BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

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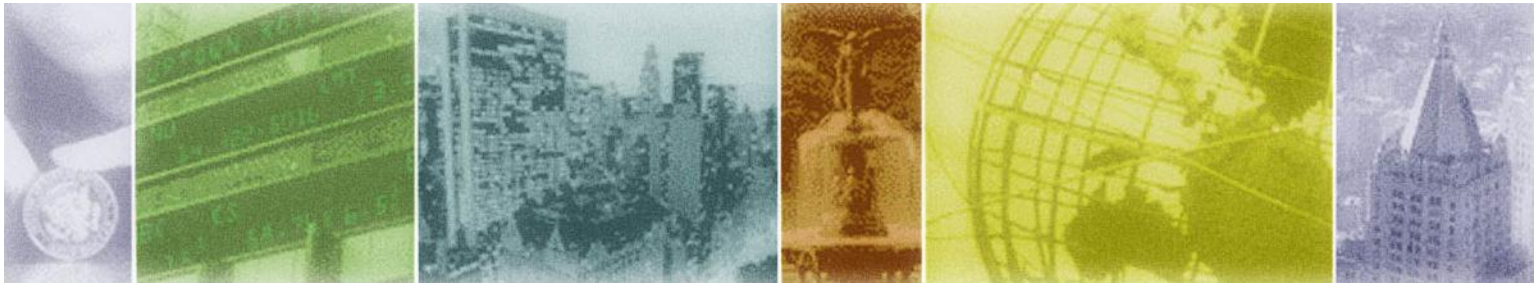

INVESTMENT REVIEW

Edward Silverstein, CFA
Senior Managing Director
Head of Convertible Division

Beth Griper
Director
Product Specialist–Convertibles

MacKayShields

September 25, 2012

AGENDA

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FIRM OVERVIEW

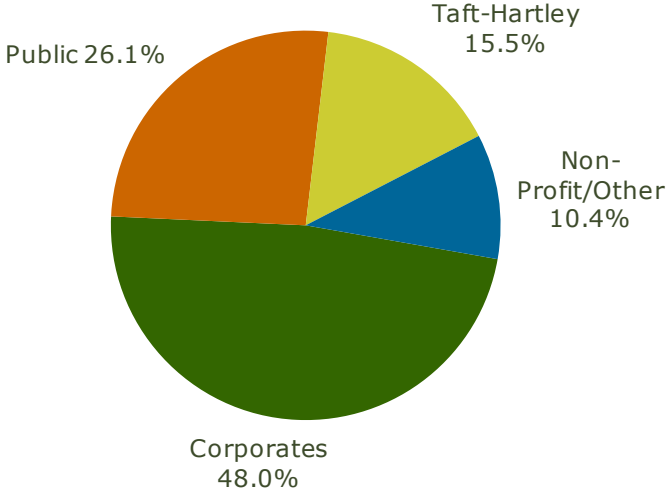
August 31, 2012
Preliminary

Overview

- Founded in 1938
- Strong AAA parent company
- Equity alignment for senior professionals
- 50 investment professionals, 137 employees
- Non-bureaucratic, entrepreneurial culture
- Team approach across all products and business units
- Research-centered investment professionals

Group Segmentation (US, blns)	$72.4
Global Fixed Income	**44.3**
US High Yield Strategies	12.8
Core Plus Strategies	8.9
Global High Yield	7.2
Core Investment Grade Strategies	4.8
Investment Grade Credit	4.0
Other Strategies	6.6
High Yield	**19.4**
Municipals	**6.2**
Convertibles	**2.5**

Institutional Separate Account Assets
By Client Type



BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

Investment Objectives and Guidelines

Investment Guidelines:

The investment objective is to seek long term growth of capital together with current income.

Benchmark:

Merrill Lynch Investment Grade Bonds Only plus 1%

Peer Group:

Becker Burke Convertible Portfolio Universe

Primary Investment Focus:

The account will invest primarily in domestic convertible securities such as bonds, debentures, corporate notes, and preferred stocks or other securities, i.e. synthetics that are convertible into common stock or the cash value of stock or a basket or index of equity securities. Any equity security received in the portfolio resulting from a conversion will be liquidated in an orderly and timely fashion as determined by the investment manager. Typically equities will not be purchased out right but would be in the portfolio as a result of another holding.

The account will be limited to invest up to 20% of the portfolio in convertible preferred stocks or other securities.

Rule 144A securities, convertible debt and equity, are permitted.

The account shall have an overall rating of "A" or better from either rating agency. Individual investment grade fixed income securities shall have at a minimum a Moody's rating of "Baa3" or a Standard & Poors rating of "BBB-".

The account is allowed to invest up to 20% of the portfolio in non-investment grade domestic convertible securities as identified above, however individual securities shall have at a minimum a "B" rating as determined by Moody's and Standard & Poors. The lowest of the two ratings shall prevail. The account shall divest itself of all securities rated below "B" from either rating agency within 60 days of the reduction.

If any non-investment grade securities are convertible preferreds they will be applied against both 20% maximums.

Performance Objectives:

To outperform the benchmark net of fees and to rank within the top one-third of the peer group over a 3 - 5 year period as identified above.

BENEFITS OF INVESTING IN CONVERTIBLES

- **Equity Market Participation**
- **Downside Protection**
- **Current Income**
- **Less Volatility**

This document is for informational purposes only. Portfolios are actively managed and all expressions of opinion are subject to change without notice and are not intended to be a guarantee of future events.

MACKAY SHIELDS CONVERTIBLE OVERVIEW

Investment Objective	• Seek to maximize total return by outperforming the market and our competition while protecting against downside risk
Investment Philosophy	• Convertibles provide a means of obtaining exposure to the equity markets while emphasizing the protection of principal • Identify securities that offer an asymmetric risk/return profile • Target the "total return" instrument
Investment Discipline	• Fundamental research driven • Evaluate downside and upside potential • Invest in convertibles with the best risk/reward profile • Construct well-diversified portfolio • Strict sell discipline

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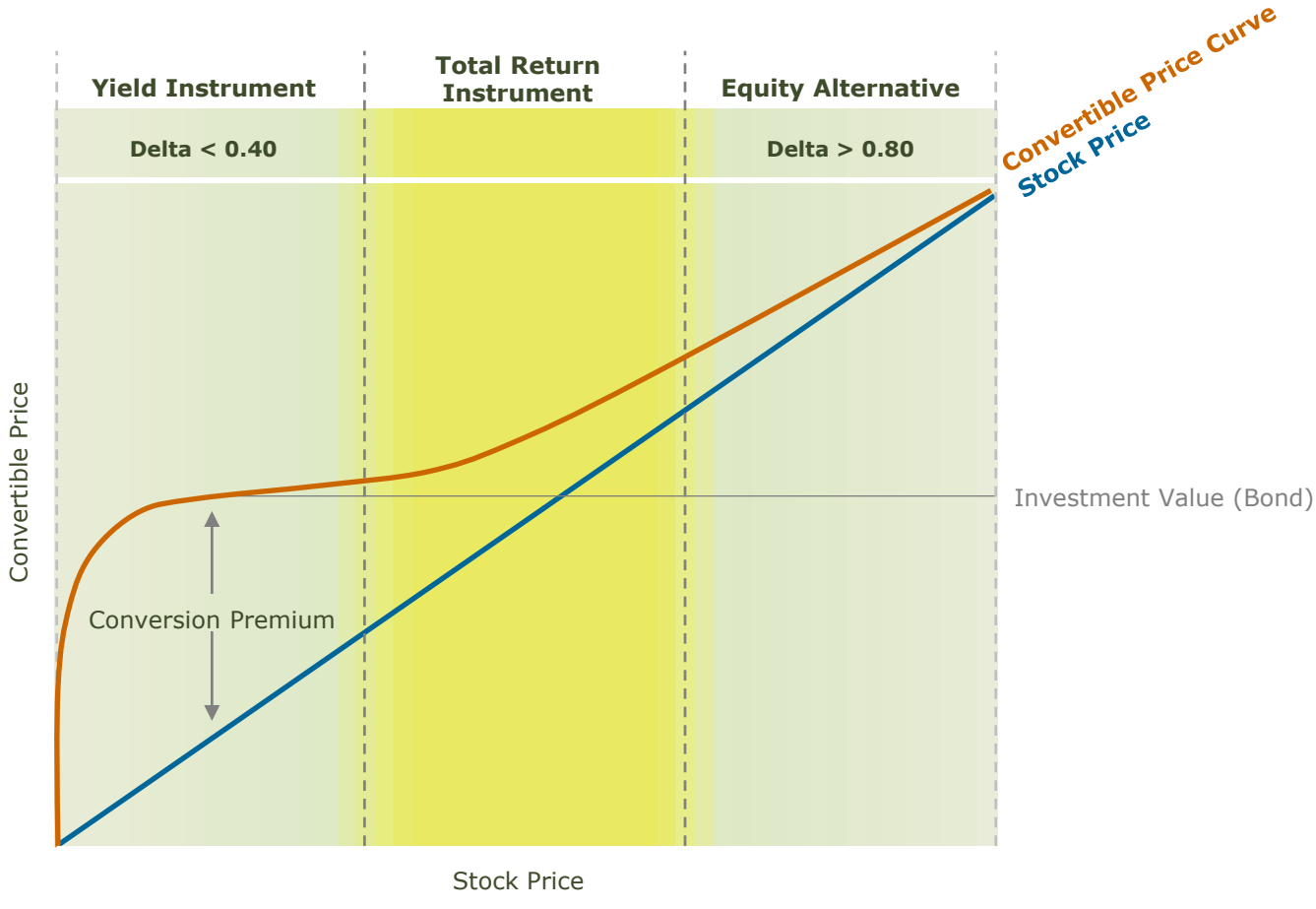
CONVERTIBLE INVESTMENT PHILOSOPHY

Target the "Total Return" Instrument

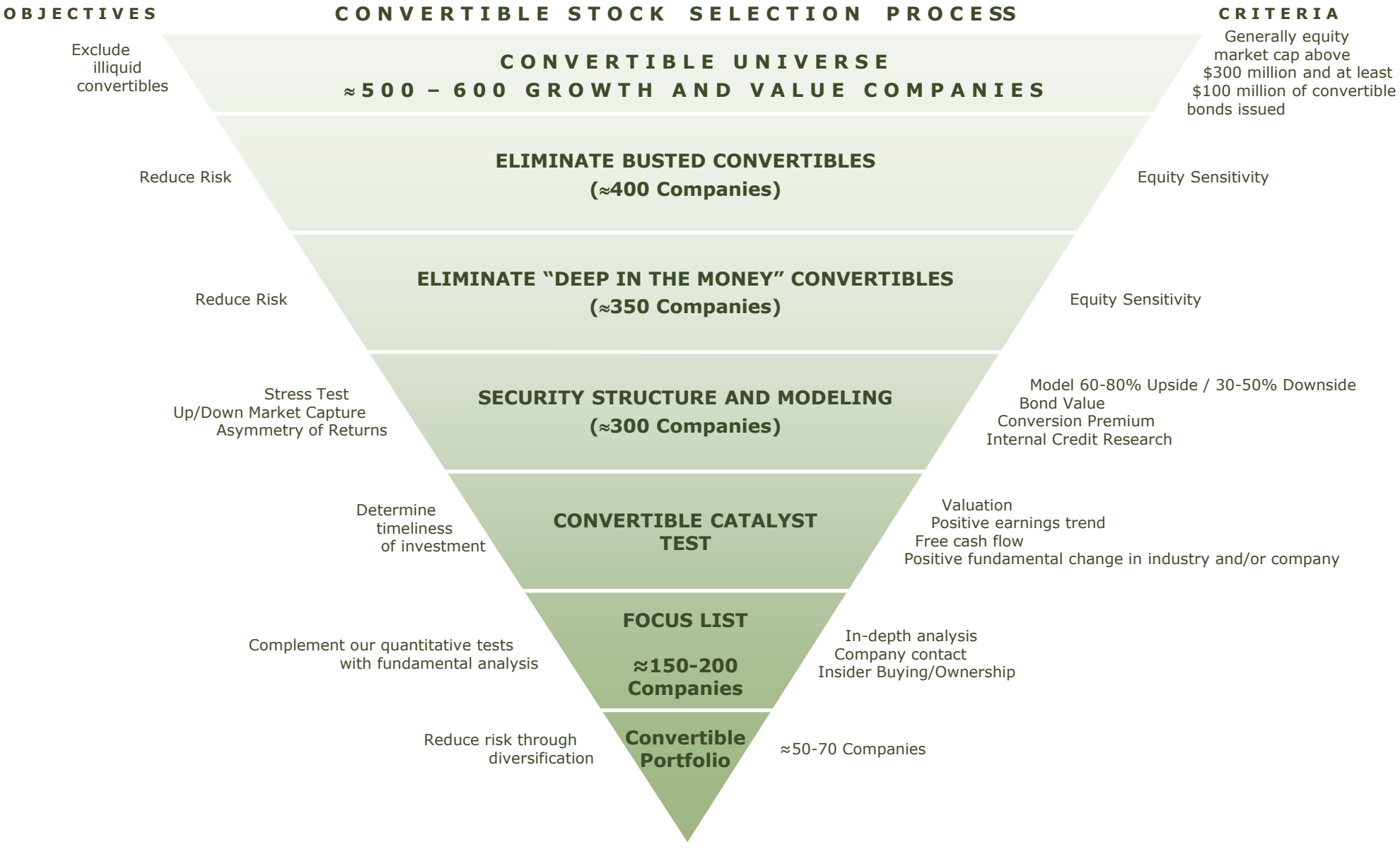
Total Return =
Yield + Price Appreciation

We aim to own convertibles which may participate in 60-80% of the common stock's upside, while limiting downside participation to 30-50% of the stock's decline.



Source: BofA Merrill Lynch Convertible Research

INVESTMENT PROCESS



PORTFOLIO CONSTRUCTION

Reducing Risk

- **Apply fundamental research investment process**
- **Identify the risk/reward of the convertible relative to the underlying common stock**
- **Adhere to client guidelines**
- **Accumulate convertibles with best risk/reward profile**
- **Diversify among sectors**
- **Set price target**
- **Follow proven sell discipline**
  - Change in fundamentals
  - Valuation
    - Free cash flow yield or P/E out of line with growth rate
    - Free cash flow yield or P/E out of line with peer group
    - Free cash flow yield or relative P/E outside of historical range

CONVERTIBLE INVESTMENT TEAM

Name	Years of Investment Experience	Investment Experience	Education
Edward Silverstein, CFA *Senior Managing Director* *Portfolio Manager/Research Analyst*	17	Bank of New York New York Stock Exchange	Brooklyn Law School, JD Baruch College, MBA University of Vermont, BS
Kent Bailey, CFA *Director* *Portfolio Manager/Research Analyst*	14	Highbridge Capital Management Clearbridge Advisors Morgan Stanley Dean Witter	University of Virginia, BA
John Moten *Director* *Portfolio Manager/Research Analyst*	26	Roxbury Capital Management American Express Financial Corporation A.G. Edwards & Sons	University of Chicago, MBA Saint Lawrence University, BA
Elizabeth Xu *Director* *Portfolio Manager/Research Analyst*	15	Epic Partners Deutsche Bank J.P. Morgan	Harvard Business School, MBA Mount Holyoke College, BA
Kevin Lee *Director* *Trader*	26	Lord, Abbett & Company	The State University of New York, BA
Ellen Dunleavy *Associate* *Junior Analyst*	2		Columbia University, MIA Fairfield University, BA

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

Asset Allocation
August 31, 2012

	Market Value	Percent
Convertible Bonds	$13,357,820	79.93%
Preferreds	$2,642,943	15.81%
Cash	$712,102	4.26%
Total Fund	$16,712,864	100.00%

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

Historical Rates of Return (%)

	Bay County Employees' Retirement System[1]	BofA Merrill Lynch Convertible Investment Grade Bonds Index	BofA Merrill Lynch Convertible Investment Grade Bonds Index +1%	BofA Merrill Lynch Convertible All Investment Grade Index (includes Convertible Preferred Securities)
2011	-1.1	-3.6	-2.6	-3.1
2010	9.5	7.4	8.4	7.9
2009	25.5	28.6	29.6	25.5
2008	-25.8	-15.2	-14.2	-31.6
2007	15.3	7.9	8.9	5.8
2006	7.5	7.3	8.3	8.6
2005	7.4	0.5	1.5	1.9
2004	4.9	4.7	5.7	7.1
2003[2]	7.2	5.2	n/a	5.8

Periods ending August 31, 2012	Bay County Employees' Retirement System[1]	BofA Merrill Lynch Convertible Investment Grade Bonds Index	BofA Merrill Lynch Convertible Investment Grade Bonds Index +1%	BofA Merrill Lynch Convertible All Investment Grade Index (includes Convertible Preferred Securities)
Year to Date	5.7	7.5	n/a	9.0
Since Inception – *Annualized* (10/1/03 – 8/31/12)	5.4	5.1	6.1	3.0

[1]Gross of fees
[2]From 10/1/03 – 12/31/03
Past performance is not indicative of future results.

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

August 31, 2012

Characteristics	Portfolio	BofA Merrill Lynch Convertible Investment Grade Bonds Index
Years to Effective Maturity	2.84	n/a
Current Yield	1.89%	1.82%
Yield to Effective Maturity	2.17%	n/a
Delta	0.58	0.55
Conversion Premium	44.66%	34.75%
Average Quality	A-	BBB+
Number of Holdings	42	63
Credit Concentration (%)		
AAA	13.00	3.48
AA	0.00	0.00
A	38.46	47.13
BBB	36.49	49.39
BB	7.56	0.00
B	4.49	0.00
CCC or Lower	0.00	0.00
NR[2]	0.00	0.00

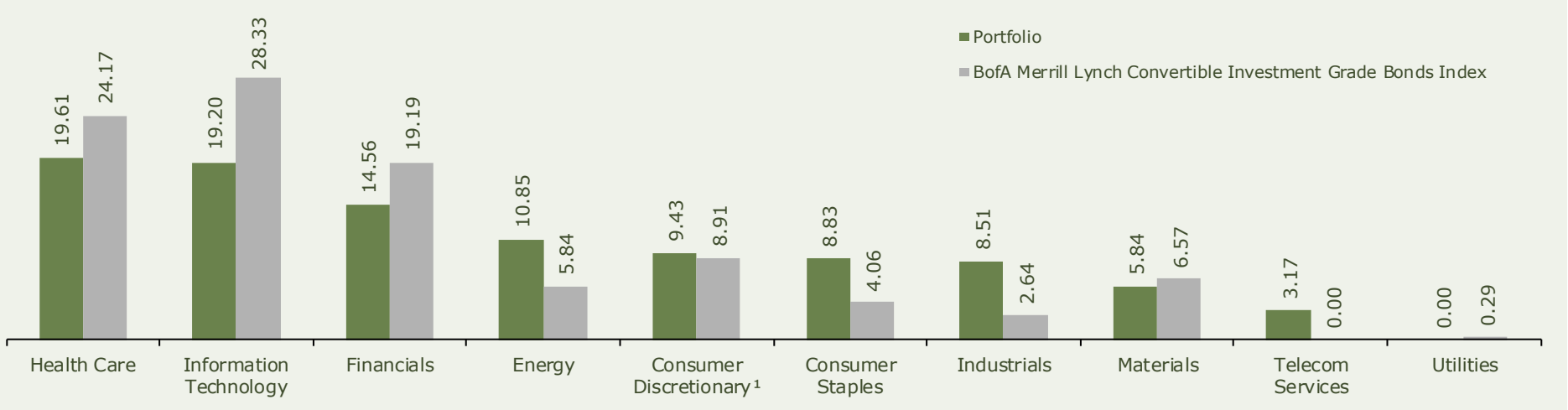
BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

August 31, 2012

Top Ten Holdings

Security	% Portfolio
Danaher	5.38
Microsoft	4.68
Gilead Sciences	4.39
Boston Properties	4.37
Costco	4.28
Molson Coors	4.18
EMC	4.12
Alza (Johnson & Johnson)	4.06
Wells Fargo	3.94
Schlumberger	3.92
Total	**43.32**

Sector Breakdowns (%)



¹Includes Media and Transportation
Index data source: BofA Merrill Lynch Convertible Research

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

CONVERTIBLE PORTFOLIO

BAY COUNTY EMPLOYEES RETIREMENT SYSTEM

Summary Report — Account 1256
August 31, 2012

	Total Cost	Percent at Cost	Yield at Cost	Market Value	Percent of Assets	Yield at Market	Annual Income
Bonds	11,858,888	82.86	1.62	13,315,128	79.67	1.45	192,685
Stocks	2,453,260	17.14	4.96	2,632,631	15.75	4.62	121,677
Cash & Equivalents	0	0.00		712,102	4.26	0.09	641
Accrued Income				53,004	0.32		
Accrual Adjustment for Unsettled Trades				55	0.00		
	$14,312,148	**100.00%**	**2.20**	**$16,712,920**	**100.00%**	**1.89**	**$315,002**

BAY COUNTY EMPLOYEES RETIREMENT SYSTEM

Holdings Report — Account 1256
August 31, 2012

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Bonds									
37,000	ALCOA INC CONV BOND 5.250 03/15/2014	100.00	37,000	146.75	54,298	0.32	3.58	1,943	BBB-
451,000	ALLEGHENY TECHNOLOGIES CONV BOND REG 4.250 06/01/2	116.52	525,524	113.75	513,013	3.07	3.74	19,168	BBB-
690,000	ALZA CORP CONV BOND 07/28/2020	81.14	559,876	98.38	678,788	4.06	0.00	0	AAA
412,000	AMGEN INC CONV BOND REG 0.375 02/01/2013	100.56	414,313	112.13	461,955	2.76	0.33	1,545	A+
163,000	APOLLO INVESTMENT CORP REG CONV BOND 5.750 01/15/2	96.63	157,499	101.88	166,056	0.99	5.64	9,373	BBB
195,000	ARES CAPITAL CORP 144A CONV BOND 5.750 02/01/2016	105.21	205,160	106.00	206,700	1.24	5.42	11,213	BBB
617,000	BOSTON PROPERTIES CONV BND 3.750 05/15/2036	75.00	462,750	117.25	723,433	4.33	3.20	23,138	A-
321,000	COSTCO COMPANIES INC CONV BOND REG 08/19/2017	131.27	421,366	222.75	715,028	4.28	0.00	0	A
575,000	DANAHER CORP CNV BND REG 01/22/2021	97.79	562,320	156.25	898,438	5.38	0.00	0	A+
412,000	EMC CORP CONV BOND REG 1.750 12/01/2013	139.96	576,637	166.75	687,010	4.11	1.05	7,210	A
540,000	GILEAD SCIENCES INC CONV BOND REG 1.000 05/01/2014	105.16	567,846	135.38	731,025	4.37	0.74	5,400	A-
443,000	INTEL CORP CONV BND REG 2.950 12/15/2035	100.57	445,514	112.13	496,714	2.97	2.63	13,069	A-
359,000	INTL GAME TECHNOLOGY REG CONV BND 3.250 05/01/2014	115.44	414,421	104.88	376,501	2.25	3.10	11,668	BBB
210,000	L-3 COMMUNICATIONS CORP REG CONV BND 3.000 08/01/2	100.82	211,719	99.75	209,475	1.25	3.01	6,300	BB+
381,000	LAM RESEARCH CORP CONV BOND REG 0.500 05/15/2016	97.56	371,705	96.75	368,618	2.21	0.52	1,905	BBB-
47,000	LAM RESEARCH GROUP CONV BOND REG 1.250 05/15/2018	100.00	47,000	98.50	46,295	0.28	1.27	588	BBB-
403,000	MEDTRONIC INC CONV BND REG 1.625 04/15/2013	105.02	423,223	100.75	406,023	2.43	1.61	6,549	A+
96,000	MICROCHIP TECHNOLOGY CONV BOND REG 2.125 12/15/203	106.56	102,300	132.75	127,440	0.76	1.60	2,040	NR
737,000	MICROSOFT CORP CONV BOND 144A 06/15/2013	99.76	735,263	106.00	781,220	4.67	0.00	0	AAA
675,000	MOLSON COORS CAPITAL CONV BD 2.500 07/30/2013	104.69	706,682	103.13	696,094	4.17	2.42	16,875	BBB-
282,000	NEWMONT MINING CONV BND REG 1.250 07/15/2014	134.06	378,045	127.63	359,903	2.15	0.98	3,525	BBB+
388,000	OMNICOM GROUP CONV BOND 07/01/2038	99.13	384,615	111.00	430,680	2.58	0.00	0	BBB+
159,000	PEABODY ENERGY CORP CONV BND REG 4.750 12/15/2041	132.76	211,093	85.00	135,150	0.81	5.59	7,553	B+
126,000	SANDISK CORPORATION CONV BOND REG 1.500 08/15/2017	111.39	140,350	111.25	140,175	0.84	1.35	1,890	BB
128,000	SBA COMMUNICATIONS CONV BND REG 4.000 10/01/2014	184.03	235,558	202.25	258,880	1.55	1.98	5,120	NR
168,000	SBA COMMUNICATIONS CORP REG CONV BND 1.875 05/01/2	107.25	180,180	145.88	245,070	1.47	1.29	3,150	NR
493,150	SCHLUMBERGER LIMITED CONV BND 144A 1.500 06/25/2015	131.40	647,993	132.51	653,473	3.91	1.13	7,397	NR
115,000	STONE ENERGY CORP 144A 1.750 03/01/2017	100.00	115,000	92.50	106,375	0.64	1.89	2,013	NR
180,000	TELEFLEX INC CONV BOND REG 3.875 08/01/2017	101.42	182,550	122.50	220,500	1.32	3.16	6,975	BB-
597,000	TEVA PHARMACEUTICALS CONV BOND 0.250 02/01/2026	112.35	670,730	106.00	632,820	3.79	0.24	1,493	A-
371,000	TRANSOCEAN INC TRANCH C CONV BOND 1.500 12/15/2037	106.77	396,102	100.75	373,783	2.24	1.49	5,565	BBB-
155,000	TTM TECHNOLOGIES CONV BND 3.250 05/15/2015	76.14	118,015	104.50	161,975	0.97	3.11	5,038	BB-
190,000	XILINX INC 2.625 06/15/2017	131.86	250,540	132.75	252,225	1.51	1.98	4,988	BBB+
			11,858,888		13,315,128	79.67	1.45	192,685	BBB

BAY COUNTY EMPLOYEES RETIREMENT SYSTEM

Holdings Report — Account 1256
August 31, 2012

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Stocks									
9,400	APACHE CORP CONV PFD	56.32	529,390	49.01	460,694	2.76	6.56	30,221	NR
99	BANK OF AMERICA 7.250%	830.69	82,238	1,057.00	104,643	0.63	6.86	7,178	BB+
2,800	CITIGROUP INC 7.50	120.97	338,723	92.40	258,720	1.55	8.12	21,000	NR
2,100	GOODYEAR TIRE & RUBBER	51.28	107,691	45.12	94,752	0.57	6.51	6,170	NR
7,700	HARTFORD FINL SVCS GROUP CV PFD	25.71	197,941	18.99	146,223	0.87	9.55	13,960	BB+
1,000	HEALTH CARE REIT 6.500 CNV PFD	50.00	50,000	55.50	55,500	0.33	5.86	3,250	BB
5,100	STANLEY BLACK & DECKER I CONV PFD UNITS	108.55	553,580	118.06	602,119	3.60	4.54	27,336	BBB+
4,500	UNITED TECHNOLOGIES CORP CONV PFD	55.58	250,097	56.04	252,180	1.51	3.35	8,438	BBB+
550	WELLS FARGO & COMPANY 7.500%	624.73	343,600	1,196.00	657,800	3.94	0.63	4,125	BBB+
			2,453,260		2,632,631	15.75	4.62	121,677	BB-
Cash & Equivalents									
	UNITED STATES DOLLAR 0.0900	0.00	712,102	1.00	712,102	4.26	0.09	641	AAA
			712,102		712,102	4.26	0.09	641	AAA
	Accrued Income				53,004	0.32			
	Accrual Adjustment for Unsettled Trades				55	0.00			
Total Portfolio			**$15,024,250**		**$16,712,920**	**100.00%**	**1.89**	**$315,002**	**BBB**