



Bay County Employees' **VEBA**

Quarterly Investment Performance Report
Updates through December 31, 2013

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

Dear Trustee:

US stock markets continued their strong advance in the fourth quarter of 2013. Gains occurred despite an announcement by the U.S. Federal Reserve that it would begin to reduce economic stimulus. Large-cap indices led small and mid-cap during the quarter, while growth and value indices were about even. One-year results were exceptional, gaining over 30%, with small and mid-cap indices beating large, and growth indices ahead of value.

The index of broadly diversified core domestic bonds posted slightly negative results for the quarter and year. Longer duration bonds, especially US Government issues, fared the worst in both periods, while corporate credit, especially high yield, performed the best.

Total Fund - Total assets grew by nearly \$2.3 million this quarter with all of the growth coming from investment returns. Quarter-end total fund assets were \$38.5 million. Rebalancing was conducted at the beginning of the quarter and as of year-end all investment allocations comply with the policy ranges.

Manager	Asset Class	Allocation	Policy Target	Policy Range
1. Atalanta Sosnoff	US Large Cap Gr	22.8%	22.0%	18% - 25%
2. Dodge & Cox	US Large Cap Val	23.3%	22.0%	18% - 25%
3. Lord Abbett	US Small/Mid Cap	17.2%	16.0%	12% - 20%
4. CS McKee	Fixed Income	36.0%	40.0%	35% - 45%
5. Cash	Cash	0.7%	0.0%	

For the quarter the total fund returned +6.5%, which was above the policy index return of +5.0% and the median total fund return of +4.8%. Performance ranked at the 9th percentile against the universe of total funds. Relative performance in longer periods has been improving in recent quarters.

Equity Fund Managers - Equities were again the main contributor to returns this quarter. Combined equity managers returned +11.0%, beating the benchmark and ranking 13th percentile. Dodge & Cox outperformed their benchmark and ranked near top decile. Atalanta Sosnoff matched their benchmark and outperformed the Large Cap Growth Fund median. Lord Abbett was above benchmark and the median Mid Core Fund.

Fixed Income Manager - CS McKee produced slightly negative returns this quarter. Their -0.1% loss was below the benchmark and the median bond fund. For the year, the -1.8% loss is better than -2.0% return of benchmark index but trails the median.

INVESTMENT MARKET ENVIRONMENT

Periods Ending December 31, 2013

Commentary and Benchmark Index Returns

Domestic stock markets continued their strong advance in the fourth quarter, even though the FED announced that it would start to reduce economic stimulus. Small and mid-sized stocks lagged large capitalization issues during the quarter, while growth and value were about even. Annual results were excellent, with small and mid caps beating large, and growth ahead of value.

International developed market equities also had strong results in the quarter and year, but trailed domestic stocks for both periods. Emerging market returns were negative for the quarter and year and trailed developed international and domestic equities by a significant margin.

Domestic bond results for the quarter and year were generally slightly negative, with long bonds faring the worst and corporates, especially high yield, performing the best.

While REIT's were slightly negative for the quarter, private real estate posted solid returns. Annual performance for REIT's was slightly positive, while core real estate continued to post strong results.

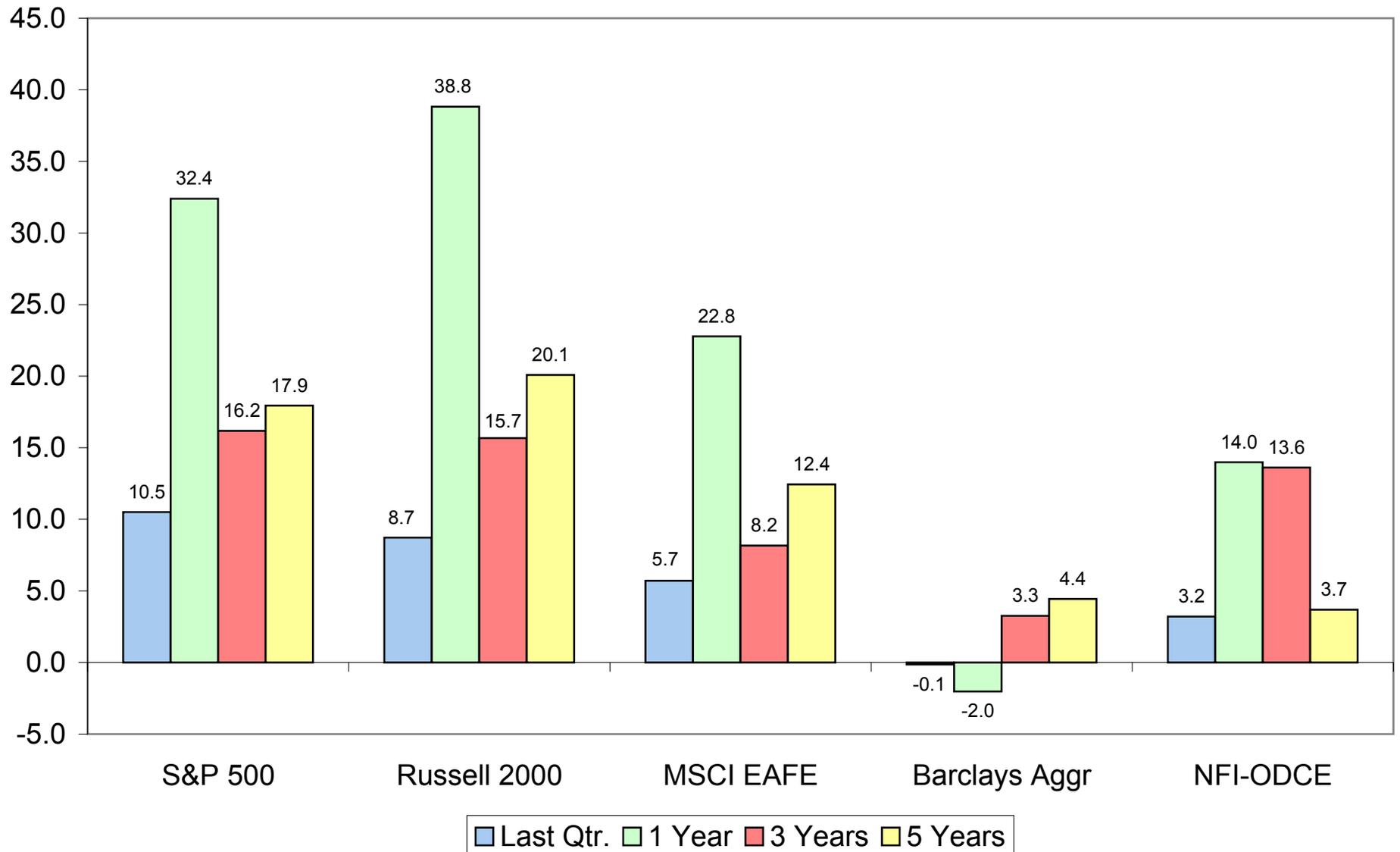
Index Returns - Periods Ending December 31, 2013

	<u>1 Quarter</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
S&P 500	10.5 %	32.4 %	16.2 %	17.9 %	7.4 %
S&P Mid Cap	8.3	33.5	15.6	21.9	10.4
Russell 2000	8.7	38.8	15.7	20.1	9.1
MSCI EAFE	5.7	22.8	8.2	12.4	6.9
ACWI Ex US	4.8	15.3	5.1	12.8	7.6
MSCI Emerging Markets	1.8	-2.6	-2.1	14.8	11.2
Barclays Aggregate	-0.1	-2.0	3.3	4.4	4.5
Barclays Govt/Credit	0.0	-2.4	3.6	4.4	4.5
Barclays Govt/Credit Intermediate	0.0	-0.9	2.9	4.0	4.1
Barclays Govt/Credit Long	-0.1	-8.8	6.7	6.4	6.4
Barclays Govt	-0.7	-2.6	2.7	2.3	4.1
Barclays Govt Intermediate	-0.4	-1.2	2.1	2.2	3.7
Barclays Gov't Long	-3.0	-12.5	5.5	2.4	5.9
Barclays Mortgage Backed	-0.4	-1.4	2.4	3.7	4.6
Barclays U.S. Credit	0.9	-2.0	5.1	7.9	5.2
Barclays Corporate High Yield	3.6	7.4	9.3	18.9	8.6
NFI-ODCE (Real Estate)	3.2	14.0	13.6	3.7	7.2
NAREIT (REIT)	-0.7	2.5	9.4	16.5	8.4
90-Day Treasury Bills	0.0	0.1	0.1	0.1	1.7
CPI	0.3	1.5	2.1	2.1	2.4

INVESTMENT MARKET ENVIRONMENT

Periods Ending September 30, 2013

Commentary and Benchmark Index Returns



BAY COUNTY - VEBA

Quarter Ending December 31, 2013

Portfolio Asset Growth Summary (\$000)

	Beginning Market Value	Net External Growth	Return on Investment	Income	Gain/Loss	Ending Market Value
TOTAL FUND						
COMBO - VEBA	36,180	-36	2,323	168	2,154	38,467
EQUITY MANAGERS						
ATALANTA SOSNOFF EQTY	6,386	1,600	779	26	753	8,765
DODGE & COX STOCK FUND	6,884	1,200	896	24	872	8,980
LORD ABBETT	7,544	-1,600	663	0	663	6,607
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO	20,814	1,200	2,338	50	2,288	24,352
BOND MANAGERS						
CS MCKEE	13,847	0	-15	119	-134	13,831
CASH MANAGERS						
VEBA - CASH	1,520	-1,236	0	0	-0	284

BAY COUNTY - VEBA

Year Ending December 31, 2013

Portfolio Asset Growth Summary (\$000)

	Beginning Market Value	Net External Growth	Return on Investment	Income	Gain/Loss	Ending Market Value
TOTAL FUND						
COMBO - VEBA	31,231	1,147	6,089	574	5,515	38,467
EQUITY MANAGERS						
ATLANTA SOSNOFF EQTY	5,269	1,600	1,897	84	1,812	8,765
DODGE & COX STOCK FUND	5,477	1,200	2,303	98	2,205	8,980
LORD ABBETT	6,070	-1,600	2,136	0	2,136	6,607
EQUITY COMBINED MANAGERS						
VEBA - EQUITY COMBO	16,816	1,200	6,336	183	6,153	24,352
BOND MANAGERS						
CS MCKEE	14,078	0	-247	391	-638	13,831
CASH MANAGERS						
VEBA - CASH	337	-53	0	0	-0	284

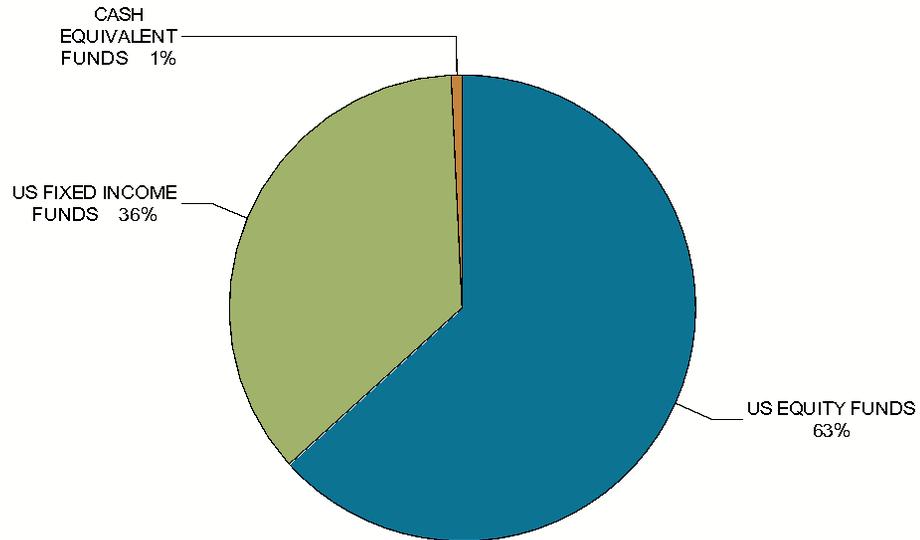
BAY COUNTY - VEBA

COMBINED - VEBA

As of December 31, 2013

Allocation by Manager Type

<u>MANAGER TYPE</u>	<u>Ending Market Value</u>	<u>% of Plan</u>
US EQUITY FUNDS	24,351,766	63.3
US FIXED INCOME FUNDS	13,831,377	36.0
CASH EQUIVALENT FUNDS	283,700	0.7
<u>TOTAL</u>	<u>38,466,843</u>	<u>100.0</u>

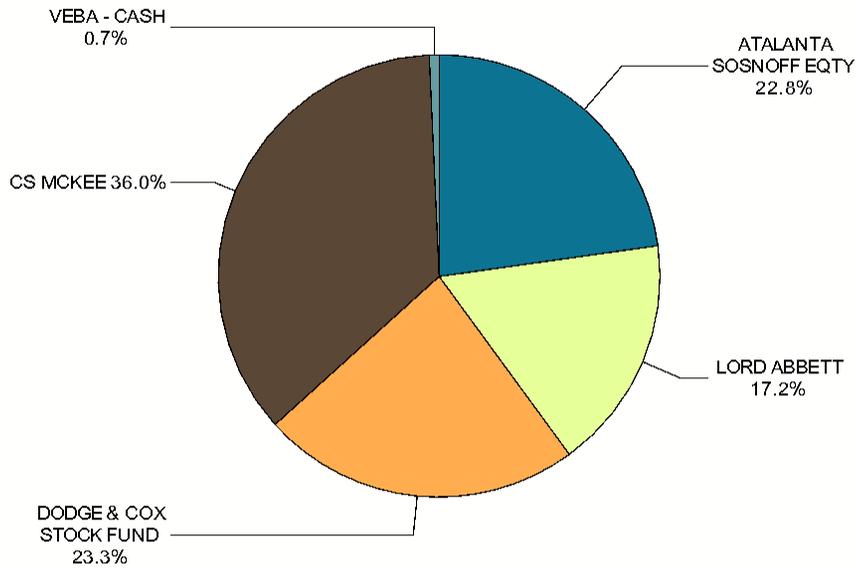


BAY COUNTY - VEBA

As of December 31, 2013

Portfolio Asset Allocation by Manager

FUND	Ending Market Value	% of Plan
ATLANTA SOSNOFF EQTY	8,765,110	22.8
LORD ABBETT	6,606,605	17.2
DODGE & COX STOCK FUND	8,980,051	23.3
CS MCKEE	13,831,377	36.0
VEBA - CASH	283,700	0.7
TOTAL	38,466,843	100.0

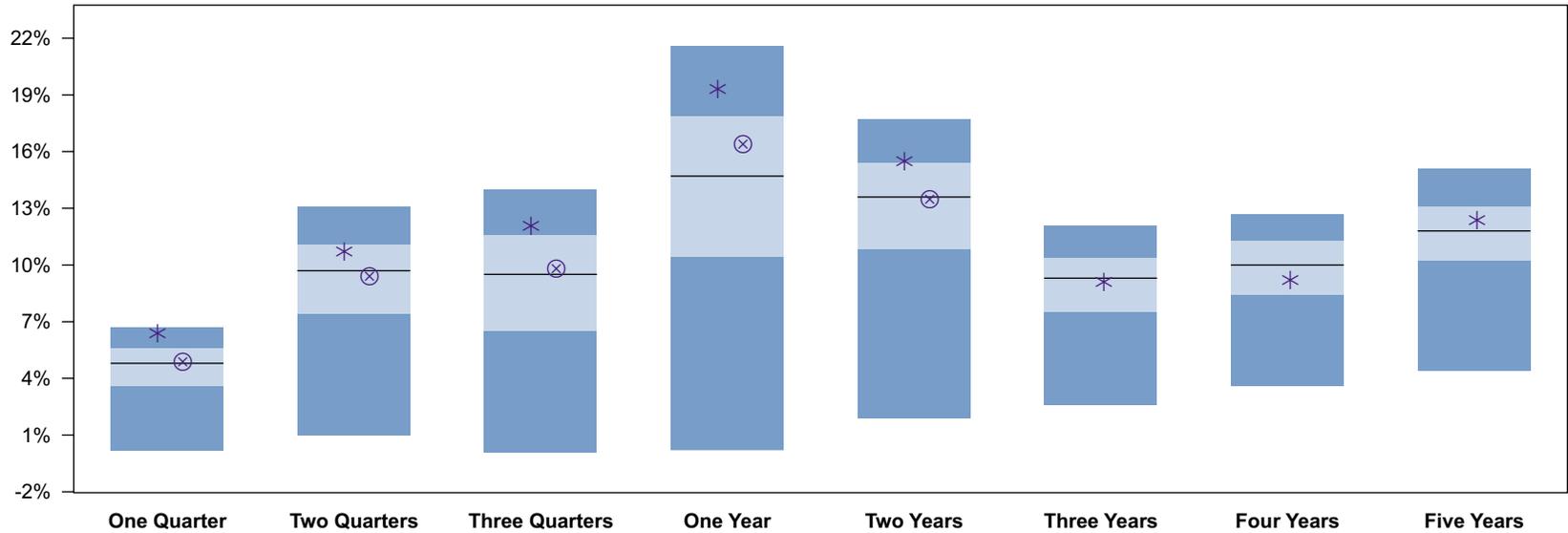


BAY COUNTY - VEBA

Master Trust Funds

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



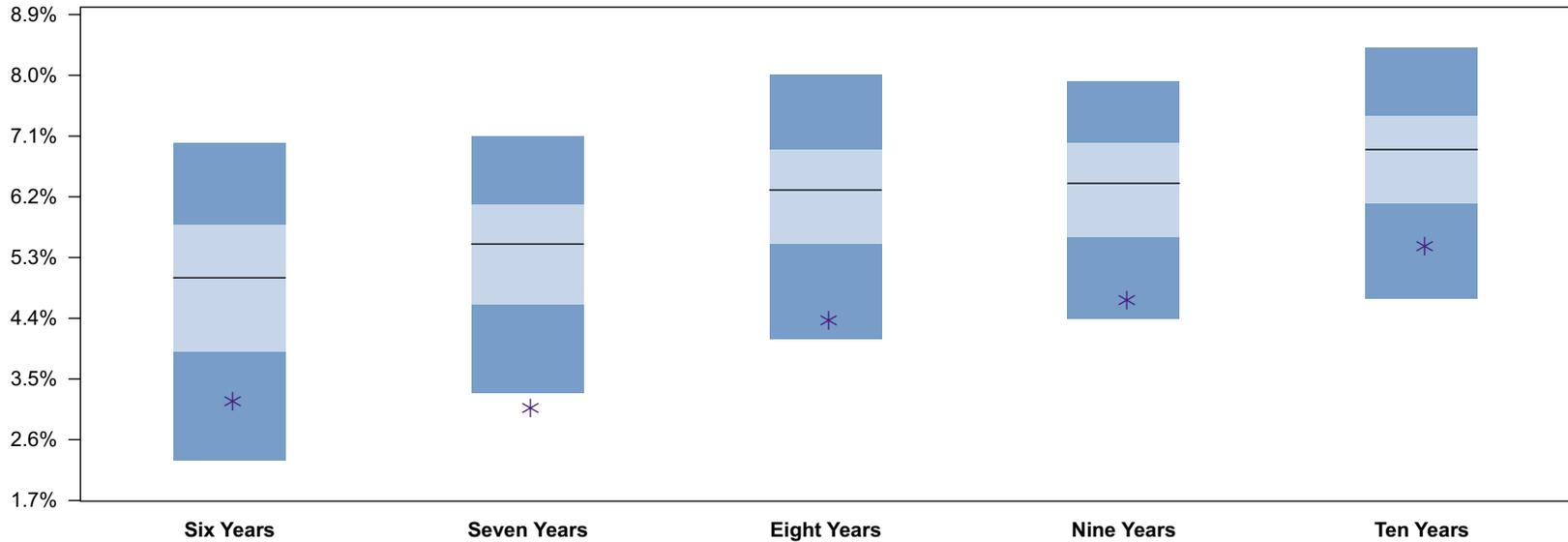
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years		Three Years		Four Years		Five Years	
* COMBO - VEBA	6.5	9	10.8	29	12.2	18	19.4	15	15.6	24	9.2	51	9.3	64	12.5	40
⊗ VEBA COMBO POLICY	5.0	46	9.5	54	9.9	44	16.5	35	13.6	51						
Median	4.8		9.7		9.5		14.7		13.6		9.3		10.0		11.8	

BAY COUNTY - VEBA

Master Trust Funds

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



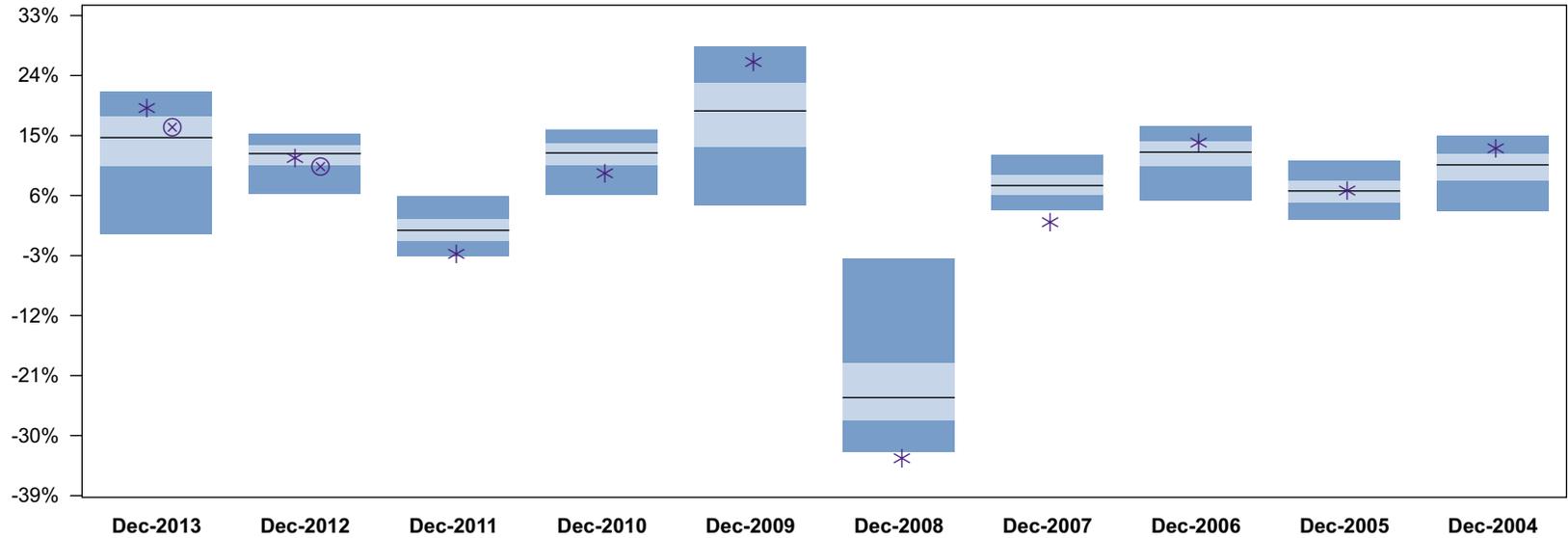
	Six Years	Seven Years	Eight Years	Nine Years	Ten Years
* COMBO - VEBA	3.2 88	3.1 97	4.4 94	4.7 92	5.5 86
Median	5.0	5.5	6.3	6.4	6.9

BAY COUNTY - VEBA

Master Trust Funds

Years Ending December

Total Fund Performance - Annual Periods



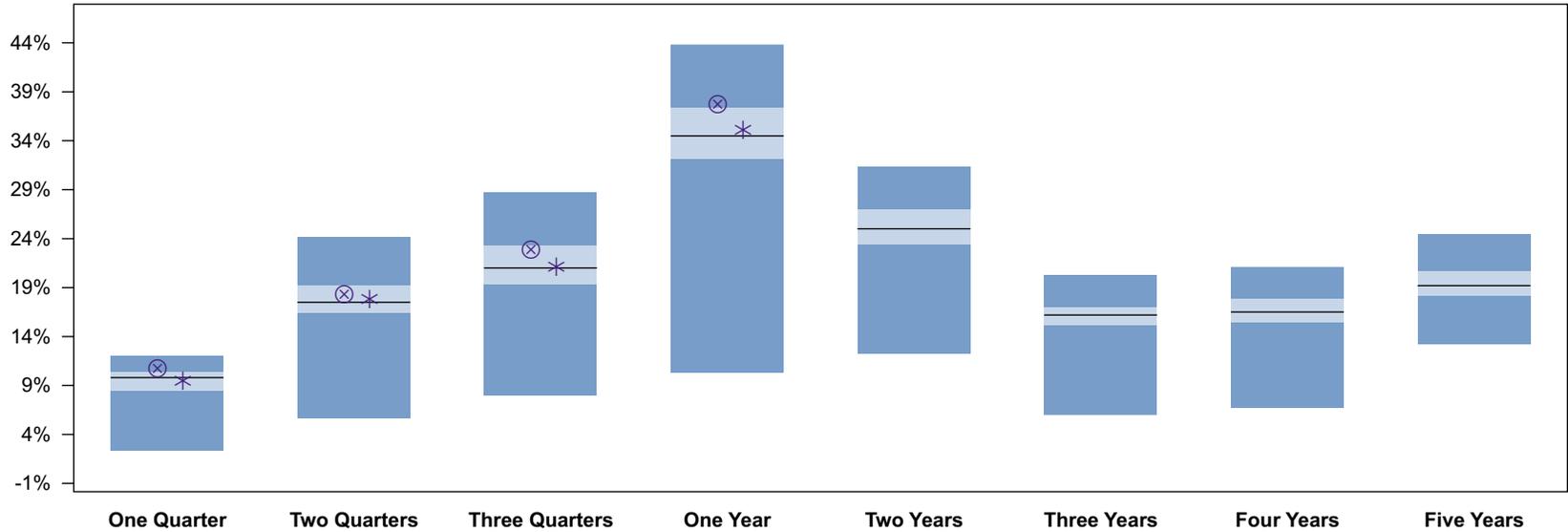
	Dec-2013		Dec-2012		Dec-2011		Dec-2010		Dec-2009		Dec-2008		Dec-2007		Dec-2006		Dec-2005		Dec-2004	
* COMBO - VEBA	19.4	15	11.9	56	-2.5	92	9.6	82	26.4	11	-33.1	96	2.3	98	14.3	23	7.0	45	13.4	14
⊗ VEBA COMBO POLICY	16.5	35	10.7	73																
Median	14.7		12.3		0.8		12.4		18.7		-24.3		7.5		12.5		6.7		10.6	

BAY COUNTY - VEBA

US Equity Pools

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



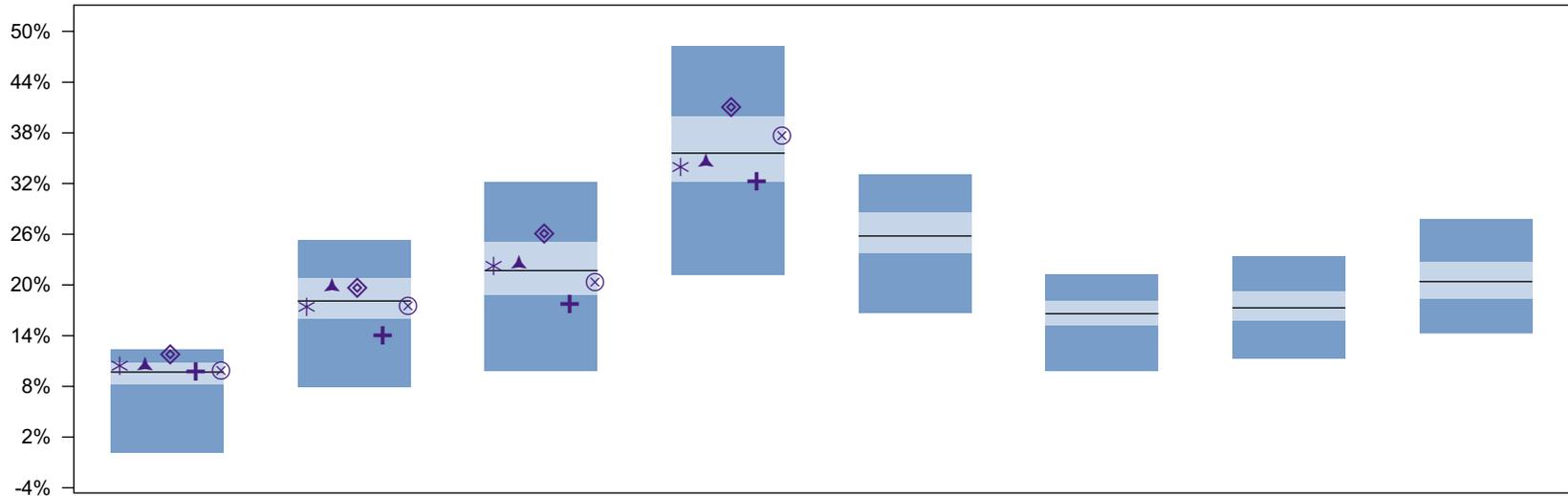
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
⊗ VEBA - EQUITY COMBO	11.0	13	18.5	34	23.1	28	37.9	23				
* VEBA EQUITY COMBO PO	9.7	54	18.0	43	21.3	46	35.3	43				
Median	9.8		17.5		21.0		34.5		25.0	16.2	16.5	19.2

BAY COUNTY - VEBA

US Equity Funds (Active)

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



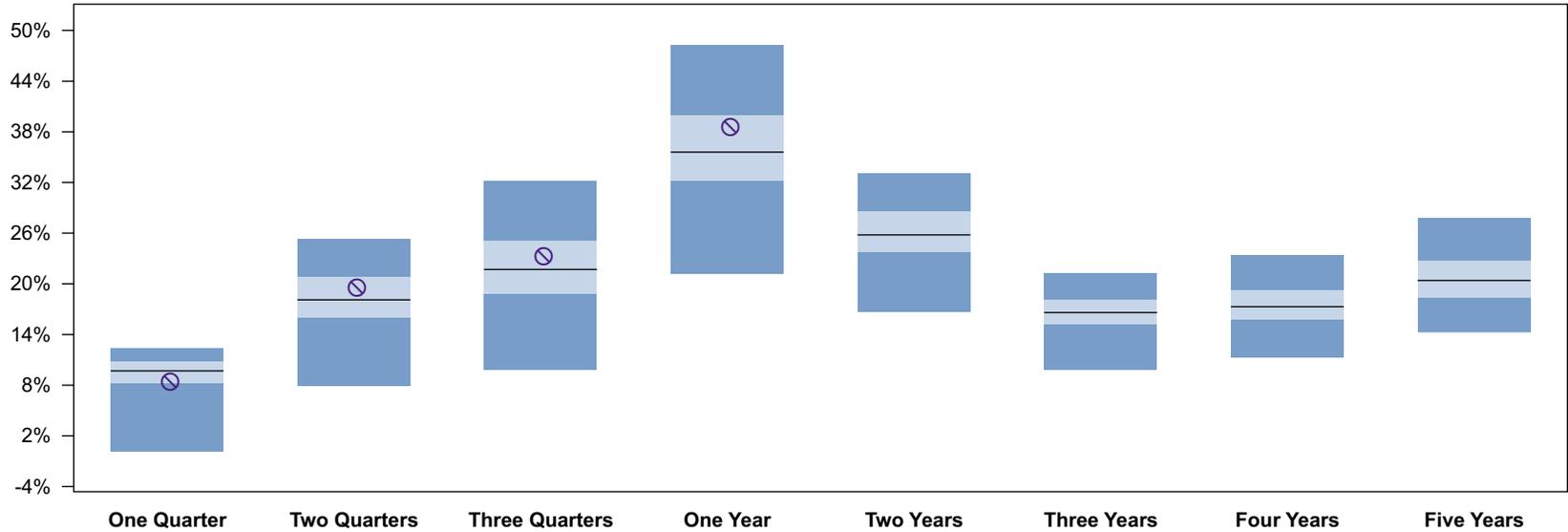
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	10.7	26	17.7	57	22.5	43	34.2	60				
▲ R1000 Growth + 1%	10.7	26	20.0	33	22.7	41	34.8	56				
◆ DODGE & COX STOCK FU	12.0	8	19.9	33	26.3	19	41.3	20				
+ Russell 1000 Value	10.0	43	14.3	85	18.0	82	32.5	72				
⊗ LORD ABBETT	10.1	40	17.8	54	20.6	59	37.9	38				
Median	9.7		18.1		21.7		35.6		25.8	16.6	17.3	20.4

BAY COUNTY - VEBA

US Equity Funds (Active)

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



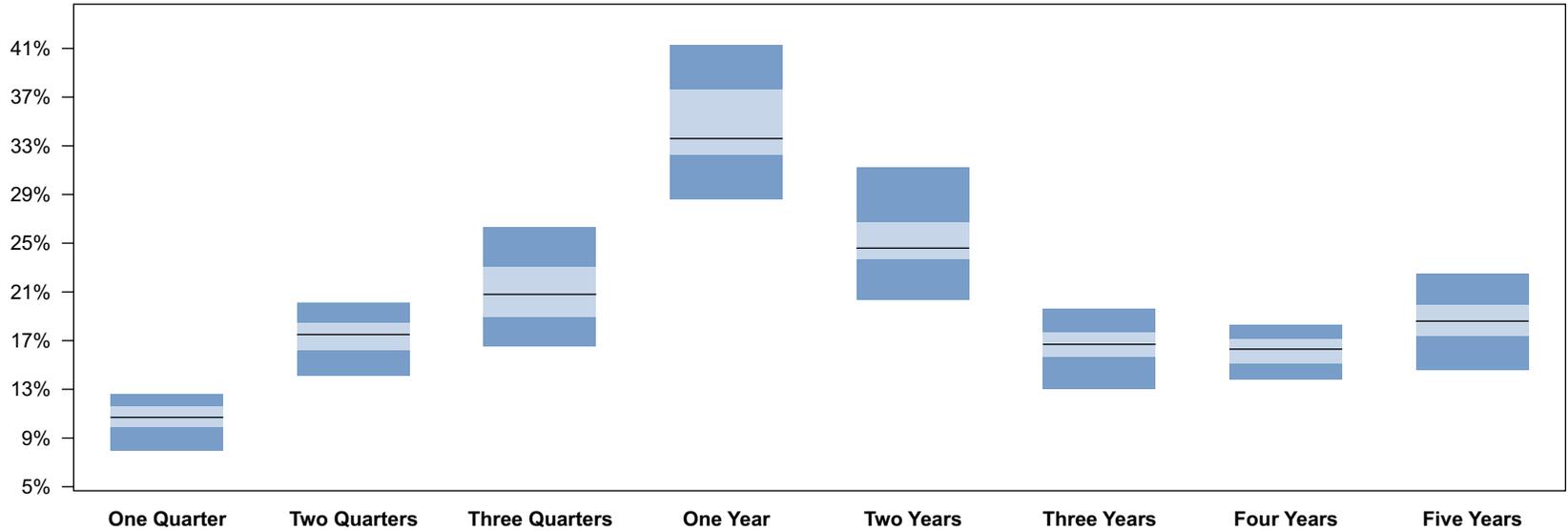
	One Quarter	Two Quarters	Three Quarters	One Year	Two Years	Three Years	Four Years	Five Years
⊗ Russell 2000	8.7 66	19.8 34	23.5 35	38.8 30				
Median	9.7	18.1	21.7	35.6	25.8	16.6	17.3	20.4

BAY COUNTY - VEBA

US Equity Funds (Active) - Large Core

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



Median

10.7

17.5

20.8

33.6

24.6

16.7

16.3

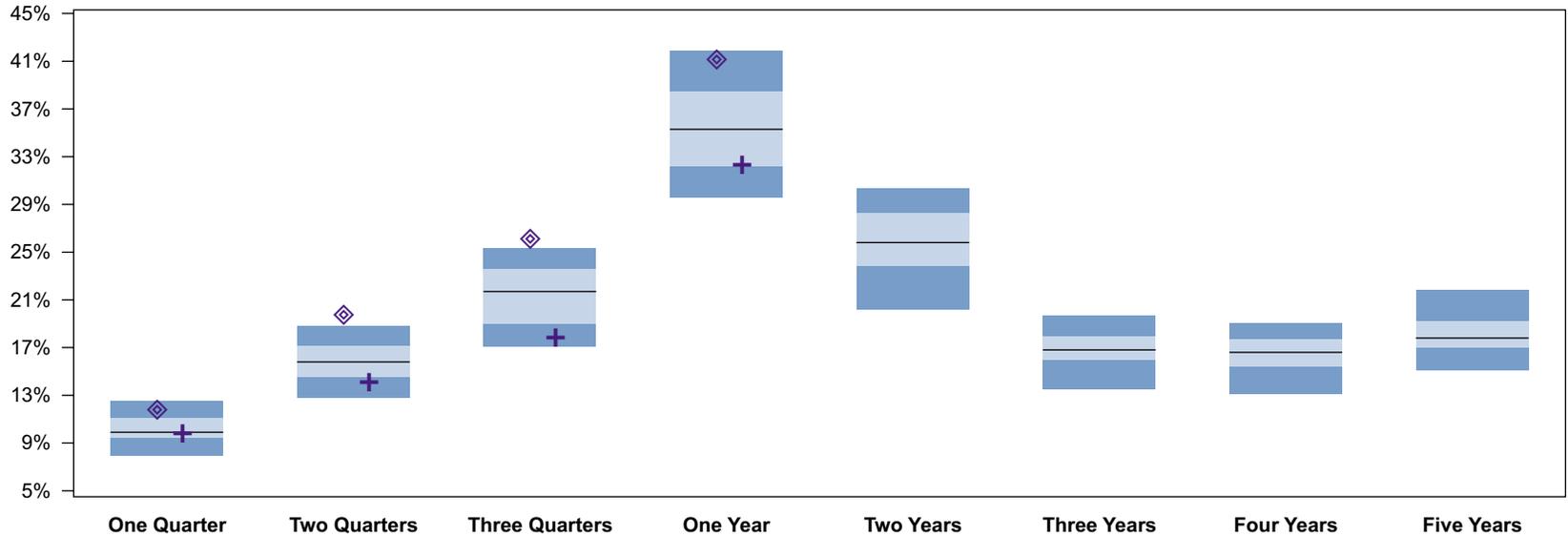
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BAY COUNTY - VEBA

US Equity Funds (Active) - Large Value

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods

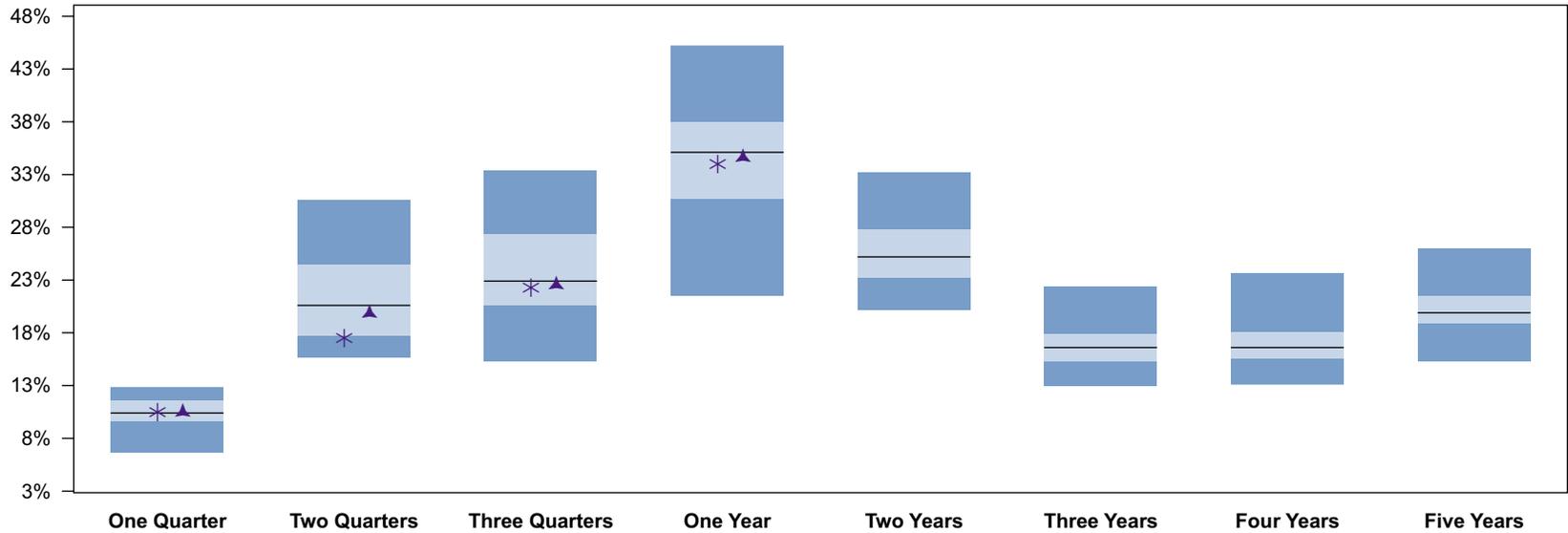


	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
◆ DODGE & COX STOCK FU	12.0	11	19.9	2	26.3	2	41.3	14				
+ Russell 1000 Value	10.0	49	14.3	79	18.0	90	32.5	75				
Median	9.9		15.8		21.7		35.3		25.8	16.8	16.6	17.8

BAY COUNTY - VEBA

US Equity Funds (Active) - Large Growth
 Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



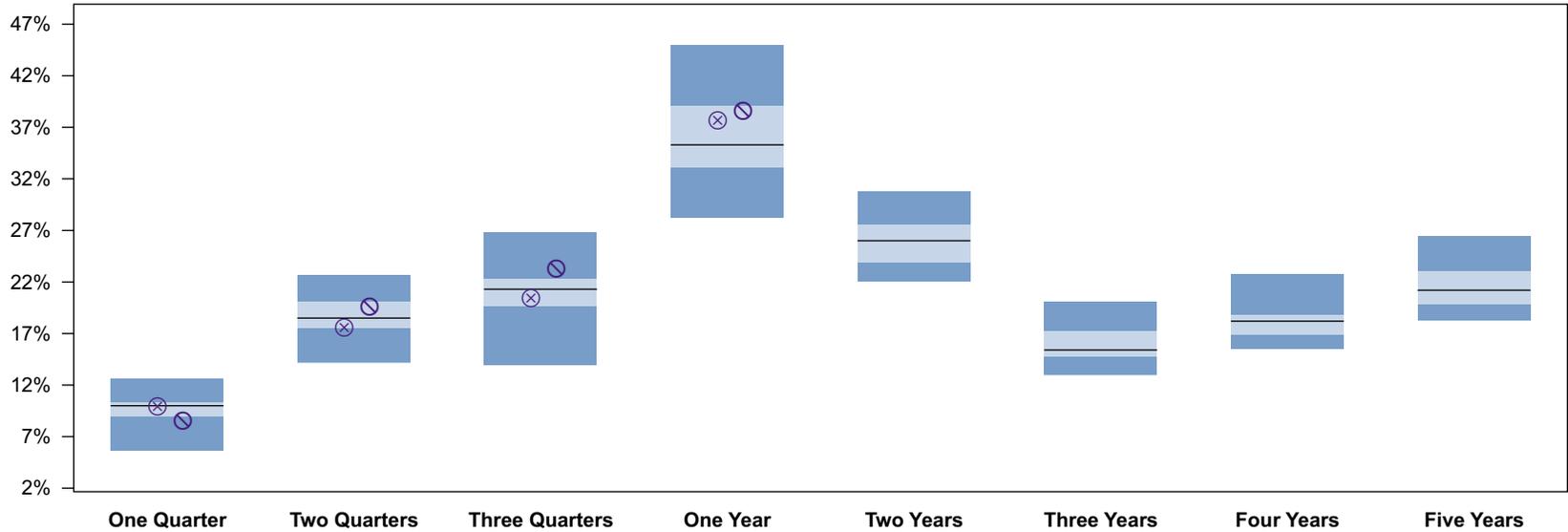
	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
* ATALANTA SOSNOFF EQT	10.7	45	17.7	75	22.5	55	34.2	58				
▲ R1000 Growth + 1%	10.7	45	20.0	54	22.7	53	34.8	51				
Median	10.4		20.6		22.9		35.1		25.2	16.6	16.6	19.9

BAY COUNTY - VEBA

US Equity Funds (Active) - Mid Core

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods

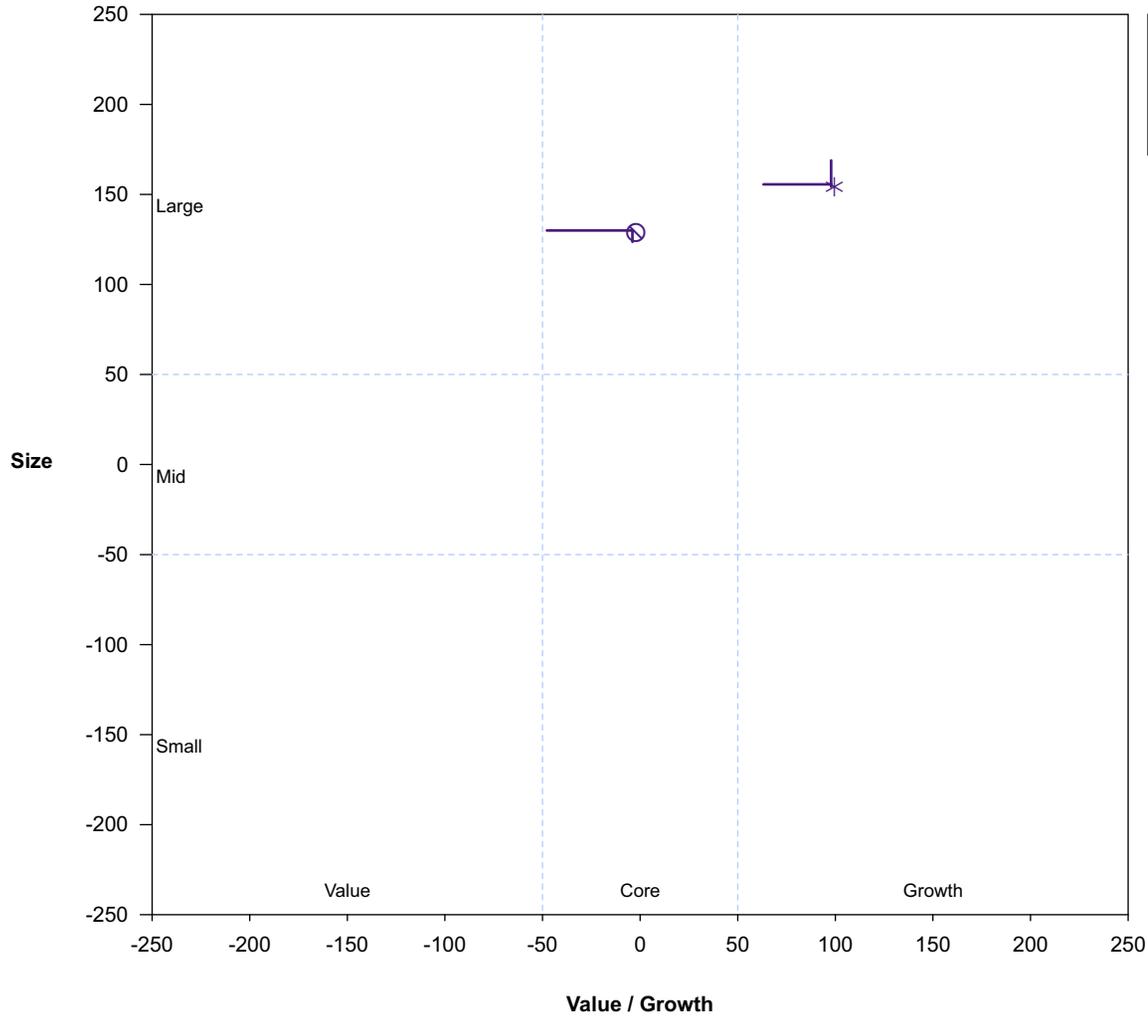


	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
⊗ LORD ABBETT	10.1	35	17.8	64	20.6	56	37.9	38				
○ Russell 2000	8.7	78	19.8	29	23.5	12	38.8	34				
Median	10.0		18.5		21.3		35.3		26.0	15.4	18.2	21.2

BAY COUNTY - VEBA

Period Ending December 31, 2013

Equity Style Analysis - Drift Over Time



FUND	Value / Growth	Size
* ATALANTA SOSNOFF EQTY	97.84	155.64
⊙ DODGE & COX STOCK FUND	-3.94	129.97

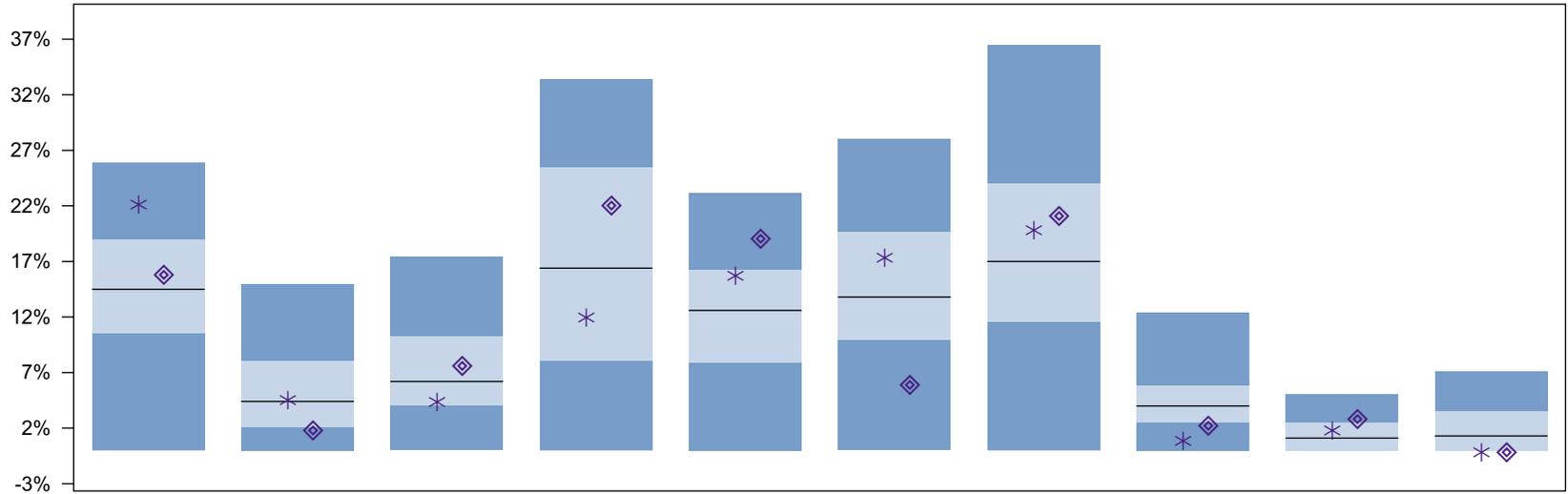
* Equity style analysis is based on Morningstar Size and VCG Scores and Morningstar Style Box(TM) methodology

BAY COUNTY - VEBA

US Equity Funds (Active)

As of December 31, 2013

Economic Sector Allocation



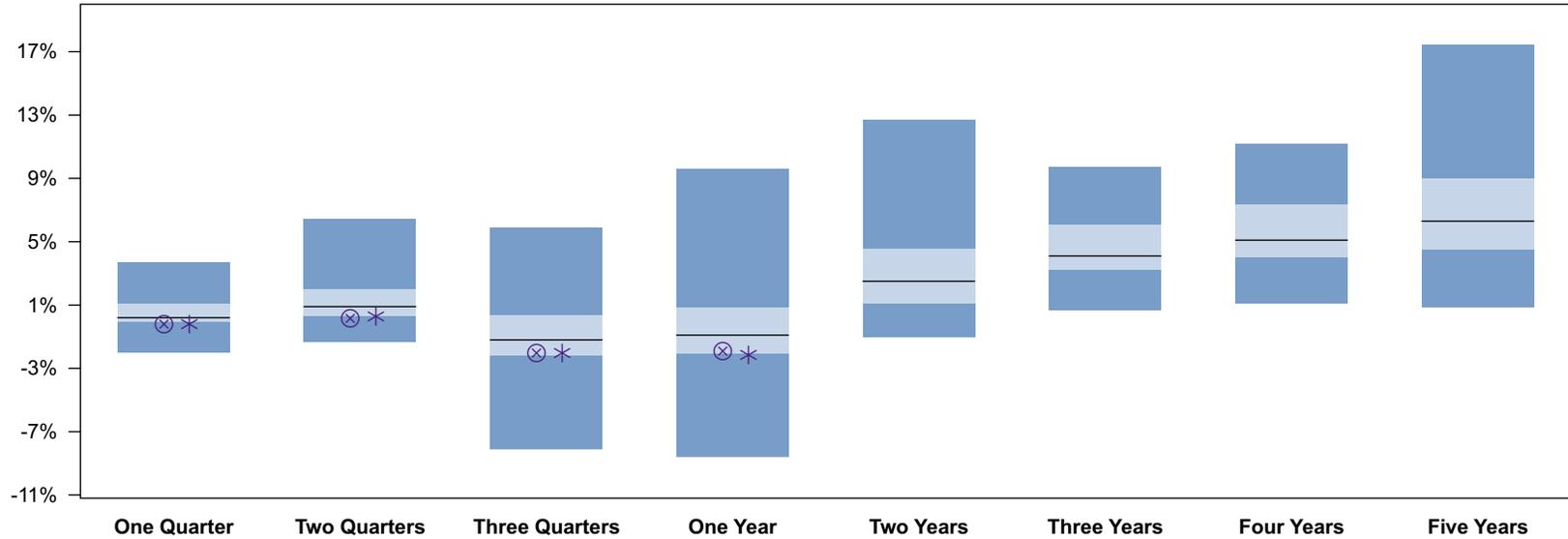
	Consumer Discretionary		Consumer Staples		Energy		Financials		Health Care		Industrials		Information Technology		Materials		Telecom Services		Utilities	
* ATALANTA SOSNOFF E	22.3	16	4.7	48	4.5	70	12.1	65	15.9	27	17.5	32	20.0	38	1.0	88	2.0	37	0.0	64
◇ DODGE & COX STOCK	16.0	40	2.0	78	7.8	41	22.2	33	19.2	14	6.1	91	21.3	34	2.4	76	3.0	18	0.0	64
Median	14.5		4.4		6.2		16.4		12.6		13.8		17.0		4.0		1.1		1.3	

BAY COUNTY - VEBA

US Fixed Income Funds

Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods

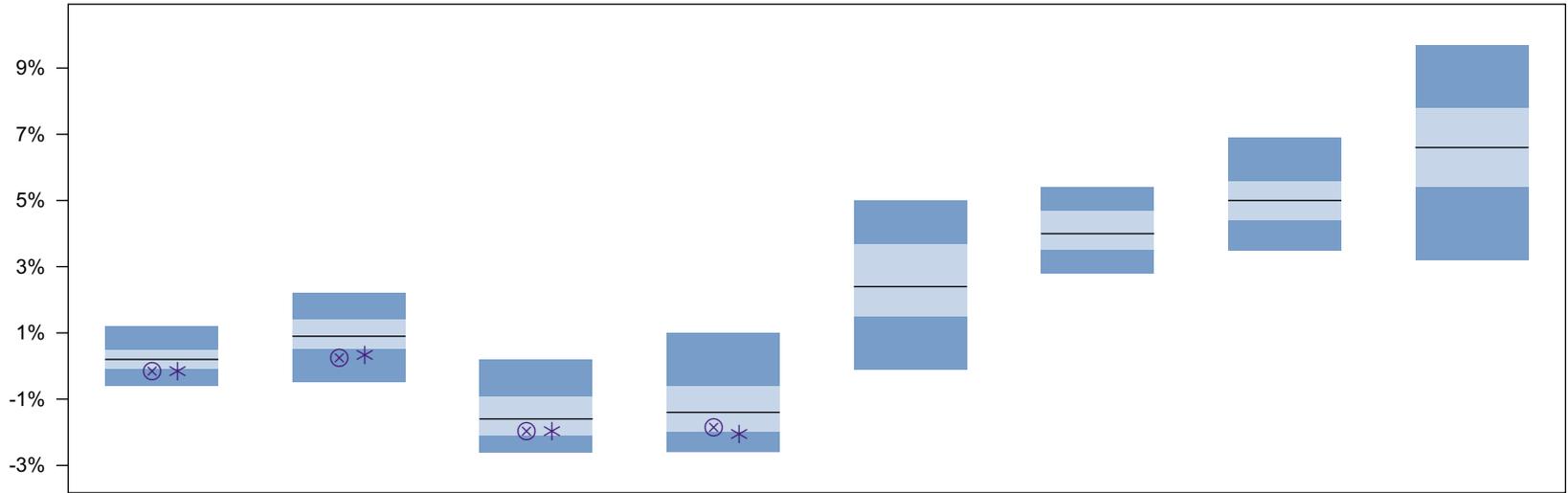


	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
⊗ CS MCKEE	-0.1	77	0.3	75	-1.9	65	-1.8	66				
* Barclays Aggregate Bond	-0.1	79	0.4	70	-1.9	66	-2.0	74				
Median	0.2		0.9		-1.2		-0.9		2.5	4.1	5.1	6.3

BAY COUNTY - VEBA

US Fixed Income Funds (Active) - Core
 Periods Ending December 31, 2013

Total Fund Performance - Trailing Periods



	One Quarter		Two Quarters		Three Quarters		One Year		Two Years	Three Years	Four Years	Five Years
⊗ CS MCKEE	-0.1	74	0.3	83	-1.9	66	-1.8	63				
* Barclays Aggregate Bond	-0.1	75	0.4	80	-1.9	67	-2.0	76				
Median	0.2		0.9		-1.6		-1.4		2.4	4.0	5.0	6.6

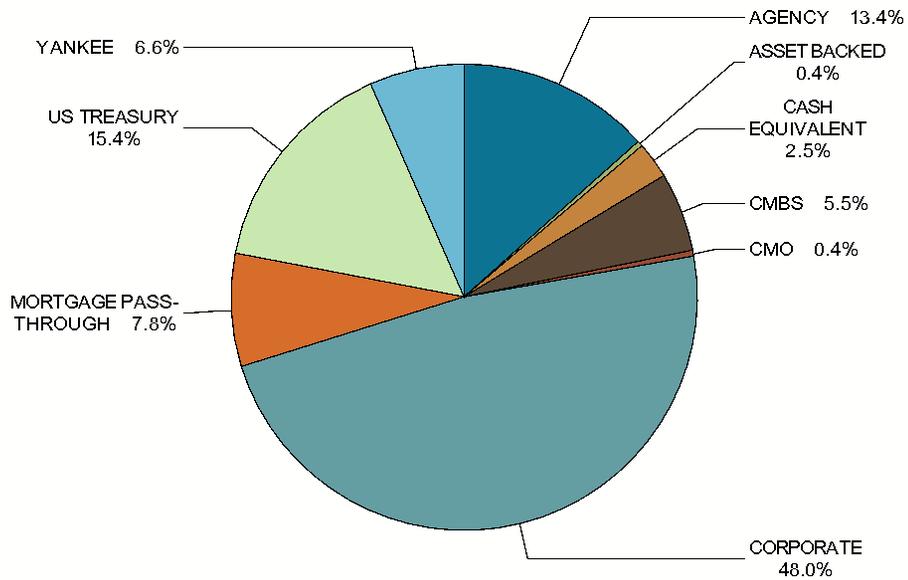
BAY COUNTY - VEBA

CS MCKEE

INDEX: Barclays Aggregate Bond

AS OF: December 31, 2013

FIXED INCOME SECTOR ALLOCATION



SECTOR	PORTFOLIO WEIGHT %	INDEX WEIGHT %	DIFF %
AGENCY	13.4	3.9	9.5
ASSET BACKED	0.4	0.5	-0.1
CASH EQUIVALENT	2.5	0.0	2.5
CMBS	5.5	1.7	3.8
CMO	0.4	0.0	0.4
CORPORATE	48.0	22.4	25.6
MORTGAGE PASS-THROUGH	7.8	29.6	-21.8
US TREASURY	15.4	35.9	-20.5
YANKEE	6.6	6.0	0.6
TOTAL	100.0	100.0	0.0

BAY COUNTY - VEBA

Quarter Ending December 31, 2013

Fixed Income Attribution

	Return	Beginning Duration	Ending Duration	Average Duration	Market Sensitivity	Return Due to Market	Interest Rate Anticipation	Security Selection
CS MCKEE	-0.12	5.74	6.17	5.96	-0.05	-0.27	-0.01	0.17
Barclays Aggregate Bond	-0.25	5.45	5.43	5.44				
90 DAY T-BILL	0.02	0.25	0.25	0.25				

BAY COUNTY - VEBA

Periods Ending December 31, 2013

Performance Summary - Net

	Market Value (\$000)	% of Plan	One Quarter	Year to Date	One Year	Two Years	Three Years	Four Years	Five Years	Seven Years	Ten Years
TOTAL FUND											
COMBO - VEBA	38		6.4	18.7	18.7	14.9	8.7	8.8	11.9	2.5	5.0
VEBA COMBO POLICY			5.0	16.5	16.5	13.6					
EQUITY MANAGERS											
ATALANTA SOSNOFF EQTY	9	22.8	10.5	33.2	33.2						
R1000 Growth + 1%			10.7	34.8	34.8						
DODGE & COX STOCK FUND	9	23.3	11.8	40.5	40.5						
Russell 1000 Value			10.0	32.5	32.5	24.8					
LORD ABBETT	7	17.2	9.9	36.5	36.5						
Russell 2000			8.7	38.8	38.8	27.1					
EQUITY COMBINED MANAGERS											
VEBA - EQUITY COMBO	24		10.8	36.9	36.9						
VEBA EQUITY COMBO POLICY			9.7	35.3	35.3						
BOND MANAGERS											
CS MCKEE	14	36.0	-0.2	-2.1	-2.1						
Barclays Aggregate Bond			-0.1	-2.0	-2.0	1.0					
CASH MANAGERS											
VEBA - CASH	0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	-4.8	-2.8	-1.4
90 DAY T-BILL			0.0	0.1	0.1	0.1	0.1	0.1	0.1	1.1	1.7

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