

**Bay County Employees' Retirement System
Recommended Revisions to the Statement of Investment Policy & Fixed
Income Manager Investment Guidelines**

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Prepared by



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INVESTMENT GUIDELINES
BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM**

CONVERTIBLE GUIDELINES AND OBJECTIVES

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%~~
**VXA1 – BofAML All US Investment Grade
Convertibles Index plus 1% annually**

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 agency~~ **Moody's rating of "Baa3" or Standard & Poors rating of "BBB-"**. Individual ~~investment grade~~ fixed income securities shall have at a minimum a Moody's rating of ~~"Baa3"~~ **"B3"** or a Standard & Poors rating of ~~"BBB-"~~ **"B-"**.

The account is allowed to invest up to ~~20%~~ **25%** of the portfolio in non-investment grade domestic convertible securities as identified above, however individual securities shall have at a minimum a ~~"B"~~ **"B3"** rating as determined by Moody's and ~~"B-"~~ **by** 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 applies 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.

LOOMIS, SAYLES & CO.
INVESTMENT GUIDELINES
BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

CONVERTIBLE GUIDELINES AND OBJECTIVES

Investment Guidelines: The investment objective is to deliver current income and long term growth of assets.

Benchmark: Barclay's US Corporate Bond Index plus 1% annually.

Peer Group: Becker Burke Fixed Income Portfolio Universe

Primary Investment Focus:

The account will invest primarily in domestic corporate credit securities.

Up to ten percent (10%) of the account managed by Loomis Sayles may be invested in securities rated below "Baa3" by Moody's or "BBB-" by Standard & Poor's. No individual fixed income security shall have a Moody's investment rating below "B3" or a Standard & Poor's investment rating below "B-". The total fixed income portfolio shall have a weighted rating of "~~A3/A-~~" "**Baa3/BBB-**". In the event the corresponding ratings of different rating agencies shall differ, the highest of the ratings shall be applicable for the purposes of the Investment Guidelines. If any of the parameters described in the Investment Guidelines are violated by Loomis Sayles as a result of market movements, credit downgrades or other events outside the control of Loomis Sayles, Loomis Sayles shall have a reasonable period of time, not to exceed three months, to bring the portfolio into compliance with the Investment Guidelines.

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.

IPS Section IV – Sub-Section B) Fixed Income Minimum Rating/Duration Standards

No individual Fixed Income Investment shall have a Moody's investment rating below ~~"Baa3"~~ **"B3"**, or a Standard & Poor's rating below ~~"BBB"~~ **"B"**. The total fixed income portfolio of each fixed income manager shall have an average rating of ~~"A"~~ **"Baa3" or "BBB" respectively** or better ~~from either rating agency~~. The effective duration of the portfolio may not vary more than +/- two (2) years from the effective duration of the ~~Barelay's Capital Aggregate Bond Index~~ **fixed income benchmark to which the manager is assigned**.

IPS Section VI) Review Process

The Trustees will conduct a quarterly review of the plan and each manager's results. The managers will be required to submit written quarterly reports and to meet with the Trustees at least ~~annually~~ ***once every 24 months, or more frequently at the ongoing discretion of the Trustees.*** During these ~~annual~~ ***periodic*** reviews, the following topics will be discussed by the Investment Manager(s):

- Fund rate of return on a quarterly, year-to-date, annual, and long-term basis relative to the stated benchmarks.
- Current portfolio holdings relative to the manager's style and the plan's guidelines.
- Market expectations and portfolio strategy.
- Changes in the manager's organizational structure, ownership, or personnel.

Each manager is expected to act in a prudent fashion and in compliance with this Policy. Any perceived conflict between a manager's fiduciary responsibility and guidance given by the Board of Trustees should immediately be brought to the attention of the Trustees.