

BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION
AGENDA

TUESDAY, JULY 12, 2011

(Immediately Following the Retirement Board of Trustees' Meeting @ Approximately 2:30 P.M.)

COMMISSIONERS CHAMBERS
515 CENTER AVENUE - 4TH FLOOR
BAY CITY, MI 48708

- | | | |
|-------------|-------|--|
| PAGE | I. | CALL TO ORDER |
| | II. | ROLL CALL |
| | III. | MINUTES |
| 1 - 5 | A. | JUNE 14, 2011 REGULAR MEETING |
| | IV. | PUBLIC INPUT |
| | V. | PETITIONS & COMMUNICATIONS |
| 6 - 7 | A. | PORTFOLIO VALUE - 1/1/10 THROUGH 7/6/11 |
| | B. | BECKER BURKE |
| | 1. | DISCUSSION ON LAST MONTHS HANDOUTS REGARDING ASSET ALLOCATION AND THE INVESTMENT POLICY (PLEASE BRING HANDOUTS TO MEETING) |
| 8 | C. | BREAKDOWN OF VEBA FUND BY FINANCIAL GROUP |
| | VI. | ANNOUNCEMENTS |
| | A. | NEXT REGULAR MEETING - TUESDAY, AUGUST 9, 2011 IMMEDIATELY FOLLOWING THE RETIREMENT BOARD OF TRUSTEES MEETING @ APPROX. 2:30 P.M., COMMISSIONERS CHAMBERS, 515 CENTER AVENUE - 4TH FLOOR, BAY CITY, MI 48708 |
| | VII. | UNFINISHED BUSINESS |
| | VIII. | NEW BUSINESS |
| | IX. | MISCELLANEOUS BUSINESS |
| | X. | ADJOURNMENT |

MEETING OF THE **V.E.B.A.** BOARD OF TRUSTEES COMMITTEE

JUNE 14, 2011

IN THE BOARD OF COMMISSIONER'S CHAMBERS, LOCATED AT 515 CENTER AVENUE, 4TH FLOOR,
BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: CHAIR STEVE GRAY AT 2:26 P.M.

OTHER PRESENT: RICK POTTER, JEFF BLACK, DANEAN WRIGHT, CRYSTAL HEBERT, CRAIG STEINBERG

TRUSTEE	1	2	3	4	5	6	7	8	9	10
BRZEZINSKI	E	E	E	E	E	E	E			
CARPENTER	M	S	Y	S	Y	Y	S			
COONAN	E	E	E	E	E	E	E			
DEATON	E	E	E	E	E	E	E			
GRAY	Y	Y	Y	Y	Y	Y	Y			
PELTIER	Y	Y	Y	Y	Y	S	Y			
PETT	S	M	S	Y	Y	M	Y			
RYDER	Y	Y	M	M	M	Y	Y			
STARKWEATHER	Y	Y	Y	Y	S	Y	M			

TRUSTEE	11	12	13	14	15	16	17	18	19	20
BRZEZINSKI										
CARPENTER										
COONAN										
DEATON										
GRAY										
PELTIER										
PETT										
RYDER										
STARKWEATHER										

CODE: M - MOVED; S - SUPPORTED; Y-YEA; N-NAY; A-ABSENT; E-EXCUSED

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The meeting, held in the Bay County Commissioners Chambers, 4th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan was called to order by Chairman Gray at 2:26 P.M. Roll call was taken, all Trustees are present except Mr. Brzezinski, Mr. Coonan, and Mr. Deaton.

1. Moved, supported and carried to approve the minutes from May 10, 2011 special meeting.
2. Moved, supported and carried to approve the minutes from May 10, 2011 regular meeting.

Mr. Gray called for public input. Seeing no one from the public present, he moved onto petitions and communications.

3. Moved, supported and carried to receive the Portfolio Value January 1, 2010 through June 7, 2011. As of today it is \$28.7 million.

Present today is Craig Steinberg, President, Director of Research, and a Portfolio Manager of Atalanta Sosnoff, a balanced fund, growth stock money manager for the VEBA. He provided a handout of their performance report to all Trustees.

Mr. Steinberg gave an overview of the company stating they manage approximately 12 billion dollars of assets. The firm was founded by his partner, Mark Sosnoff, over 30 years ago. They have managed money together for the last 26 years. They have two other senior portfolio managers at the firm who have been there 10 or more years.

As a large cap manager they will not buy stock unless it has more than ten billion dollars market cap as a stated minimum. They try to identify new individual stocks where they anticipate the growth rate performance over the next year or two is higher than the historic averages.

Page 1 indicates that since the inception date of June 9, 2009, through May 11, 2011 they have underperformed compared to the benchmark. Page 2 indicates under performance on the equity side, but pretty well matched on the fixed income. He discussed how high quality large cap stocks perform against low quality small cap stocks in the market place. He thinks that one of the reasons they have under performed is just the segment of the market place they are operating in - big cap stocks. On a longer term basis big cap stocks have just about the same performance as other stocks. He believes another big factor in their under performance has been environmental. That is not to say they have not made mistakes. Last year the biggest factor, specific to

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them, was an over weighting in financial stocks. These were stocks they bought back in early 2009 on the thesis they receive a bottoming in credit losses and as those losses were abated over time they would be a tremendous leverage to their earnings. That thesis played out in terms of credit losses. The stocks were terrific for them in 2009. In 2010 the stocks hurt their performance in large part to regulations from Washington D.C. This year they are also under performing. The biggest factor has been the end of the year portfolio with an underlying thesis that they were going to see strong economic growth.

Page 11 indicates the thesis worked pretty well until the recent spike in oil prices. That put a question mark on economic growth. They have spent the last few months re balancing the portfolio. They are addressing these issues and are confident they will come back.

Mr. Potter advises Mr. Steinberg that we are looking at possibly changing our mandates, moving balanced managers to specialized, which would make Atalanta Sosnoff an equity specialist. He asks if they would have any issues with that. Mr. Steinberg responds no, they would not. There are no other questions, and Mr. Steinberg leaves.

4. Moved, supported and carried to receive today's report from Atalanta Sosnoff.

Jeff Black from Becker Burke reviews the Asset Allocation Study Discussion, a copy of which is provided to all Trustees. The report covers Objectives, Fund Assets, Approved Portfolio Structure, Efficient Portfolios indicating expected return and expected volatility, and allocations to Large Cap, Small/Mid Cap, and Bonds. They want to identify a few possible portfolio choices of different risk/return levels. They would like feed back from the Board, by the next meeting, as to what would be the appropriate level to choose.

Another handout is "Statement of Investment Policies and Objectives". The highlighted text in yellow is the current language. The Bold/italicized text is recommended language. Again, they request feedback on these recommended modifications by the next meeting.

Mr. Black states that the future status of the VEBA is still unknown, so getting more clarity on that will help them with policy making.

Mr. Potter comments that according to the actuary numbers presented by Cathy Nagy, the VEBA is under funded and there is a

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great deal of uncertainty on funding. In an under funded situation from a policy standpoint you can say we need to up our risk to get close to being funded, or the other tact is to become more conservative rather than lose money. There are no precise answers but this is the kind of guidance the Trustees need to think about and discuss.

Discussion among Trustees and Retirement Administrator, Ms. Wright, on how the VEBA's are funded. Trustees had questions on the VEBA contracts and what will be provided to employees in terms of health care benefits and the costs associated with these benefits. Each group has different benefits. The actuarial study is required every other year. The next study will take into account any changes made by the individual groups. As far as cost, the Actuary looks at premiums and what is provided for each group. The question remains, how do we know if we have enough money in the fund to cover retiree health care? Mr. Potter comments that we cannot do it to the penny, but in the actuarial world they have standards they use for estimation. The other question is, are they iron clad obligations to deliver x number of benefits or do you have the ability to modify benefits over time?

Ms. Wright responds that regarding the general county the cost to retiree health insurance changes with the employee every year. They make some assumptions but they look at all the employees that are in the retirement system and determine how long they may live to use the benefits. It is not an iron clad dollar amount, but they do have some assumptions and figures that they factor in. The Actuary takes employee data we provide to them for the retirement Actuary Report and pulls it into the VEBA.

Trustee Peltier from Bay Arenac Behavioral Health states that it is not as simple as the Retirement Fund. Every year, BABH gives the County information on what their health insurance costs are. They do what they can to reduce those costs to retirees and current employees. From the figure they provide to the County, the Actuary makes projections based on the averages they have at their disposal. It is not an absolute science, it is not a simple calculation the way retirement is. We have a range, we don't have a finite amount. It is tied to what we can afford to offer any employee, so it is not going to evolve into \$10,000 a month per employee. There will be a reasonable amount. There are laws that pertain to pensions that do not pertain to health insurance, so that is not a protected retirement benefit. If we have great financial difficulty we would have less trouble taking retiree health away. We cannot take retiree pensions away. We have a *commitment* to our employees, but not the same level as the pension.

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Mr. Potter updates the Board on the investment manager search project. It is under way, and he provided a letter to the Board describing what they are doing. They have discussed possible candidates and have sent them questionnaires (without referring to Bay County) just giving them a general description of what this is and the dollar amount. After analyzing the results they will have written profiles for the next Trustee meeting for them to consider. In past searches, Trustees have reviewed those profiles at a special meeting as opposed to the regular Trustees meeting. Profiles usually have six to eight possible choices. At the special meeting, Trustees should select three or four candidates to bring in for interviews. After final interviews, and a final selection, Becker Burke will work with us on the transition process. Also, once the asset allocation is finalized they will have tools to decide how much money each manager gets. Becker Burke submitted their invoice for 50% of the search project, which is \$15,000, which was approved at last month's meeting.

5. Moved, supported and carried to receive the letter from Becker Burke regarding money manager search.

Announcements:

The next regular meeting is scheduled for Tuesday, July 12, 2011 immediately following the Retirement Board of Trustees Meeting at approximately 2:30 p.m. in the Commissioner's Chambers, 515 Center Avenue, 4th Floor, Bay City, Michigan 48708.

Unfinished Business:

Trustees Deaton, Brzezinski and Coonan are not present today. Chairman asks for a motion to excuse them.

6. Moved, supported and carried to excuse Trustees Brzezinski, Coonan, and Deaton.

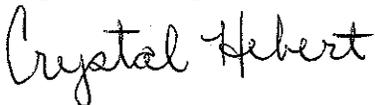
New Business: None

Miscellaneous Business: None

Adjournment:

7. Moved, supported and carried to adjourn at 3:16 p.m.

Respectfully submitted,



Crystal Hebert
Assistant Finance Officer/Secretary

VEBA PORTFOLIO VALUE

	<u>DODGE & COX</u>	<u>CASH</u>		<u>TOTAL</u>
2010				
JAN	12,100,888.44	105,522.40	10,584,016.91	22,790,427.75
FEB	12,337,748.85	127,194.75	10,902,240.56	23,367,184.16
MARCH	13,054,743.31	826,655.02	11,327,907.01	25,209,305.34
APRIL	13,991,588.85	244,134.22	11,358,311.61	25,594,034.68
MAY	13,222,769.10	141,086.32	10,679,294.83	24,043,150.25
JUNE	12,809,573.46	125,391.14	10,257,371.77	23,192,336.37
JULY	13,587,649.86	145,077.38	10,694,615.84	24,427,343.08
AUG	13,124,702.33	73,270.04	10,297,435.85	23,495,408.22
SEPT	14,114,246.44	68,829.93	10,930,245.09	25,113,321.46
OCT	14,577,087.64	235,229.40	11,314,209.87	26,126,526.91
NOV	14,475,844.80	285,665.83	11,307,156.37	26,068,667.00
DEC	15,542,608.55	48,361.72	11,636,968.32	27,227,938.59

	<u>DODGE & COX</u>	<u>CASH</u>	<u>ATALANTA SOSNOFF</u>	<u>TOTAL</u>
2011				
JAN	15,922,942.49	300,739.41	11,793,776.01	28,017,457.91
FEB	16,667,670.02	581,913.36	11,986,233.04	29,235,816.42
MARCH	17,123,304.53	121,095.35	12,011,362.73	29,255,762.61
APRIL	17,675,739.11	98,063.83	12,154,202.79	29,928,005.73
MAY	17,726,476.07	212,246.98	12,036,752.17	29,975,475.22
JUNE	17,547,728.26	1,485.83	11,875,396.11	29,424,610.20
JULY				0.00
AUG				0.00
SEPT				0.00
OCT				0.00
NOV				0.00
DEC				0.00
2011				

Favorites

06 JUL 11

Account number BCVEBA

BAY COUNTY VEBBA CONSOLIDATED

◆ Mgr Mix VEBBA

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Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R. E. and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
BAYCO-VEBA CASH 2611831	-39,999.37 -100.00%	39,999.37 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	39,999.37 0.13%
BAYCO - VEBBA DODGE & COX BAL 2613001	-0.13 0.00%	0.13 0.00%	17,640,882.40 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	17,640,882.53 59.37%
BAYCO - VEBBA ATLANITA SOSNOFF 2646670	-387,683.56 -3.22%	387,683.56 3.22%	7,440,750.77 61.84%	4,203,928.57 34.94%	0.00 0.00%	0.00 0.00%	12,032,362.90 40.49%
Total for consolidation	-427,683.06	427,683.06	25,081,633.17	4,203,928.57	0.00	0.00	29,713,244.80
% for consolidation	-1.44%	1.44%	84.41%	14.15%	0.00%	0.00%	100.00%

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GROUPS	DOLLAR AMT. OF TOTAL FD.	PERCENTAGE OF TOTAL FUND	DISCRETIONARY CONT. RATES FOR 2011 AS A PERCENTAGE OF PAY
GENERAL	6,785,103.38	24.61%	0.00%
SHERIFF	1,865,323.43	6.77%	4.00%
ROAD COMMISSION	661,383.80	2.40%	0.00%
BMCF	4,662,842.10	16.91%	0.00%
BABH	9,686,238.71	35.14%	0.00%
DWS	2,805,568.76	10.18%	7.40%
LIBRARY	<u>1,100,228.06</u>	<u>3.99%</u>	3.25%
MARKET VALUE AT 12/31/10	27,566,688.24	100.00%	