RETIREE HEALTH CARE BENEFIT TRUST

ANNUAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2012

PREPARED BY
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ORANGE COUNTY COMPTROLLER

EXECUTIVE SUMMARY

The portfolio had a total rate of return of 21.6% in Fiscal Year 2012 compared with -3.6% in 2011, and an average annual total return of 4.23% since inception in 2007. Annual returns are reported on a time weighted basis to minimize the impact of cash flows, which is a standard practice in the money management industry and allows for comparison across funds. The portfolio balance increased by approximately 19% on March 30, 2012 with a $5,710,622 contribution by the County.

Compared to established benchmarks, the Trust portfolio was outperformed by the John Hancock2 Lifestyle Growth 1 Fund (21.78% total return) and the Principal LifeTime 2035 Fund (23.50% total return), which were chosen as new benchmark funds for Fiscal Year 2012. The target asset allocation of the Trust is 80% equities and 20% fixed income. The John Hancock and Principal funds have asset allocations similar to the Trust's allocation. The returns on the funds in the Trust were as follows: Vanguard Total Stock Market Index Fund, 30.24%; Vanguard Total International Stock Index Fund, 15.50%; Vanguard Total Bond Market Index Fund, 5.06%. The return on the Vanguard Prime Money Market Fund was only 0.04% due to low short-term market interest rates.

The unfunded actuarial accrued liability amounted to $46.3 million at the end of Fiscal Year 2012. The total benefits paid for participants amounted to $3,593,523, including a charge of $2,412,541 for the annual implicit rate subsidy obligation. This subsidy arises from a statutory requirement to offer retirees health care coverage at the same total premium as for active employees. The actual cost of retiree health care claims in excess of premiums paid by retirees is the implicit rate subsidy.

Table of Portfolio Balance and Variation from Targets

Portfolio Balance and Variation from Targets
September 30, 2012

Current Allocations	Balance	Actual	Target	Variance
Prime MMKT and DDA	$287,008	0.79%	0.0%	0.79%
Total Bond	6,553,396	18.10%	20.0%	-1.90%
Total International Stock	8,563,264	23.66%	24.0%	-0.34%
Total Stock	20,795,300	57.45%	56.0%	1.45%
Total Balance	$36,198,968			

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RETIREE HEALTH CARE BENEFIT TRUST
ANNUAL REPORT
for the year ended September 30, 2012
ORANGE COUNTY, FLORIDA

I. INVESTMENT POLICY

It is the policy of the Orange County Comptroller (Comptroller) to manage the investments of the Retiree Health Care Benefit Trust (Trust) for the benefit of the beneficiaries participating in the Trust in a manner that will preserve its assets, provide adequate liquidity to meet cash flow needs, and optimize returns while conforming to all federal, state, and local laws governing the investment of public funds. The Trust was established as an irrevocable trust agreement between Orange County (County) and the Comptroller as Trustee in September 2007 to fund the County's Other Postemployment Benefit Plan (OPEB).

II. INVESTMENT COMMITTEE

The Committee was established by the Comptroller to formulate investment strategies, provide short-range direction, and monitor the performance and structure of the County's portfolio. The Committee consists of Comptroller staff and two other qualified individuals with financial or investment expertise who are independent of employment and business relationships with Orange County. The two outside members of the Committee are John M. Cheney, D.B.A., retired Associate Professor of Finance, University of Central Florida, a member since 1997; and Edward J. Manning, retired managing partner of Ernst & Young, Certified Public Accountants, a member since 2001.

III. INVESTMENT OBJECTIVES

Assets shall be invested to achieve a long-term return of 7.5% annually, provide a sufficient level of funds to meet future disbursements on an inflation-adjusted basis, and maximize returns for the level of risk taken. As the horizon for the portfolio is long term, significant deviations from the total return objective may occur over short-term time periods.

IV. PORTFOLIO PERFORMANCE

Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance include the types of authorized investments, the economic environment, liquidity requirements, sensitivity of asset values to changes in interest rates and market conditions, and the investment operation.

The portfolio had a total rate of return of 21.6% in Fiscal Year 2012 compared with a return of -3.6% in 2011, and an average annual return of 4.23% since inception in 2007.

This report discusses in detail each of the factors influencing portfolio performance. The report also discusses the County's depository banking relationship.

V. AUTHORIZED INSTRUMENTS

A. Securities and Exchange Commission (SEC) qualified constant net asset value money market mutual funds.

B. SEC registered, U.S. dollar-denominated mutual funds comprised of the following assets:

1. Equity ownership in companies located anywhere around the globe.
2. Debt obligations in investment grade securities with an S&P credit rating of BBB- or above, or a Moody's credit rating of Baa3 or above.
3. Real estate investment trusts (REITs).
4. Funds comprised of commodity index futures contracts.

VI. ASSET ALLOCATION

The Comptroller established a new target asset allocation in July 2012 based on the Trust's objectives. A balance necessary to cover liquidity requirements will be maintained in the Vanguard Prime Money Market Fund or in a demand deposit bank account. After providing for liquidity requirements, the asset allocation is as follows:

Investment Type	Composition Limit
a. Vanguard Total Stock Market Index Fund	56%
b. Vanguard Total International Stock Index Fund	24%
c. Vanguard Total Bond Market Index Fund	20%

The portfolio is rebalanced to target allocations on January 15th and July 15th of each year if the actual allocation in any of the funds deviates by two or more percentage points from its target allocation. Contributions to the Trust will be invested with the intent to restore the Trust to its target asset allocation, or come as close to the target allocations as reasonably possible.

A. Vanguard Total Stock Market Index Fund

This fund employs a passive management strategy known as indexing to track the performance of the Morgan Stanley Capital International (MSCI) US Broad Market Index, which represents 99.5% or more of the total market capitalization of all the U.S. common stock regularly traded on the New York Stock Exchange, American Stock Exchange and the Nasdaq over-the-counter market.

B. Vanguard Total International Stock Index Fund

This international stock fund employs a passive management, or indexing, investment approach. The fund seeks to track the performance of the MSCI ACWI ex USA IMI Index, which is designed to measure equity market performance in developed and emerging markets, excluding the United States. The index includes more than 6,000 stocks of companies located in over 43 countries. The fund holds a broadly diversified collection of securities designed to match the key characteristics of the full index. These characteristics include industry and country weightings, market capitalization, and financial measures such as price/earnings ratio and dividend yield.

C. Vanguard Total Bond Market Index Fund

The fund employs a passive management strategy known as indexing to track the performance of the Spliced Barclays U.S. Aggregate Float Adjusted Bond Index. The index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed securities, all with maturities of one year or more. The fund uses a sampling technique to closely match key benchmark characteristics: sector weight, coupon, maturity, duration, and credit quality. Full replication of the index is prohibitively expensive and impractical.

D. Vanguard Prime Money Market Fund

This fund invests in high-quality, short-term money market instruments, including U.S. government securities, certificates of deposit, bankers' acceptances and commercial paper. The fund seeks to provide current income and a stable net asset value. This money market fund maintains a dollar-weighted average maturity of 60 days or less, and a dollar-weighted average life of 120 days or less.

VII. LIQUIDITY REQUIREMENTS

The Trust must maintain sufficient liquidity to meet required benefit payments and annual administrative costs of the Trustee. The total benefits for participants in Fiscal Year 2012 amounted to $3,593,523, consisting of $1,180,982 in health insurance subsidies payable on a monthly basis and the implicit rate subsidy of $2,412,541 payable annually to the County self-insurance plan. For the health insurance subsidies, the average aggregate payment to retirees was $98,415 per month. The implicit rate subsidy is the actual cost of retiree health care claims in excess of premiums paid by retirees, arising from a statutory requirement to offer retiree health care coverage at the same total premium as for active employees.

VIII. CONTRIBUTIONS AND UNFUNDED LIABILITY

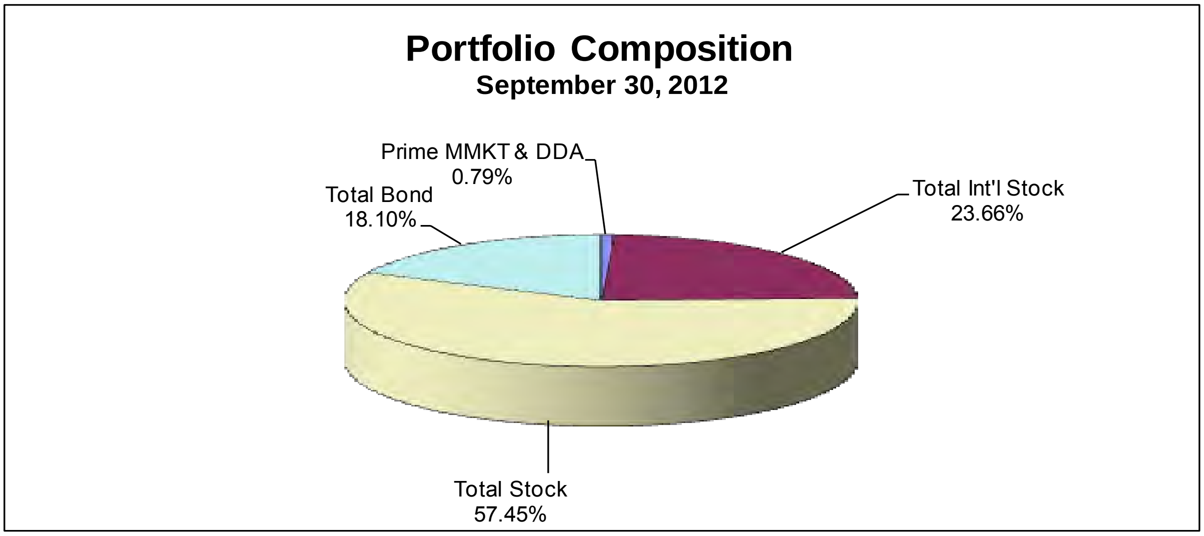
The County contributed $5,729,689 to the Trust during Fiscal Year 2012. The OPEB unfunded actuarial accrued liability decreased from $51.2 million at the end of Fiscal Year 2011 to $46.3 million at the end of Fiscal Year 2012.

IX. INVESTMENT OPERATIONS

Qualified Comptroller professionals conduct investing activities in accordance with written policies and procedures. Quarterly reports of investment activity and positions are prepared and distributed to Comptroller management, County management and the Investment Committee. Regular meetings of the Committee are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The Comptroller uses sophisticated techniques in carrying out its investment activities including the use of electronic bank account systems, real-time monitoring of U.S. securities markets and electronic trading. Bank account balances, cash requirements and investment positions are monitored daily.

PORTFOLIO COMPOSITION



Portfolio Balance and Variation from Targets
September 30, 2012

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Comparison to investment alternatives is often useful to gauge investment performance. The following table includes a comparison of the total return on the Trust with returns on the John Hancock2 Lifestyle Growth 1 Fund and Principal LifeTime 2035 Fund. Both funds typically maintain an 80% equity and 20% debt asset mix, similar to the Trust. The higher returns on the John Hancock and Principal funds were primarily due to successful active management strategies employed by the funds.

PORTFOLIO PERFORMANCE

Total Return vs. Comparable Funds
Fiscal Year Ended September 30, 2012

	Total Return
Trust Portfolio Return	21.61%
John Hancock2 Lifestyle Growth 1 Fund	21.78%
Principal LifeTime 2035 Fund	23.50%

VANGUARD FUNDS ANALYSIS

Vanguard Funds Return Analysis
Fiscal Year Ended September 30, 2012

	Total Return
Actual: Prime Money Market Fund	0.04%
Reported: Prime Money Market Fund	0.04%
Benchmark: Lipper Average Money Market Fund	0.00%
Actual: Total Bond Market Index Fund	5.06%
Reported: Total Bond Market Index Fund	5.05%
Benchmark: Barclays Capital Aggregate Bond Index	5.26%
Actual: Total International Stock Index Fund	15.71%
Reported: Total International Stock Index Fund	15.51%
Benchmark: MSCI ACWI Index	14.36%
Actual: Total Stock Market Index Fund	30.37%
Reported: Total Stock Market Index Fund	30.24%
Benchmark: MSCI US Broad Market Index	30.30%

Actual returns represent the returns earned by the Trust. Reported returns are the returns published by Vanguard on each respective mutual fund and the Benchmark returns represent the index utilized by Vanguard to evaluate the performance of each respective fund.

The Vanguard Prime Money Market Fund outperformed the Lipper Average Money Market Fund. The minimal return on this fund reflected exceptionally low market interest rates on short-term securities. The Federal Reserve maintained a target range for federal funds of 0% to 0.25% throughout the fiscal year. On September 30th, the Prime Fund's largest holdings were U.S. government and agency securities (55%) and Yankee/foreign (26%). Yankee/foreign securities are dollar-denominated instruments issued in the U.S. by foreign banks, as well as dollar-denominated assets issued in foreign markets. The credit quality of all investments in the Prime Fund was first tier.

The Trust's investment in the Total Bond Market Index Fund generated a return that was nearly equal to the return reported by Vanguard. The reported return on the Vanguard Total Bond Market Index Fund was 21 basis points lower than the return on its benchmark, the Barclays Capital Aggregate Bond Index. Since bond markets cannot be fully replicated, Vanguard manages this fund to replicate the same risk and return characteristics as the index. Therefore, deviations from the benchmark are expected.

The Trust's return on the Vanguard Total International Stock Index Fund was 20 basis points greater than the returns reported by the Vanguard Fund. The Trust is not actively managed, and any gains or losses from the timing of contributions or rebalancing are unintended. The annual return reported by Vanguard was 115 basis points greater than the return on its benchmark MSCI ACWI Index. Deviations between the Vanguard Fund and its benchmark are expected since the index cannot be fully replicated. On September 30, 2012, this fund was invested in European stocks (44%), Pacific stocks (24%), emerging markets (23%) and Canada (9%).

The Trust's return on the Vanguard Total Stock Market Index Fund was greater than the return reported by Vanguard and its benchmark MSCI US Broad Market Index in Fiscal Year 2012. The Trust's higher return compared with the Vanguard Fund and its benchmark was primarily due to the timing of cash flows during the second quarter of the fiscal year. The Trust is not actively managed and any gains or losses from the timing of contributions, withdrawals or rebalancing are unintended.