

***INVESTMENT
SECTION***

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INVESTMENT CONSULTANT'S REPORT

Introduction

This report, prepared for the Baltimore County Employees' Retirement System (the "System") by New England Pension Consultants (NEPC), is based on accounting information supplied by the System's custodian, Mellon Bank. NEPC relies on this source for security pricing, calculation of accruals, and all transactions. NEPC reconciles the monthly rates of return provided by Mellon Trust with those calculated by each investment manager. NEPC exercises reasonable professional care in preparing the performance report, and the performance calculations are in compliance with applicable standards of the CFA Institute. The returns are reported on both net of fees and gross of fees to provide comparisons with the appropriate benchmarks.

Distinction of Responsibilities

The Board of Trustees (the "Trustees") of the System is responsible for establishing the investment goals and objectives for the System's Retirement Fund (the "Fund") and sets the appropriate risk levels and asset allocation policies. The criteria used in developing the System's investment policy include: actuarial information, such as funded status, the actuarial return assumption and benefits obligations; risk and return expectations of the capital markets; the financial conditions of the County; and practices of similar types of funds. The investment policy has been developed after the Trustees have given careful consideration of the potential financial implication of a wide range of investment policies. The policy describes the degree of pension fund risk that the Trustees, as System fiduciaries, deem appropriate.

In carrying out their duties the Trustees follow acceptable standards of prudence. These standards include: 1) acting for the exclusive benefit of the Fund participants and beneficiaries; 2) exercising skill, care and diligence of a prudent person acting in a similar capacity; and 3) diversifying investments to minimize the risk of large losses.

The investment managers required to execute the policy will invest System assets in accordance with the established policy and with their judgments concerning relative investment values. In particular, the investment managers are accorded full discretion to select individual securities, make periodic strategic adjustments and diversify their portfolios.

Investment Policy/Structure

The System's investment policy was designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and minimize the risk of large losses to the System. In addition, asset allocation ranges have also been implemented to maintain compliance with the investment policy and ensure the System will achieve its long-term risk and return objectives.

The System's investment policy is shown below for the broad investment categories:

Investment Policy as of 6/30/2010

<i>Asset Class</i>	<i>Allocation Target</i>	<i>Allocation Range</i>
<i>U. S. Equities</i>	<i>26%</i>	<i>19 - 33%</i>
<i>International Equities</i>	<i>13%</i>	<i>10 - 17%</i>
<i>Private Equities</i>	<i>5%</i>	<i>0 - 7%</i>
<i>Fixed Income</i>	<i>26%</i>	<i>18 - 35%</i>
<i>Hedge FOF</i>	<i>5%</i>	<i>0 - 7%</i>
<i>Real Estate</i>	<i>5%</i>	<i>0 - 7%</i>
<i>Global Asset Allocation</i>	<i>15%</i>	<i>10 - 20%</i>
<i>Real Asset</i>	<i>5%</i>	<i>0 - 7%</i>
<i>Total</i>	<i><u>100%</u></i>	

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Within each asset class, the Trustees have employed several investment managers to further diversify the investment approach and minimize style bias. The Trustees have employed both active and passive investment strategies in order to obtain the desired asset allocation mix in the most cost effective and efficient manner.

Investment Objective

The System's long-term investment objective is to achieve a total rate of return which exceeds the Policy Index, defined here as the actual asset allocation for each asset class invested in its respective index. The Trustees recognize that there will be short-term deviations from these long-term investment objectives, and therefore, have developed performance expectations for the Fund and individual investment managers.

The overall Fund is also compared to the Independent Consultants Cooperative (ICC) Public Funds Universe, one of the largest, most representative universes of actual institutional performance results in the industry. At June 30, 2010, this universe contained actual public fund data for 170 public plans with an aggregate market value of \$1 trillion.

Market Overview

During the past fiscal year the Federal Reserve's Open Market Committee held short-term rates steady at the target range of 0.0 – 0.25% as it saw little risk of near term inflation, coupled with continuing signs of a less than robust economic recovery. Official unemployment remained relatively high, with much of the improvement in the official figures due to Americans dropping out of the job search, and therefore no longer counting as unemployed in the government estimates. The 2010 US Census provided a brief sustenance of jobs, but was quickly unwound. Residential housing also continues to linger on the edge of recovery and continued decline. The expiration of the federal tax credit in April, expanded to include existing homeowners as well as first time buyers, was marked by a drop off in sales for both new and existing homes. Prices through the 2nd quarter were up 1.3% from a year earlier.

Gross Domestic Product (GDP) numbers, as released by the Bureau of Economic Analysis, also reflect the wavering economic recovery. After a sharp increase in real GDP in the 4th quarter of 2009, growth tapered off as many government stimulus programs came to an end and consumer spending and private investment failed to emerge as a source of strength.

US Equity returns over the fiscal year remained sharply higher on a one-year basis, though the final quarter of the fiscal year was sharply negative. Large cap stocks, as represented by the S&P 500 Index, were up 14.4%, but lagged small cap stocks (Russell 2000 Index) which posted a 21.5% return. On a stylistic basis, value stocks generally fared better than growth counterparts. The Russell 1000 Value Index rose 16.9%, while the Russell 1000 Growth Index returned 13.6%, and the Russell 2000 Value Index posted a 25.1% gain for the year versus Russell 2000 Growth Index return of 18.0%.

US Fixed Income returns were positive during fiscal year 2010. The Barclays Capital Aggregate Bond Index returned 9.5%. High Yield bonds were the best performing segment of the US bond market returning 26.8% for the one-year period ended 6/30/2010. US Treasury bonds have also held up well as investors resorted to US government debt as equity markets fell off during the final quarter of the fiscal year.

International developed market equities, represented by the MSCI EAFE (net) Index, a broad index of the international developed market equities returned 5.9% for the year ended June 30, 2010. Emerging markets equities, as measured by the MSCI Emerging Index returned 23.2%. Developed markets were hurt by a resurgence of double-dip recession fears compounded by the Greek debt crisis, falling more than 13% in the last two quarters of the fiscal year. Emerging Market bonds continued to gain favor as investors fled Europe in the wake of Greece's debt troubles and the relative strength of many Emerging Market nation's balance sheets. The JPM EMBI Plus, a key barometer for emerging market debt, returned 17.4% for the year. The Citigroup World Government Bond index, held back by developed Europe, returned 1.3% for the one-year period ending June 30, 2010.

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Investment Performance

For the fiscal year ended June 30, 2010, the System's investment portfolio gained 16.4%, including dividends and interest income, unrealized gains and losses, and management fees and expenses.

The System's domestic equity portfolio posted a 17.3% net of fee return over the fiscal year as compared to a 15.7% return of the broad U.S. equity market, as measured by the Wilshire 5000 Index. Strong performance among the large cap managers added to the overall domestic equity return over the full year. The System's non-US equity portfolio's net of fee return of 16.1% exceeded the 10.4% return of the international equity benchmark due to strong performance from the developed markets managers. The fixed income portfolio returned 19.3% on a net of fee basis over the fiscal year and exceeded the broad domestic bond market by 8.7%. All of the core fixed income and credit-oriented fixed income managers posted strong gains relative to the broad market.

To gauge how the overall fund did relative to other public funds, the System's gross of fee return for the fiscal year was compared to the median public fund in the ICC Universe of Public Funds. The System's gross of fee return of 16.4% ranked in the top decile (8th percentile) of the ICC Public Funds Universe for the fiscal year. The market value of the System's combined assets increased from \$1.596 billion on June 30, 2009 to \$1.788 billion on June 30, 2010. The increase in assets was driven primarily by investment gains of approximately \$255 million plus net withdrawals of approximately \$64 million.

The net of fee returns for the fiscal year ending June 30, 2010 are shown in the following table.

	Market Value (in Millions)	Percent of Total	Fiscal Year Rate of Return	
			System	Benchmark
U S Equities	\$ 500.3	28.0%	17.3%	15.7%
International Equities	213.9	12.0	16.1	10.4
Private Equity	85.4	4.8	12.0	13.1
Hedge Funds	94.5	5.3	8.8	4.7
Real Estate	62.7	3.5	(8.2)	(1.5)
Fixed Income	508.9	28.4	19.3	10.6
GAA	285.2	15.9	17.0	8.6
Real Assets	32.7	1.8	N/A	N/A
Cash	5.2	0.3	1.7	0.2
Total Fund*	\$1,788.8	100.0%	16.4%	12.5%

*The Total Fund shown above in the amount of \$1,788.8 includes short-term investments of \$41.4, accrued interest and dividends receivable of \$3.0, receivables for investment sold of \$25.1 and payables of \$45.4. These items are separately reported from "Total Investments" in the Statement of Plan Net Assets.

Investment Strategies

During the fiscal year, the Trustees conducted an annual asset allocation review and added an allocation to real assets. The Trustees elected to fund the 5% allocation to real assets over an extended time period. As such, the real assets portfolio had not been fully funded as of June 30, 2010.

John Krimmel, CPA, CFA
Senior Consultant

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Outline of Investment Policies

Investment Policy. As provided in Article 5 Title 1 of the Baltimore County Code, the Board of Trustees of the Employees' Retirement System of Baltimore County (the "Board") is empowered to invest the System's assets and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board has carefully exercised these responsibilities by diversifying the assets into common stocks (domestic and foreign), fixed income, real estate, hedge funds, private equity, and real assets. The investment policy targets are 26% in U.S. equities, 13% in international equities, 26% in core-plus fixed income investments, 5% in real estate, 5% in hedge funds, 5% in private equity, 15% to global asset allocation strategies and 5% to real assets. The investment policy authorizes the allocation targets to be maintained within the allocation ranges specified in the Investment Consultant's report.

A pension investment consultant has been appointed to advise and consult with the Board and the System staff, prepare recommendations on investment policies, investment management structure and asset allocation, and to monitor and evaluate the performance of the investment managers and the asset custodian.

The Board authorizes the managers to vote all proxies related to stocks in which they invest pension assets. The Board expects the managers to cast votes solely in the best interest of plan beneficiaries. Managers are required to report annually to the Board on its proxy-voting policies and activities on the System's behalf.

Investment Results

The following schedule compares rates of return, gross of fees, for the System portfolio with a comparative index, market indices and the inflation rate.

The market indices shown below are the Wilshire 5000 Stock Index, Morgan Stanley Capital International All Country World Ex-U.S. Index, the Barclays Capital Universal Index, 60% MSCI World/40% WGBI blended index, the NCREIF Index, the DJ-UBS Commodity index, the HFRI Fund of Funds Index and the Venture Capital Economics Private Equity Index.

The Balanced Index is a blend of market indices and is reflective of the total System's portfolio policy for each time period. The Balanced Index was changed in February 2005 to reflect the results of an asset/liability study conducted on behalf of the System's portfolio.

From February 2005 through June 30, 2007, the Balanced Index is comprised of 34% S&P 500; 7% Russell 2000 Index; 12% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 16% Lehman Aggregate Bond Index; 8% Citigroup World Government Bond Index; 5% Lehman High Yield Index; 5% NCREIF Index; 5% Cambridge Venture Capital Index; 5% HFRI Fund of Fund Index. From October 2006 the Cambridge Venture Capital Index was replaced with the Venture Economics Private Equity Index.

From July 1, 2007 to May 31, 2010, the Balanced Index is comprised of 32% S&P 500; 7% Russell 2000 Index; 10% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 18% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Cambridge Venture Capital Index; 5% HFRI Fund of Fund Index.

From June 1, 2010 to the present, the Balanced Index is comprised of 19% S&P 500; 7% Russell 2000 Index; 10% Morgan Stanley EAFE Index; 3% Morgan Stanley Emerging Markets Free Index; 9% Morgan Stanley World Index; 17% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Cambridge Venture Capital Index; 5% HFRI Fund of Fund Index; 5% Dow Jones-UBS Commodity Index.

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The rate of return measure for the financial asset class managers is time weighted. This investment measure eliminates the influence of contributions and withdrawals that are beyond the control of the investment managers. This investment measure is an effective means of appraising a fund manager's ability to make assets perform.

Investment Return Summary (Percentage Change)

<u>Rates of Return</u>	<u>FY</u> <u>2006</u>	<u>FY</u> <u>2007</u>	<u>FY</u> <u>2008</u>	<u>FY</u> <u>2009</u>	<u>FY</u> <u>2010</u>	Annualized Rate Over <u>3 Years</u>	Annualized Rate Over <u>5 Years</u>
U.S. Common Stock	9.2%	19.8%	(13.2%)	(26.8%)	17.3%	(9.3%)	(0.5%)
Wilshire 5000 Stock Index	9.9	20.5	(12.5)	(26.4)	15.7	(9.4)	(0.3)
International Common Stock	25.5	32.5	(5.9)	(26.0)	16.1	(6.8)	6.1
MSCI ACWIXUS	27.9	29.6	(6.6)	(30.9)	10.4	(10.7)	3.4
GAA	-	-	3.1	(20.2)	17.0	(1.3)	-
60% MSCI World / 40% WGBI & 90- day T-Bills plus 6%	-	15.1	(3.7)	(14.7)	8.6	(3.7)	-
Fixed Income	0.1	6.2	4.0	3.2	19.3	8.6	6.4
Barclays Universal*	(0.8)	6.6	6.2	4.9	10.6	7.2	5.6
Real Estate	-	19.4	6.4	(37.0)	(8.2)	(14.9)	-
NCREIF Index	-	17.2	9.2	(30.7)	(1.5)	(4.7)	-
Hedge Funds	-	15.9	(0.2)	(15.7)	8.8	(2.9)	-
Hedge Fund-of-Funds Index	-	13.6	(0.3)	(15.2)	4.7	(4.0)	-
Private Equity	12.8	20.7	18.1	(16.8)	12.0	2.6	7.7
Private Equity Benchmark**	15.5	54.4	16.0	(21.0)	13.1	2.1	9.6
Total System Portfolio	9.2	17.2	(4.5)	(17.5)	16.4	(2.9)	3.3
<u>Comparative Index</u>							
Balanced Index	10.1	17.6	(3.8)	(14.4)	12.5	(2.5)	3.6
<u>Inflation Rate</u>							
Consumer Price Index	4.3	2.7	4.9	(1.2)	1.1	1.5	1.3

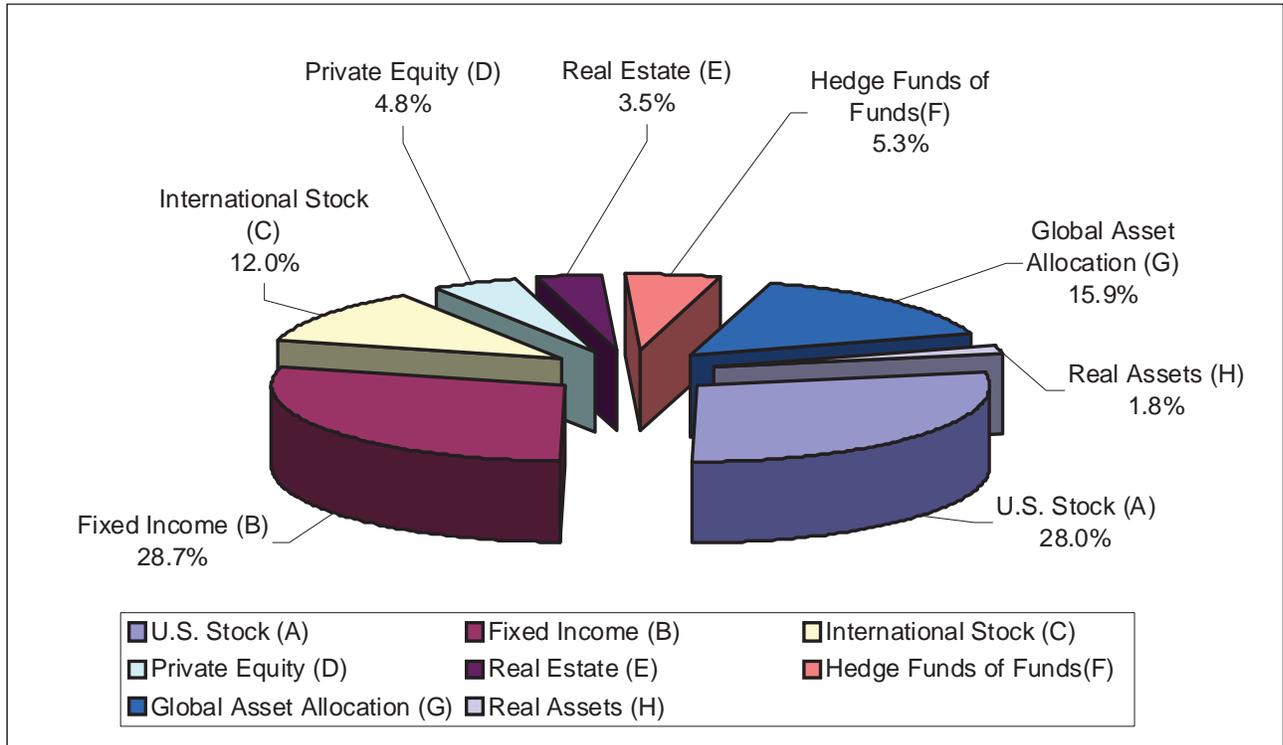
Note: Performance is gross of fees.

*The Lehman Brothers Universal Index was used for the FY2007 Fixed Income composite index. Prior to FY2007, the Lehman Brothers Aggregate Index was used as the benchmark. For FY 2009 Barclays Universal Index replaced the Lehman Brothers Universal Index.

**The benchmark was the Wilshire 5000 + 5% through April 1, 2004 when it was changed to the Cambridge Venture Capital Index. In October 2006, the benchmark changed to the Venture Economics Private Equity Index. Note: there is a quarter lag in returns

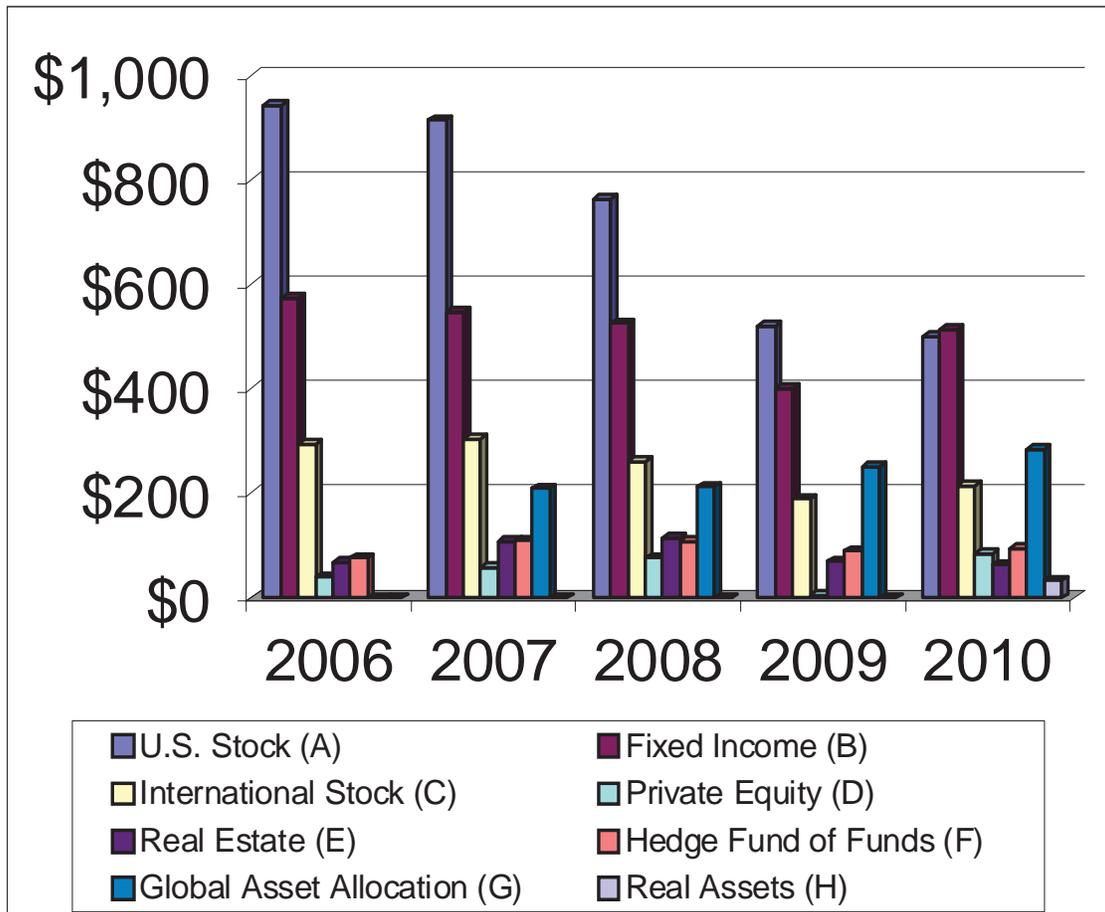
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**Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2010**



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**Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2006, 2007, 2008, 2009 & 2010
(Expressed in Millions)**



Investment Type	2006		2007		2008		2009		2010	
U.S. Stock (A)	\$943.1	47.2%	\$914.8	40.7%	\$764.4	37.0%	\$520.2	32.6%	\$500.3	28.0%
Fixed Income (B)	574.4	28.9%	547.7	24.3%	525.6	25.5%	402.1	25.3%	514.1	28.7%
International Stock (C)	294.2	14.7%	304.9	13.5%	261.0	12.7%	189.6	11.9%	213.9	12.0%
Private Equity (D)	40.3	2.0%	58.5	2.6%	76.8	3.7%	73.9	4.5%	85.4	4.8%
Real Estate (E)	67.4	3.4%	108.8	4.8%	115.4	5.6%	69.7	4.4%	62.7	3.5%
Hedge Fund of Funds (F)	76.6	3.8%	109.0	4.8%	107.5	5.2%	89.4	5.6%	94.5	5.3%
Global Asset Alloc. (G)	0.0	0.0%	209.3	9.3%	212.4	10.3%	251.1	15.7%	285.2	15.9%
Real Assets (H)	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	32.7	1.8%
Total	\$1,996.0	100.0%	\$2,253.0	100.0%	\$2,063.1	100.0%	\$1,596.0	100.0%	\$1,788.8	100.0%

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List of Largest Assets Held (June 30, 2010)

Ten Largest Equity Holdings (STOCKS)		PAR VALUE/ SHARES	MARKET VALUE		
1)	MasterCard Inc.	23,767	\$4,742,311		
2)	Berkshire Hathaway Inc.	56,439	4,497,618		
3)	Canadian Natl. Railway Co.	57,454	3,296,713		
4)	Google Inc.	6,875	3,058,921		
5)	Disney Walt Co.	93,446	2,943,537		
6)	Li & Fung	625,786	2,824,700		
7)	American Express Co.	70,801	2,810,795		
8)	Wells Fargo & Co.	102,704	2,629,210		
9)	Exxon Mobil Corp.	44,632	2,547,129		
10)	Kraft Foods Inc.	89,846	2,515,676		
Ten Largest Fixed Income Holdings (NOTES & BONDS)		INTEREST RATE	MATURITY DATE	PAR VALUE/ SHARES	MARKET VALUE
1)	US Treasury Note	1.00%	9/30/2011	16,760,210	\$16,875,271
2)	US Treasury Note	0.875	2/29/2012	13,355,723	13,426,977
3)	FNMA Pool	4.000	1/01/2020	4,130,147	4,367,483
4)	US Treasury	3.125	4/30/2017	4,071,162	4,255,564
5)	US Treasury	3.125	1/31/2017	3,724,491	3,895,239
6)	FHLMC Multiclass MTG	4.000	12/15/2024	2,846,449	2,991,802
7)	FNMA Pool	5.000	6/01/2035	2,649,189	2,815,252
8)	US Treasury Bonds	4.375	11/15/2039	2,577,810	2,782,782
9)	Federal Home LN MTG Corp.	0.263	1/11/2012	2,688,923	2,685,495
10)	Federal Home LN MTG Corp.	0.301	9/19/2011	2,333,363	2,332,745

*A complete list of the portfolio holdings is available upon request.

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Supplementary Supporting Schedules Schedule of Fees

(Year Ended June 30, 2010)

(in Thousands)

<u>Investment Services</u>	<u>Assets Under Management*</u>	<u>Fees</u>
Domestic Equity Managers	\$500,352	\$2,350
International Equity Managers	213,888	1,328
Fixed Income Managers	508,892	1813
Private Equity Managers	85,406	1,478
Real Estate Managers	62,671	732
Hedge Fund of Funds Managers	94,557	948
Global Asset Allocation Managers	285,176	2,213
Real Assets	32,688	14
Short-Term Investment Manager	5,161	-
Other Investment Service Fees:		
Custodian		293
Security lending		73
Investment consultant		210
Total	<u>\$1,788,791</u>	<u>\$11,452</u>

* "Asset Under Management" shown above in the amount of \$1,788,791 includes short-term investments of \$41,429, accrued interest and dividends receivable of \$3,002, receivables for investment sold of \$25,113 and payables of \$45,465. These items are separately reported from "Total Investments" in the Statement of Plan Net Assets.

Supplementary Supporting Schedules Schedule of Commissions

(Year Ended June 30, 2010)

<u>Investment Broker Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commission Per Share</u>
ITG (Europe) Ltd. Dublin	7,465,640	\$ 78,912	0.01
JP Morgan Clearing Corp, New York	693,497	24,603	0.04
Barclays Capital LE, Jersey City	562,526	20,583	0.04
BNY Convergenx, New York	629,700	18,070	0.03
Credit Suisse, New York	1,467,365	15,550	0.01
Liquidnet Inc. Brooklyn	517,048	13,121	0.03
Miscellaneous (Under \$10,000)	<u>11,614,008</u>	<u>246,334</u>	0.03
Total	<u>22,949,784</u>	<u>\$417,173</u>	

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Investment Summary

(June 30, 2010)

TYPE OF INVESTMENTS	FAIR VALUE	% of FAIR VALUE
Fixed Income:		
U.S. Government & Agencies Securities	\$165,541,960	9.4%
Municipals	1,254,795	0.1
Corporate Bonds	127,548,325	7.2
Foreign Bonds	28,472,741	1.6
Bond Mutual Funds	177,204,936	10.0
Total Fixed Income	\$500,022,757	28.3%
Common Stock:		
Basic Industries	\$18,223,138	1.0%
Consumer Durable Goods	6,145,520	0.3
Consumer Non-Durables	14,558,572	0.8
Consumer Services	20,904,552	1.2
Energy	18,279,945	1.0
Financial Services	29,059,721	1.6
Health Care	26,913,713	1.5
Media	8,323,581	0.5
Technology	27,491,259	1.6
Transportation	5,211,741	0.3
Utilities	4,201,485	0.2
General Business	181,991,096	10.3
Total Common Stock	\$361,304,324	20.5%
Other Investments:		
Stock Mutual Funds	\$342,893,597	19.4%
Real Estate Equity Funds	62,671,352	3.6
Hedge Funds	94,549,761	5.4
Private Equity Funds	85,405,958	4.8
Real Assets	32,687,677	1.9
Global Asset Allocation Funds	285,175,543	16.2
Total Other Investments	\$903,383,888	51.2%
Total Investments at fair value	\$1,764,710,969	100.0%