

3 July 2012

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Bay County Employee's Retirement System  
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Danean:

At the June 12<sup>th</sup> meeting the Trustees asked that we prepare an analysis of the investment manager search projects that have been completed for the Retirement System.

The data for this analysis is summarized in the attached.

**Table 1** shows all searches, the year in which they were completed, the product, purpose of the search and current status. In total 18 searches were completed between 1996 and the present. Ten of these searches were to replace underperforming managers or managers with other problems. Eight of the searches were to provide additional fund diversification as fund assets grew.

**Table 2** shows the results of the current replacement managers compared side by side with managers that were replaced. In order to facilitate the comparisons, we are using investment manager composite data for current replacement managers and the managers they have replaced. The boxes around returns for current managers indicate the time period for which that manager has managed money for Bay County. Please note that the ranks used in this table are decile ranks with 10 as the worst decile and 1 as the best decile.

Two of the current replacement managers, Marvin & Palmer, and Wentworth, Hauser and Violitich replaced managers that are no longer in business, Forstmann Leff and Independence. One of the current replacement managers McKay Shields replaced Frolely Revy which was acquired.

Of the managers replaced that are still managing money, Eagle has out performed Batterymarch, Baring has out performed Invesco. Integrity outperformed Ariel in four of the five years they have managed money for you. The Ariel five year results are higher due to one exceptionally strong year for Ariel, 2009 where they earned +64.1%. The manager Baird replaced Alliance Bernstein does not have a composite comparable to Baird's mandate. However, Baird's composite results are about equal to the composite provided by Alliance.

**Table 3** shows, for reference, Bay County's actual manager results compared to the composites used. McKay Shields results for Bay County are below the Mackay Shields composite.

In order to provide added perspective for this analysis, I have included two tables summarizing results.

**Table 4** shows your investment results from December 31, 1994 thru March 31, 2012, the period of time that Becker, Burke has served as consultant to BCERS. In the period of time, the fund has earned +9.3% annually. This compares favorably to your policy index which earned 8.0% for this period. In equities, the fund earned +10.8% annually compared to the S&P 500 which earned +8.7% annually. International equities were +7.5% annually compared to the EAFE index which earned +4.6% for this period. Fixed income results were +7.0% annually compared to the Barclays Aggregate Index which earned +6.8%. During this period, your fund earned \$262,253,000 on investments.

**Table 5** shows the data history for the fund beginning December 31<sup>st</sup>, 1984.

If there are questions regarding the exhibits, our analysis or there are other ways we can be of assistance, please let us know. We appreciate very much the opportunity to be of service to the Bay County Employees Retirement System.

Cordially,



Richard L. Potter

# Table 1

## Bay County - Investment Manager Search History

Investment Manager	Product	Purpose of the Search	Size of Placement		Start Date	Status
MFS	lcg	Manager Replacement	\$20,000,000	2011	n/a	
Eagle Asset Management	scg	Manager Replacement	\$7,000,000	2010	Sept 2010	Current Manager
Cornerstone Real Estate Advisers LLC	reit	Asset Diversification	\$10,000,000	2008	Oct 2008	Current Manager
Baring Asset Management, Inc.	int'l	Manager Replacement	\$10,000,000	2008	Nov 2009	Current Manager
Integrity Asset Management	mcv	Manager Replacement	\$25,000,000	2006	Jan 2007	Current Manager
Schroder Investment Management North America Inc.	int'l - small cap	Asset Diversification	\$10,000,000	2005	July 2006	Current Manager
Baird Advisors	fixed income - intermediate	Manager Replacement	\$23,000,000	2005	Mar 2006	Current Manager
Marvin & Palmer Associates, Inc.	lcg	Manager Replacement	\$25,000,000	2005	May 2006	Current Manager
Batterymarch Financial Management, Inc.	scg	Asset Diversification	\$10,000,000	2004	terminated	<b>Replaced by Eagle</b>
MacKay Shields LLC	convertibles	Manager Replacement	\$10,000,000	2003	Aug 2003	Current Manager
Hotchkis and Wiley Capital Management, LLC	scv	Asset Diversification	\$10,000,000	2003	Dec 2003	Current Manager
Wentworth, Hauser and Violich	lcc	Manager Replacement	\$20,000,000	2003	Mar 2004	Current Manager
Seligman (Now Columbia)	lcv	Manager Replacement	\$10,000,000	2000	Jan 2001	Current Manager
Ariel Capital Management, Inc.	mcv	Asset Diversification		1999	terminated	<b>Replaced by Integrity</b>
INVESCO Global Asset Management, (N.A.), Inc.	int'l / EAFE	Manager Replacement		1999	terminated	<b>Replaced by Barings</b>
Froley, Revy Investment Management Co., Inc.	convertibles	Asset Diversification		1999	terminated	<b>Replaced by MacKay Shields</b>
Loomis, Sayles & Company, L.P.	fixed income - core	Asset Diversification	\$25,000,000	1996	Dec 1999	Current Manager
Denver Investment Advisors	mcg	Asset Diversification	\$20,000,000	1996	Sept 1997	Current Manager
<b>Other Terminated Managers</b>						
Forstmann Leff	lcg					<b>Replaced by Marvin &amp; Palmer</b>
Alliance	fixed income					<b>Replaced by Baird</b>
Independence	lcc					<b>Replaced by Wentworth, Hauser and Violich</b>

# Table 2

## Bay County Manager Replacement Investment Performance

Legend:

Note: Ranks below are Decile Rank NOT Percentile Rank

Decile Rank - 1 = best decile, 10 = worst decile

above median

Bay County performance

Firm	Product	Bay County Start Date	Ending 3/31/2012						Ending 12/31									
			1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Eagle Asset Management, Inc.	Small Cap Growth	Sep-10	4.5	19.5	34.0	7.8	10.6	9.1	-2.5	34.3	39.5	-36.2	12.6	21.4	3.5	20.3	43.4	-22.0
			Decile Rank 4	3	2	2	2	2	6	3	5	2	5	1	9	2	7	3
Batterymarch Financial Management, Inc.	Small Cap Growth		0.7	14.3	26.2	0.2	3.1	5.8	-4.1	30.6	26.6	-41.8	0.1	8.9	4.9	16.9	55.8	-14.5
			Decile Rank 7	7	8	10	10	9	7	5	9	6	9	8	8	4	3	1
Baring Asset Management	Focused International Plus	Nov-09	-1.2	5.6	18.9	1.0	7.9	10.0	-8.0	9.8	39.2	-43.7	24.3	34.0	18.4	25.0	39.3	-10.7
			Decile Rank 3	5	6	4	3	1	2	8	5	5	2	1	4	1	3	2
Invesco	International Equity Trust		-7.4	0.0	16.1	-2.6	3.6	5.9	-12.4	7.0	35.7	-39.8	9.8	26.2	11.9	21.7	31.9	-10.1
			Decile Rank 8	9	8	7	8	10	7	7	5	5	6	7	8	7	10	6
Integrity Asset Management	Mid Cap Value	Jan-07	3.2	12.8	28.4	2.8	6.8		-1.4	27.7	31.8	-38.0	3.0	18.4	13.7	23.0	42.3	
			Decile Rank 4	5	4	5	5		6	1	7	6	5	4	4	3	3	
Ariel Investments	Mid Cap Value		1.8	10.9	34.9	4.9	6.5	6.7	-6.0	21.0	64.1	-39.9	-0.3	12.3	4.2	14.0	32.3	-9.9
			Decile Rank 6	7	1	3	7	9	10	7	1	7	8	10	10	9	9	4
Marvin & Palmer Associates, Inc.	Large Cap Growth	May-06	3.8	12.4	20.3	1.3	3.2	3.4	-4.1	20.1	18.6	-45.9	26.8	3.7	9.8	11.3	35.3	-25.8
			Decile Rank 9	7	9	10	10	10	9	3	10	10	1	9	4	4	2	6
ForstmannLeff (firm no longer exists 2009)																		
Baird Advisors	Aggregate Bond	Mar-06	8.6	7.9	10.1	6.3	5.9	6.3	8.1	8.7	11.2	-2.0	5.9	5.2	3.2	5.6	7.5	8.7
			Decile Rank 3	2	3	8	7	4	3	2	4	7	8	1	2	1	1	9
AllianceBernstein L.P.	Alliance US Core Fixed Income		6.9	6.8	10.1	6.4	5.9	5.9	7.3	8.8	14.1	-1.7	5.3	4.9	2.6	4.6	4.6	8.5
			Decile Rank 9	9	7	8	9	10	6	6	6	5	8	7	7	9	9	7
WHV Investment Management	Large Cap Core	Mar-04	7.5	11.3	23.0	3.3	5.2	4.3	-2.6	13.8	34.4	-34.6	6.4	7.3	9.5	12.5	26.4	-22.4
			Decile Rank 3	4	5	3	5	8	8	7	2	5	4	10	5	8	8	9
Independence (firm no longer exists 2010)																		
Mackay Shields LLC	Convertible	Aug-03	-3.0	7.6	18.5	5.6	7.1	6.8	-4.5	17.0	41.8	-32.2	15.2	10.3	7.1	6.9	22.5	-6.2
			Decile Rank 9	6	6	6	5	5	8	4	5	8	2	8	1	6	5	5
SSI Investment Management (formerly Froley Revy)	Investment Grade Convertible		-1.1	3.8	10.8	6.0	7.0	6.1	-4.3	7.3	26.6	-9.4	8.4	11.6	1.4	4.6	12.8	-1.3
			Decile Rank 6	10	10	5	6	7	7	10	10	1	6	5	9	10	10	2



Table 4

## Bay County Employees' Retirement System

December 31, 1994 through March 31, 2012

Becker, Burke's Involvement as Consultant

	\$ in Thousands
Beginning Market Value	88,206
Net External Growth	-103,364
Return on Investment	262,253
Income Received	86,347
Gain/Loss	175,906
Ending Market Value	247,095

	Annualized Rates
<b>BCERS</b>	<b>9.3%</b>
BCERS Policy Index	8.0%
<b>Domestic Equities</b>	<b>10.8%</b>
S&P 500 Index	8.7%
<b>International Equities</b>	<b>7.5%</b>
MSCI EAFE (net)	4.6%
<b>Fixed Income</b>	<b>7.0%</b>
Barclays Aggregate Gov. Index	6.8%

Table 5

## Bay County Employees' Retirement System

December 31, 1984 through March 31, 2012  
Complete Data History

	\$ in Thousands
Beginning Market Value	24,693
Net External Growth	-97,941
Return on Investment	320,343
Income Received	114,921
Gain/Loss	205,422
Ending Market Value	247,095

	Annualized Rates
BCERS	10.4%
Domestic Equities	13.3%
S&P 500 Index	10.7%
Fixed Income	8.5%
Barclays Aggregate Gov. Index	7.9%