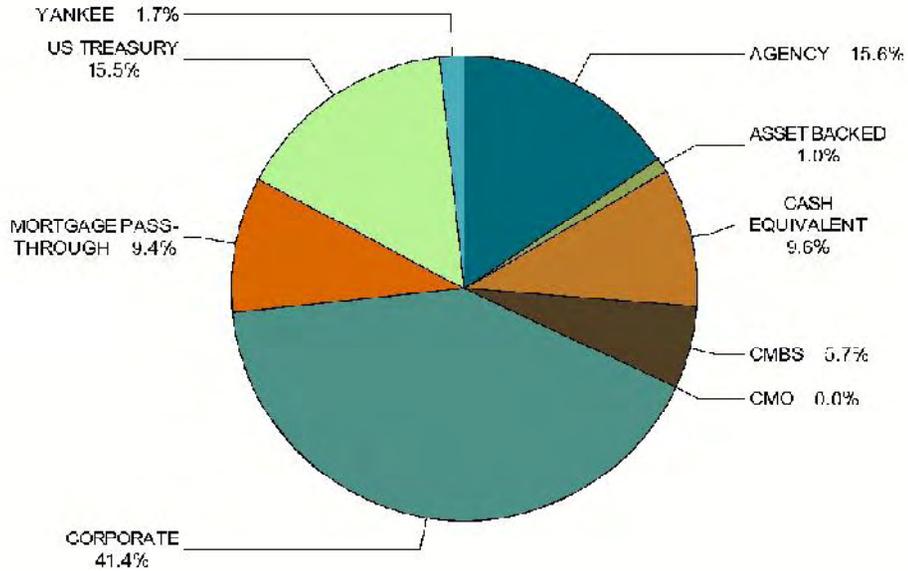
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CS MCKEE

INDEX: Barclays Aggregate Bond

AS OF: December 31, 2012

FIXED INCOME SECTOR ALLOCATION



SECTOR	PORTFOLIO WEIGHT %	INDEX WEIGHT %	DIFF %
AGENCY	15.6	4.8	10.8
ASSET BACKED	1.0	0.4	0.7
CASH EQUIVALENT	9.6	0.0	9.6
CMBS	5.7	1.8	3.8
CMO	0.0	0.0	0.0
CORPORATE	41.4	21.4	20.0
MORTGAGE PASS-THROUGH	9.4	29.5	-20.0
US TREASURY	15.5	36.3	-20.7
YANKEE	1.7	5.9	-4.2
TOTAL	100.0	100.0	0.0

BAY COUNTY VEBA

As of December 31, 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	3.2	3.0	8.6	6.3	2.8	77.1	0.2	AA-2

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