

OBJECTIVE

What are the potential impacts of modifying the convertible bond manager guidelines to match the Mackay Shields convertibles composite?

Summary of the Current Convertible Bond Investment Guideline

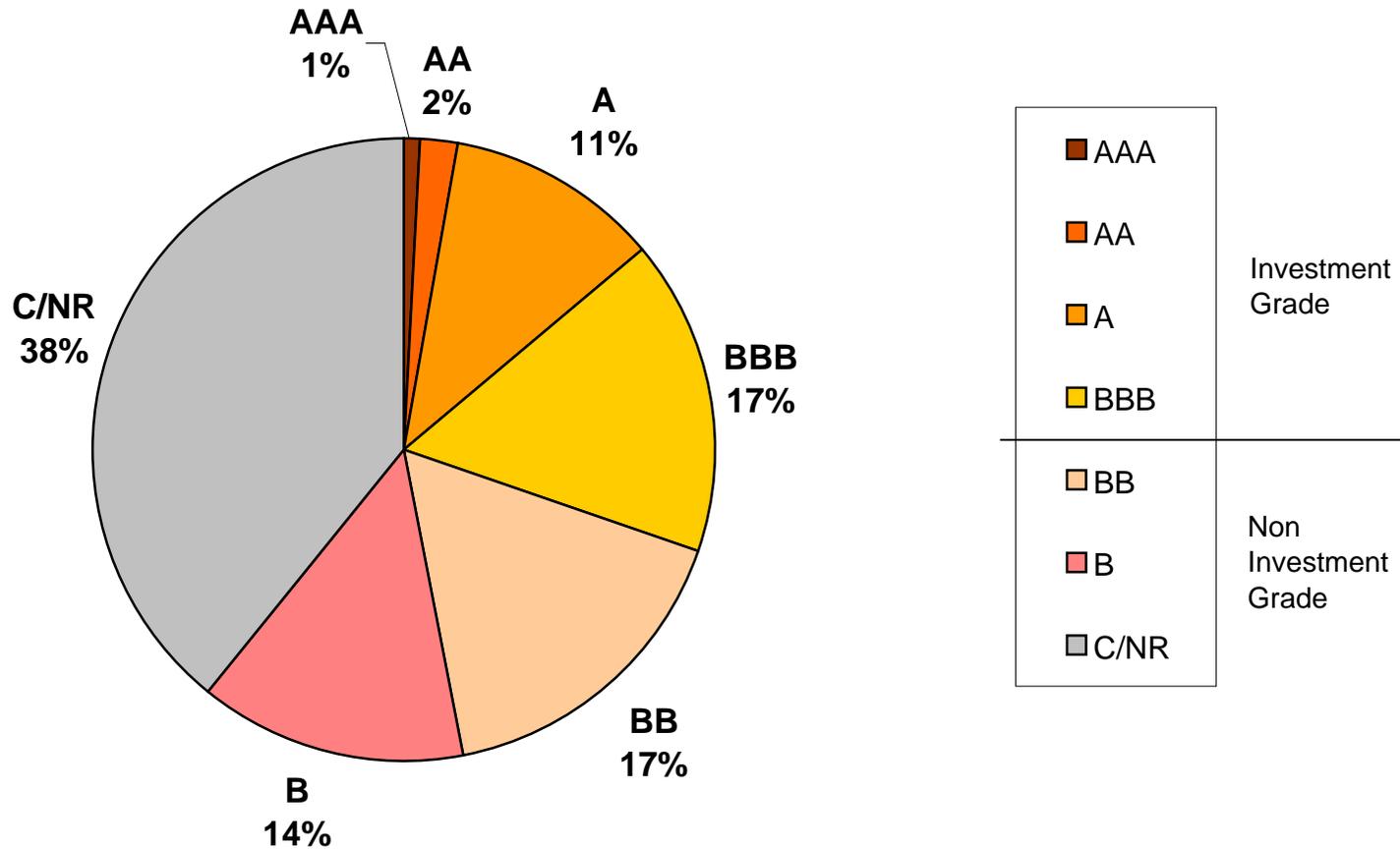
The manager is authorized to purchase and maintain a portfolio of US convertible securities subject to the following restrictions:

1. May invest up to 20% of the portfolio in convertible preferred stocks or other securities
2. May invest up to 20% of the portfolio in "B" or "BB" rated convertible securities
3. The portfolio as a whole will have a rating of "A" or better

With the objective of outperforming the BoAML All Convertibles Investment Grade Index +1%

VXA0 - BofAML All US Convertibles All Qualities Index

Credit Rating Agency Quality



BAY COUNTY EMPLOYEES RETIREMENT

Convertible Securities Analysis

December 11, 2012

Performance Comparison

	1 Year	3 Years	5 Years	Risk*	Average Quality
1 BofAML Investment Grade Convertibles Index	14.0	6.5	-0.5	4.0	A-
2 BofAML All Convertibles All Qualities Index	16.6	9.5	2.8	4.7	BB+
3 20% All Qualities + 80% Investment Grade	14.5	7.1	0.2	4.0	A-
4 25% All Qualities + 75% Investment Grade	14.7	7.3	0.3	4.1	A-
5 30% All Qualities + 70% Investment Grade	14.8	7.4	0.5	4.2	BBB+
6 BCERS Convertibles Portfolio	12.0	7.0	1.8	3.6	A
7 MackKay Shields Convertibles Composite	16.5	8.7	3.1	4.7	BBB+

* Standard deviation of monthly returns over past five years

CONCLUSION

The data indicates that assuming slightly more risk, by allowing additional non-investment grade convertibles, results in improved performance.

We recommend modifying MacKay Shields guidelines so to:

- 1. Reduce overall portfolio quality requirement from "A" to "BBB", to enhance portfolio diversification & increase return*
- 2. Increase the maximum allowable allocation to "B" or "BB" rated convertibles from 20% to 25%*