INVESTMENT SECTION

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 reported to the greatest degree possible in compliance with the presentation standards of the Global Performance Investment Standards (GIPS) promulgated by the CFA Institute. The returns, calculated using a time-weighted rate of return methodology based upon market values, 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 6/30/2011

Asset Class	*Allocation Target*	*Allocation Range*
U. S. Equities	*24%*	*18 - 30%*
International Equities	*14%*	*10 - 18%*
Private Equities	*5%*	*0 - 7%*
Fixed Income	*27%*	*19 - 35%*
Hedge FOF	*5%*	*0 - 7%*
Real Estate	*5%*	*0 - 7%*
Global Asset Allocation	*15%*	*10 - 20%*
Real Asset	*5%*	*0 - 7%*
Total	***100%***	

Investment Consultant's Report, continued

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, 2011, this universe contained actual public fund data for 170 public plans with an aggregate market value of $1.2 trillion.

Market Overview

Fiscal year 2011 continued the recovery process that began in fiscal year 2010 from the lows experienced during fiscal year 2009. Market sentiment and macroeconomic events played key roles as drivers of global markets throughout the fiscal year. Support from governments and central banks continued for much of the fiscal year until the last quarter which saw a relenting of quantitative easing by the Federal Reserve and fiscal austerity measures across Europe being implemented in an attempt to reign in public debt. Investors flocked to riskier assets during most of the fiscal year until global concerns mounted, causing a pullback and flight to safer assets during the 2nd quarter of calendar year 2011. Sentiment began to shift negative as the European debt crisis, increased inflation concerns, and multiple geopolitical risks weighed heavily in investors' minds. Further compounding investor sentiment was an inability of Congress to reach a deal on the US debt ceiling which remained unresolved as of June 30th, 2011.

The broad domestic equity market, as measured by the S&P 500 Index, continued its strong recovery from fiscal year 2009, producing a +30.7% return for fiscal year 2011. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +3.9% in fiscal year 2011 representing a drop from the previous two years at +6.1% in 2009 and +9.5% in 2010. The global equity market, as measured by the MSCI All Country World Index (net), returned +30.1% in fiscal year 2011 relative to a positive +11.8% in fiscal year 2010.

The quarter ended September 30th, 2010 proved to be a volatile start to the fiscal year as markets moved each month along with investor sentiment eventually rallying in September to post strong gains for the quarter. Hints of more quantitative easing from the Federal Reserve helped drive the rally as the S&P 500 posted its best September since 1939 and finished the quarter at +11.3%. These hints also helped global markets as US dollar depreciation contributed heavily to the MSCI EAFE which returned +16.5% for the quarter. Foreign currency gains against the dollar contributed +9.4% to the MSCI EAFE index. The late September rally masked overall concerns in the global economy as sovereign debt levels remained unattractively high and further quantitative easing providing only a short-term measure to stimulate the market and improve liquidity.

The quarter ended December 31, 2010 saw a continuation of volatile, sentiment driven markets. The Fed's initiation of another round of quantitative easing (QE2) in November along with a tax deal that included a payroll tax cut, extension of unemployment benefits, and a tax credit for business capital expenditures helped boost equity market returns. Small cap stocks led the way as the Russell 2000, Russell 2000 Growth, and Russell 2000 Value each posted gains of +16.3%, +17.1%, and +15.4% for the quarter. International markets also benefitted from QE2 as it overshadowed the lingering European debt issue. Interest rates rose sharply during the quarter which caused most fixed income markets to turn negative as investors shifted to riskier assets.

Investment Consultant's Report, continued

The first quarter of 2011 featured a plethora of external events that dominated headlines across global markets. Political turmoil in the Middle East, multiple natural disasters in Japan, a deepening civil war in Libya, and the downgrading of Greek, Portuguese, and Spanish government bonds all played a role in the volatile quarter. Though the markets continued to be volatile, equity markets, with the exception of Japan, posted positive returns for the quarter. The S&P 500 posted a +5.9% return while small cap stocks continued to outperform other indices as the Russell 2000 posted a +7.9% return. International markets fared well but were weighed down by performance in Japan as the MSCI Japan was down -4.9% while the MSCI EAFE was +3.4% for the quarter. Fixed Income markets proved to be resilient through the first quarter with US credit sectors posting strong results based on improving business and unemployment indicators. Rising commodity prices and further QE2 sparked concern over high inflation causing yields on 10-year Treasuries to rise 17 basis points to 3.45% as investors sought safety in treasuries. The Federal Reserve also announced that it would maintain a fed funds rate near zero for an extended period.

The quarter ended June 30, 2011 began on a positive trend but macroeconomic headlines dominated in May and June, wiping away most gains. The European debt crisis, growing inflation concern in China, and poor US job reports fed investor sentiment that the global recovery was stalling. Fiscal austerity measures in Europe and the Fed's decision to forgo any additional quantitative easing further reduced support systems for the global recovery. Overall, most US equity markets posted relatively flat returns for the quarter with mid-cap stocks performing best. Internationally, the developed markets outperformed emerging markets as the MSCI EAFE posted a +1.6% return compared to -1.1% for the MSCI EM. The MSCI EAFE was boosted by the sell-off of the dollar, which in local currency returned -0.8% for the quarter. Fixed income markets posted positive returns for the quarter as investors sought safety, driving yields downward across the yield curve. The BC TIPS index posted a +5.3% return over the quarter highlighting increased attention towards hedging the risk against inflation. A looming concern that had yet to be addressed by the end of the quarter was the US debt ceiling which Congress had yet to reach a deal on. A deal was struck on August 1st to raise the debt ceiling which averted the threat of a default by the US government. However, this did not stop Standard & Poor's from downgrading US debt to AA+ on August 5th. Standard & Poor's cited "political brinkmanship" and a debt deal that did not go far enough in trying to reign in US debt levels as contributing factors. While the move was anticipated, the event triggered a global sell-off with increasing volatility.

Investment Performance

For the fiscal year ended June 30, 2011, the System's investment portfolio gained 21.0%, including dividends and interest income, unrealized gains and losses, and management fees and expenses.

The System's domestic equity portfolio posted a 34.2% net of fee return over the fiscal year as compared to a 32.0% return of the broad U.S. equity market, as measured by the Wilshire 5000 Index. Strong performance among the active large and small 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 28.6% fell short of the 29.7% return of the international equity benchmark. The developed market portfolio performed in line with the benchmark while the emerging market portfolio trailed its benchmark. The fixed income portfolio returned 8.4% on a net of fee basis over the fiscal year and exceeded the broad domestic bond market by 3.6%. 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 21.5% ranked above median (46th percentile) of the ICC Public Funds Universe for the fiscal year. The market value of the System's combined assets increased from \$1.8 billion on June 30, 2010 to \$2.1 billion on June 30, 2011. The increase in assets was driven primarily by investment gains of approximately \$389 million plus net withdrawals of approximately \$91 million.

Investment Consultant's Report, continued

The net of fee returns for the fiscal year ending June 30, 2011 are shown in the following table.

	Market Value (in Millions)	Percent of Total	Fiscal Year Rate of Return	
			System	Benchmark
U S Equities	$ 530.4	25.4%	34.2%	32.0%
International Equities	292.9	14.0	28.6	29.7
Private Equity	97.2	4.7	14.6	19.9
Hedge Funds	101.2	4.9	6.3	6.7
Real Estate	75.7	3.6	20.5	16.7
Fixed Income	559.3	26.8	8.4	4.8
GAA	325.4	15.6	20.4	17.8
Real Assets	98.9	4.7	31.9	25.9
Cash	5.1	0.3	1.1	0.2
Total Fund*	$2,086.1	100.0%	21.0%	19.4%

*The Total Fund shown above in the amount of $2,086.1 includes short-term investments of $96.3, accrued interest and dividends receivable of $2.6, receivables for investment sold of $43.7 and payables of $128.7. 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 emerging market debt – local currency. The Trustees funded the 2% allocation to this asset class during the final quarter of the fiscal year. Four new managers were hired by the Board, consisting of one fixed income manager, and three private equity managers.

John Krimmel, CPA, CFA
Senior Consultant

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 24% in U.S. equities, 14% in international equities, 27% in 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. In FY 2007, the Balanced Index was 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 was 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 May 31, 2011, the Balanced Index was 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% Venture Economics Index; 5% HFRI Fund of Fund Index; 5% Dow Jones-UBS Commodity Index.

From June 1, 2011 to the present, the Balanced Index has been comprised of 17% S&P 500; 7% Russell 2000 Index; 9% Morgan Stanley EAFE Index; 5% Morgan Stanley Emerging Markets Free Index; 9% Morgan Stanley World Index; 16% Barclays Capital Aggregate Bond Index; 8% Citigroup World Government Bond Index; 7% Merrill Lynch High Yield Index; 5% NCREIF Property Index; 5% Venture Economics Index; 5% HFRI Fund of Fund Index; 5% Dow Jones-UBS Commodity Index; 2% JP Morgan Emerging Market Global Bond Index.

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.

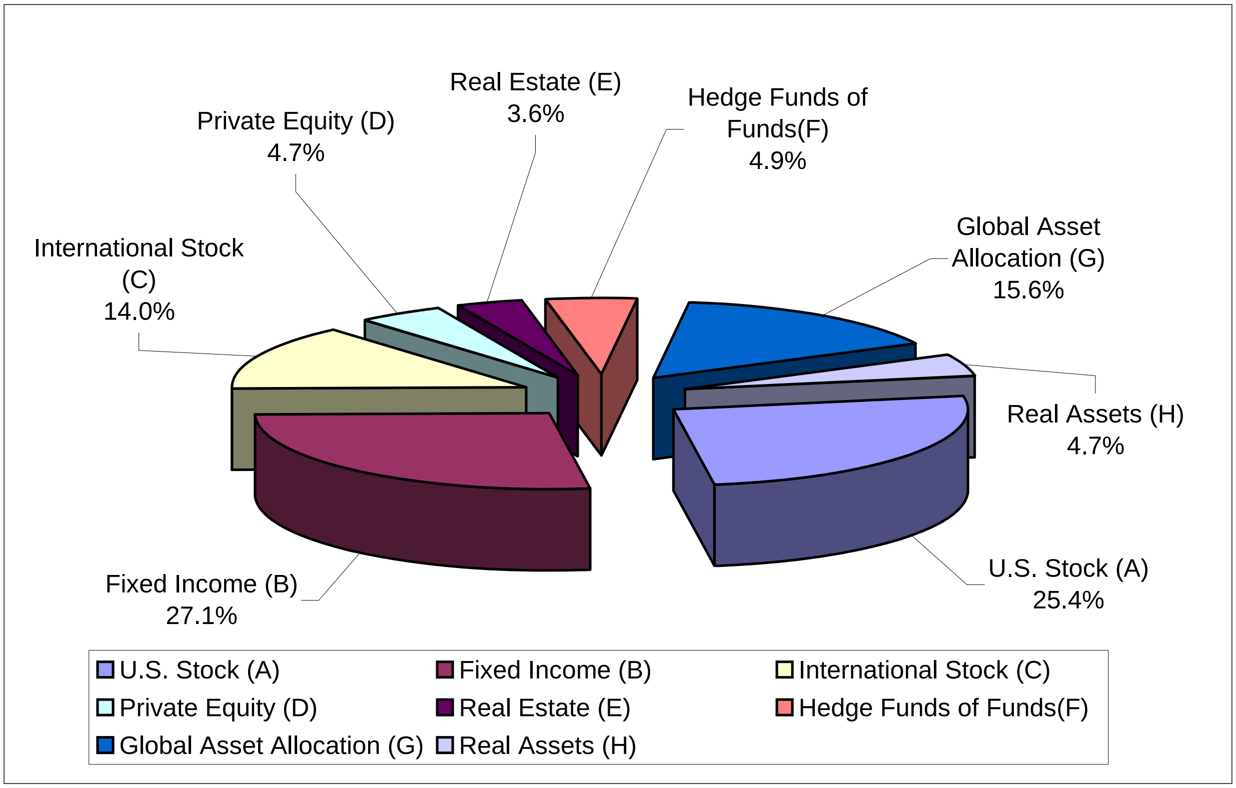
Investment Return Summary
(Percentage Change)

Rates of Return	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Annualized Rate Over 3 Years	Annualized Rate Over 5 Years
U.S. Common Stock	19.8%	(13.2%)	(26.8%)	17.3%	34.2%	4.6%	3.4%
Wilshire 5000 Stock Index	20.5	(12.5)	(26.4)	15.7	32.0	4.0	3.4
International Common Stock	32.5	(5.9)	(26.0)	16.1	28.6	3.0	6.1
MSCI ACWIXUS	29.6	(6.6)	(30.9)	10.4	29.7	(0.3)	3.7
GAA	-	3.1	(20.2)	17.0	20.4	3.8	-
60% MSCI World / 40% WGBI & 90– day T-Bills plus 6%	15.1	(3.7)	(14.7)	8.6	17.8	3.0	-
Fixed Income	6.2	4.0	3.2	19.3	8.4	9.9	7.8
Barclays Universal	6.6	6.2	4.9	10.6	4.8	6.7	6.6
Real Estate	19.4	6.4	(37.0)	(8.2)	20.5	(12.2)	(3.3)
NCREIF Index	17.2	9.2	(30.7)	(1.5)	16.7	(7.7)	0.0
Hedge Funds	15.9	(0.2)	(15.7)	8.8	6.3	(1.3)	1.9
Hedge Fund-of-Funds Index	13.6	(0.3)	(15.2)	4.7	6.7	(1.8)	1.5
Private Equity	20.7	18.1	(16.8)	12.0	14.6	3.0	7.8
Private Equity Benchmark*	54.4	16.0	(21.0)	13.1	19.9	3.3	5.7
Total System Portfolio	17.2	(4.5)	(17.5)	16.4	21.0	4.8	5.1
Comparative Index							
Balanced Index	17.6	(3.8)	(14.4)	12.5	19.4	4.5	5.2
Inflation Rate							
Consumer Price Index	2.7	4.9	(1.2)	1.1	3.6	1.5	2.4

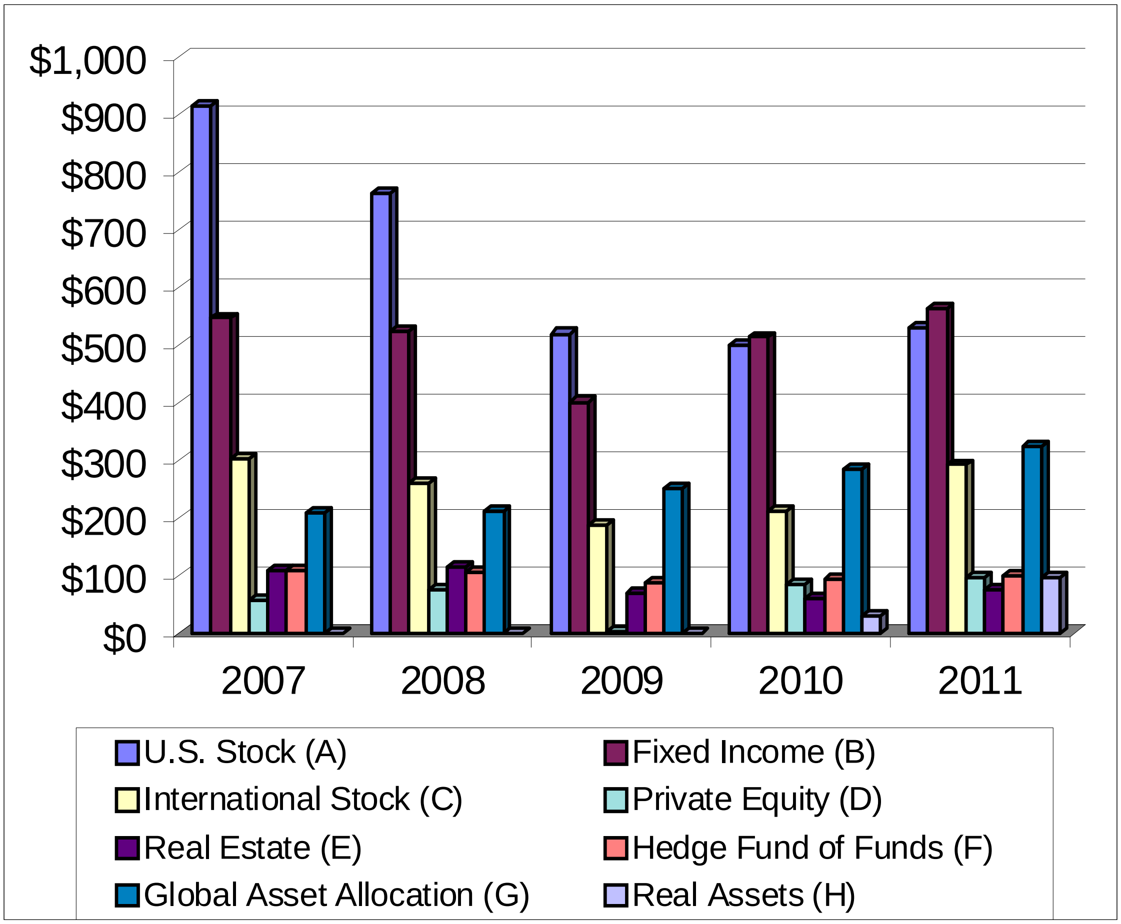
Note: Performance is gross of fees.

*Since October 2006, the benchmark has been the Venture Economics Private Equity Index. Prior to October 2006, the benchmark was the Cambridge Venture Capital index.

Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2011



Portfolio Composition by Manager Type
Market Value of Investments
Percent of Total Fund
As of June 30, 2007, 2008, 2009, 2010 & 2011
(Expressed in Millions)



Investment Type	**2007**		**2008**		**2009**		**2010**		**2011**	
U.S. Stock (A)	$914.8	40.7%	$764.4	37.0%	$520.2	32.6%	$500.3	28.0%	$530.4	25.4%
Fixed Income (B)	547.7	24.3%	525.6	25.5%	402.1	25.3%	514.1	28.7%	564.4	27.1%
International Stock (C)	304.9	13.5%	261.0	12.7%	189.6	11.9%	213.9	12.0%	292.9	14.0%
Private Equity (D)	58.5	2.6%	76.8	3.7%	73.9	4.5%	85.4	4.8%	97.2	4.7%
Real Estate (E)	108.8	4.8%	115.4	5.6%	69.7	4.4%	62.7	3.5%	75.7	3.6%
Hedge Fund of Funds (F)	109.0	4.8%	107.5	5.2%	89.4	5.6%	94.5	5.3%	101.2	4.9%
Global Asset Alloc. (G)	209.3	9.3%	212.4	10.3%	251.1	15.7%	285.2	15.9%	325.4	15.6%
Real Assets (H)	0.0	0.0%	0.0	0.0%	0.0	0.0%	32.7	1.8%	98.9	4.7%
Total	$2,253.0	100.0%	$2,063.1	100.0%	$1,596.0	100.0%	$1,788.8	100.0%	$2,086.1	100.0%

List of Largest Assets Held
(Year Ended June 30, 2011)
(in Thousands)

	Ten Largest Equity Holdings (STOCKS)			PAR VALUE/ SHARES	MARKET VALUE
1)	MasterCard Inc.			18	$5,394
2)	Google Inc.			10	4,819
3)	Berkshire Hathaway Inc.			51	3,931
4)	Microsoft Corp.			150	3,905
5)	Wells Fargo & Co.			136	3,815
6)	International Business Machine			22	3,813
7)	Canadian Natl. Railway Co.			47	3,720
8)	Exxon Mobil Corp.			46	3,718
9)	Novartis AG CHFO.50 (REGD)			56	3,425
10)	United Technologies Corp.			38	3,367
	Ten Largest Fixed Income Holdings (NOTES & BONDS)	INTEREST RATE	MATURITY DATE	PAR VALUE/ SHARES	MARKET VALUE
1)	US Treasury Bill	0.000%	12/29/2011	15,653	$15,645
2)	Commit to Purchase FNMA SF MTG	4.500	8/1/2041	15,065	15,539
3)	Commit to Purchase FNMA SF MTG	4.000	8/1/2041	13,263	13,224
4)	US Treasury Bill	0.000	6/28/2012	9,837	9,819
5)	Commit to Purchase FNMA SF MTG	5.000	8/1/2041	9,099	9,642
6)	US Treasury Note	3.125	5/15/2021	8,311	8,288
7)	Commit to Purchase FNMA SF MTG	4.500	7/1/2041	6,852	7,089
8)	FNMA Pool	VAR RT	11/1/2020	5,882	5,870
9)	US Treasury Note	0.625	12/31/2012	5,277	5,299
10)	Commit to Purchase GNMA SF MTG	4.500	7/15/2041	4,983	5,259

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

Supplementary Supporting Schedules
Schedule of Fees
(Year Ended June 30, 2011)
(in Thousands)

Investment Services	Assets Under Management*	Fees
Domestic Equity Managers	$530,410	$2,779
International Equity Managers	292,920	1,588
Fixed Income Managers	559,283	2,006
Private Equity Managers	97,177	1,569
Real Estate Managers	75,742	915
Hedge Fund of Funds Managers	101,190	1,038
Global Asset Allocation Managers	325,407	2,533
Real Assets	98,944	886
Short-Term Investment Manager	5,097	-
Other Investment Service Fees:		
Custodian		303
Security lending		52
Investment consultant		220
Total	$2,086,170	$13,889

* Asset Under Management" shown above in the amount of $2,086,170 includes short-term investments of $96,262, accrued interest and dividends receivable of $2,675, receivables for investment sold of $43,681 and payables of $128,688. 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, 2011)
(in Thousands)

Investment Broker Firms	Number of Shares Traded	Total Commissions	Commission Per Share
Barclays Capital LE, Jersey City	706	$28	0.04
Nomura Secs Intl Inc, New York	1,058	13	0.01
BNY Convergex, New York	353	13	0.04
Liquidnet Inc. Brooklyn	436	13	0.03
Bernstein Sanford and Co, New York	316	12	0.04
Deutsche Bank Secs Inc., New York	389	11	0.03
SJ Levinson & Sons LLC, Jersey City	338	10	0.03
Wells Fargo Securities LLC, Charlotte	245	9	0.04
Miscellaneous (Under $10,000)	12,037	193	0.02
Total	15,878	$302	

Investment Summary
(Year Ended June 30, 2011)
(in Thousands)

TYPE OF INVESTMENTS	FAIR VALUE	% of FAIR VALUE
Fixed Income:		
U.S. Government & Agencies Securities	$183,950	8.9%
Municipals	1,894	0.1
Corporate Bonds	127,295	6.1
Foreign Debt	7,514	0.4
Bond Mutual Funds	241,602	11.6
Total Fixed Income	$562,255	27.1%
Common Stock:		
Basic Industries	$24,483	1.2%
Consumer Durable Goods	5,467	0.3
Consumer Non-Durables	20,890	1.0
Consumer Services	29,005	1.4
Energy	30,971	1.4
Financial Services	34,390	1.7
Health Care	30,666	1.5
Media	7,836	0.4
Technology	33,268	1.6
Transportation	9,974	0.5
Utilities	4,702	0.2
General Business	219,852	10.6
Total Common Stock	$451,504	21.8%
Other Investments:		
Stock Mutual Funds	$360,022	17.4%
Real Estate Equity Funds	75,742	3.6
Hedge Funds	101,190	4.9
Private Equity Funds	97,176	4.7
Real Assets	98,944	4.8
Global Asset Allocation Funds	325,407	15.7
Total Other Investments	$1,058,481	51.1%
Total Investments at fair value	$2,072,240	100.0%