

# Bay County Employees Retirement System

Todd Needham, CFA  
VP, Client Portfolio Manager

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[www.loomissayles.com](http://www.loomissayles.com) One Financial Center Boston, Massachusetts 02111 617 482-2450

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# loomis sayles at a glance

## A Rich Investment Tradition

Serving investors with integrity since 1926

\$242.2 billion assets under management\*

Expertise across all major asset classes

75% of investment professionals dedicated to research & trading; 144 CFA® charterholders\*\*

Global perspective: investors in Boston, San Francisco, Detroit, London and Singapore

## What Defines Us

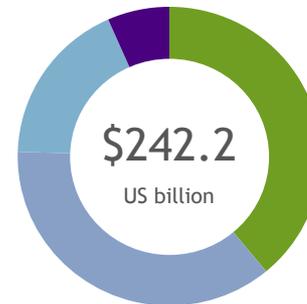
Core attributes: integrity, transparency and a team-oriented culture

Rigorous fundamental analysis complemented by robust macro and market insight

Portfolio managers, strategists, research analysts and traders collaborating to identify our best ideas

Small, accountable product teams implementing portfolio decisions

Disciplined risk awareness integrated into a high conviction investment process



### AUM by Global Accounts

- US mutual funds (\$94.4 b)
- US separate accounts (\$88.4 b)
- Non-US separate accounts (\$43.4 b)
- Non-US mutual funds (\$16.0 b)

*As of 6/30/2015. \* Includes the assets of both Loomis, Sayles & Co., LP, and Loomis Sayles Trust Company, LLC. (\$16.1 billion for the Loomis Sayles Trust Company). Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Company, L.P. \*\* 276 investment professionals. 80% of CFA charterholders are investment professionals and 20% are non-investment professionals.*

# deep insight fuels our pursuit of alpha

## MACRO STRATEGIES

- Director  
*35 years experience*
- Associate Director/  
Senior Global Macro Strategist  
*20 years experience*
- Senior Equity Strategist  
*30 years experience*
- 2 Economists  
*26 years average experience*
- 3 Analysts  
*6 years average experience*
- Research Assistant

## SOVEREIGN RESEARCH

- 6 Senior Sovereign Analysts  
*19 years average experience*
- Analyst  
*7 years experience*
- Research Associate

## CREDIT RESEARCH

- Director  
*32 years experience*
- 23 Senior Credit Analysts  
*20 years average experience*
- 13 Credit Analysts  
*9 years average experience*
- 9 Research Associates
- 8 Research Assistants

## SECURITIZED RESEARCH

- Director  
*18 years experience*
- 4 Senior Securitized Asset Analysts  
*18 years average experience*
- 2 Securitized Asset Analysts  
*9 years average experience*
- 2 Research Associates

## CONVERTIBLES & SPECIAL SITUATIONS

- Director  
*30 years experience*
- 2 Senior Research Analysts  
*13 years average experience*
- 2 Research Associates

## QUANTITATIVE RESEARCH & RISK ANALYSIS

- Deputy CIO, Director  
*27 years experience*
- Manager, Equity  
*28 years experience*
- Quantitative Strategist  
*20 years experience*
- Senior Investment Specialist  
*10 years experience*
- 9 Quantitative Research Analysts  
*10 years average experience*

## EQUITY RESEARCH

- 22 Senior Analysts  
*18 years average experience*
- 9 Analysts  
*7 years average experience*
- Research Associate

\$88 million committed to proprietary research in 2015

*As of 6/30/2015; Years experience indicates industry experience.*

# product overview

## HIGHLY EXPERIENCED, SEASONED TEAM

<b>PRODUCT TEAM</b>	<b>CAROL GENTILE, CFA</b> Portfolio Manager		<b>RICK RACZKOWSKI</b> Portfolio Manager		<b>KURT WAGNER, CFA, CIC</b> Portfolio Manager	
	Yrs of industry experience:	30		26		37
	Yrs with firm:	30		14		21
<b>FIRMWIDE RESOURCES</b>	<b>DAN PLOFSKY, CFA</b> Portfolio Specialist	<b>DAN CONKLIN, CFA</b> Investment Analyst	<b>GENE MORRISON, CFA</b> Product Manager	<b>PRAMILA AGRAWAL, CFA</b> Quantitative Analyst		<b>KARL DAVIS</b> Quantitative Analyst
	Yrs of industry experience:	16	5	20	8	20
	Yrs with firm:	16	3	1	7	8
	<b>Investment Grade Sector Team</b> P. Agrawal N. Burke C. Gentile B. Kennedy M. McDade J. McIntosh R. Raczkowski L. Royer S. Service D. Simmons K. Wagner	<b>Macro Strategies</b> Director Assoc. Director/ Senior Global Macro Strategist Senior Equity Strategist 2 Economists 3 Analysts Research Assistant	<b>Credit Research</b> Director 23 Senior Analysts 13 Analysts 9 Research Associates 8 Research Assistants	<b>Quant. Research &amp; Risk Analysis</b> Deputy CIO, Director Manager, Equity Quantitative Strategist Senior Investment Specialist 3 Analysts - Equity 6 Analysts - Fixed	<b>Convertibles &amp; Special Situations</b> Director 2 Senior Analysts 2 Research Associates	<b>Fixed Income Trading</b> 28 Traders/Tas Director, Portfolio Implementation 14 Portfolio Specialists Director, Operational Trading Risk Mgt. Junior Risk Analyst
<i>As of 6/30/2015.</i>						

# guideline summary

## Benchmark

- Barclays US Corporate Investment Grade Bond Index

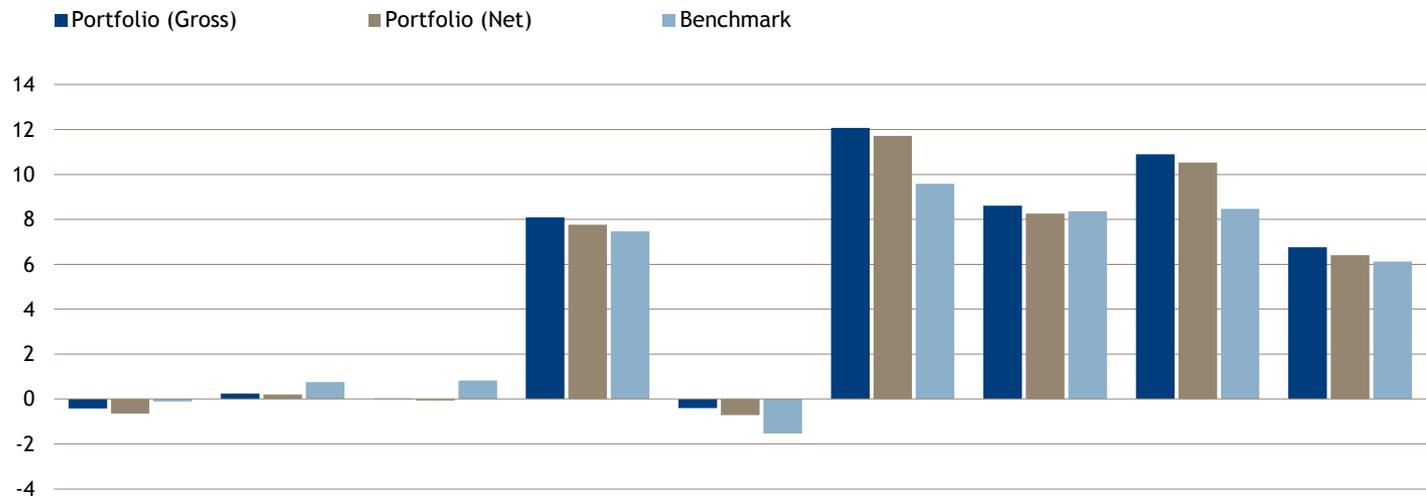
## Guidelines & Limitations

- Credit Quality: Account may not hold more than 10% MV in securities rated below Moody or S&P Baa3/BBB-. The highest rating will govern split rated securities. Account may not hold any securities with a Moody or S&P rating below B3/B-, at time of purchase.
- Issuer: Account may not hold more than 5% MV in any one Issuer, excluding US Treasuries, Govt agencies and GSE's.
- Issue: Account may not hold more than 5% of the outstanding fixed income obligations of any one issue, excluding US Government and Agency securities.
- Country: Account may not purchase foreign fixed income securities, excluding Yankee Bonds. This includes all non-USD denominated securities.
- Duration: +/- 1 year relative to the Barclays US Corporate Investment Grade Bond Index.
- Account may not invest in securities issued by Bay County.

*Guideline summary is not a complete restatement of guidelines. The slide is intended to be a summary to aid in the review process.*

# investment results

## CALENDAR YEAR RETURNS (%) AS OF 09/30/2015

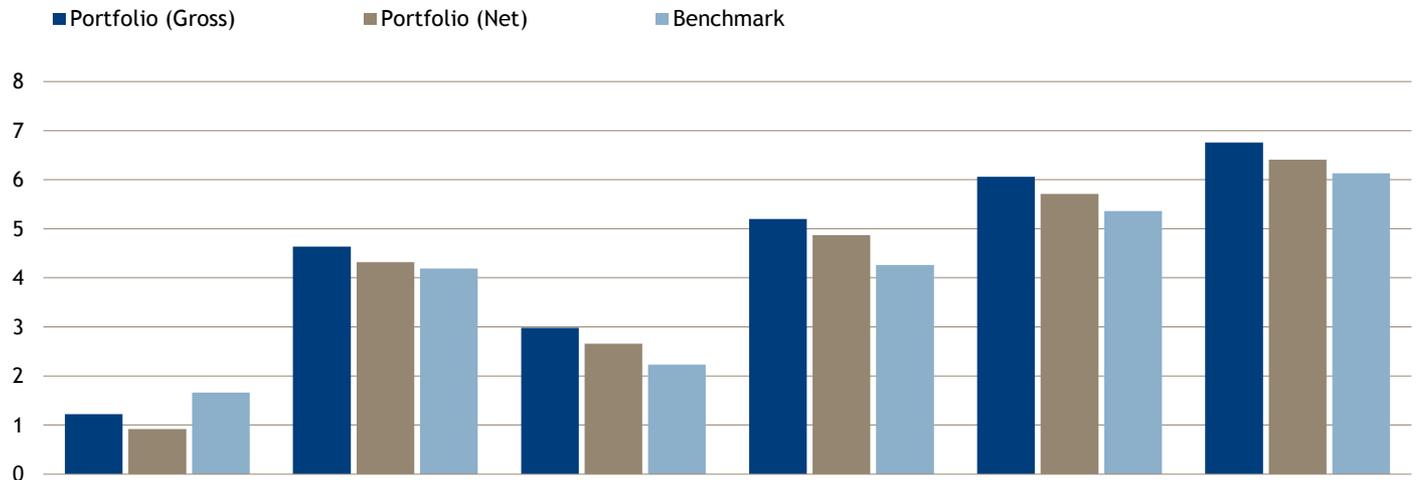


	YTD	Sep 15	3Q15	2014	2013	2012	2011	2010	1/31/97 - 9/30/15 Annualized
Portfolio (Gross)	-0.41	0.24	0.02	8.09	-0.40	12.07	8.61	10.90	6.76
Portfolio (Net)	-0.64	0.21	-0.06	7.76	-0.71	11.72	8.25	10.53	6.41
Benchmark	-0.10	0.75	0.83	7.46	-1.53	9.58	8.35	8.47	6.13
Excess Return	-0.31	-0.51	-0.81	0.63	1.13	2.49	0.26	2.43	0.63

*The current benchmark is Barclays U.S. Corporate Investment Grade. (1) Citigroup Broad Inv-Grade (BIG) from 1/31/1997 to 6/30/1999; Barclays Credit from 6/30/1999 to 2/29/2012; and Barclays U.S. Corporate Investment Grade from 2/29/2012 to 9/30/2015. Returns over one year are annualized. Information is reported on a trade date basis. Data Source: Barclays Capital, Bloomberg*

# investment results

## ANNUALIZED RETURNS (%) AS OF 09/30/2015



	1 year	2 years	3 years	5 years	10 years	1/31/97 - 9/30/15 Annualized
Portfolio (Gross)	1.22	4.64	2.98	5.20	6.06	6.76
Portfolio (Net)	0.92	4.32	2.66	4.87	5.71	6.41
Benchmark	1.66	4.19	2.23	4.26	5.36	6.13
Excess Return	-0.44	0.45	0.75	0.94	0.70	0.63

*The current benchmark is Barclays U.S. Corporate Investment Grade. (1) Citigroup Broad Inv-Grade (BIG) from 1/31/1997 to 6/30/1999; Barclays Credit from 6/30/1999 to 2/29/2012; and Barclays U.S. Corporate Investment Grade from 2/29/2012 to 9/30/2015. Returns over one year are annualized. Information is reported on a trade date basis. Data Source: Barclays Capital, Bloomberg*

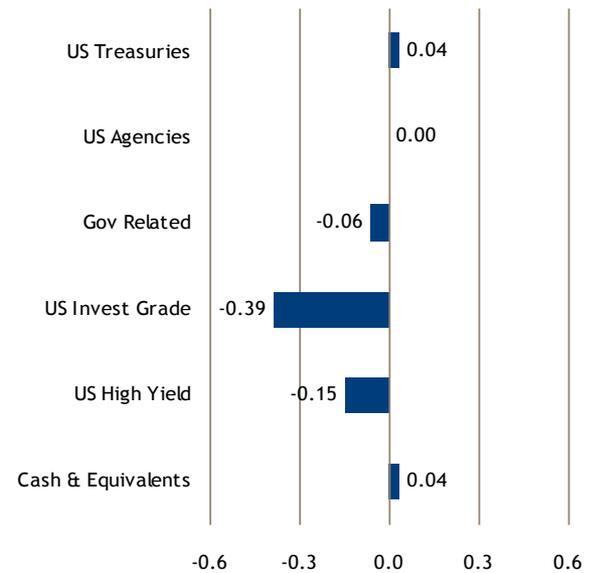
# performance attribution

09/30/2014 THROUGH 09/30/2015 (%)

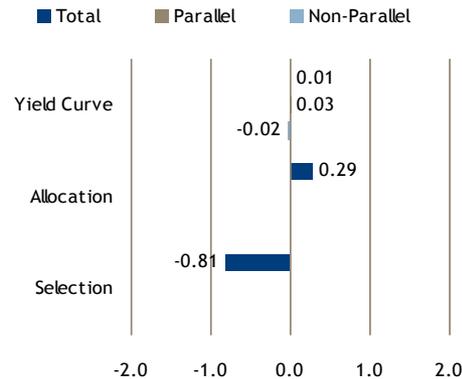
## Total Returns

Account Return	1.22
Benchmark Return	1.66
Excess Return	-0.44

## Excess Return Attribution by Sector



## Excess Return Attribution



*The Attribution benchmark is Barclays U.S. Corporate Investment Grade. Figures on bar charts may not add up to total excess return as they exclude impact of trading and pricing differences. Excess Return by sector excludes yield curve impact. Data Source: Barclays Capital*

# attribution analysis

09/30/2014 THROUGH 09/30/2015 (%)

## Maturity Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
Under 1 year	5.25	0.00	3.56	0.00	1.38	1.66	0.16
1 - 3 years	12.58	21.08	12.67	20.17	1.40	1.30	-0.27
3 - 5 years	19.50	18.10	19.18	18.83	2.86	2.67	0.01
5 - 7 years	14.05	13.27	16.50	12.70	2.64	2.95	0.06
7 - 10 years	19.11	17.59	18.42	18.17	-1.10	2.75	-0.71
10+ years	29.51	29.96	29.67	30.12	1.00	0.15	0.25

## Sector Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
US Treasuries	1.62	0.00	1.48	0.00	6.47	1.66	0.04
US Agencies*	0.14	0.00	0.00	0.00	3.36	1.66	0.00
Gov Related	1.62	0.00	4.40	0.00	-0.49	1.66	-0.06
US Invest Grade	87.81	100.00	83.62	99.99	1.50	1.66	-0.39
IG - Financial	35.32	32.46	37.14	32.56	3.31	3.18	0.20
IG - Industrial	50.28	60.06	44.38	59.85	0.14	0.73	-0.60
IG - Utility	2.21	7.48	2.10	7.58	3.36	2.57	0.01
US High Yield	7.84	0.00	9.16	0.00	-0.80	0.00	-0.15
Cash & Equivalents	0.97	0.00	1.32	0.00	0.01	1.66	0.04
No Category*	0.00	0.00	0.00	0.01	-0.09	0.05	0.00

*The Attribution benchmark is Barclays U.S. Corporate Investment Grade. Total Effects are impacted by sector returns, allocation shifts and market timing. \*Returns reflect the entire period whereas weights reflect only the end of period. Total Effect excludes yield curve impact. Data Source: Barclays Capital*

# attribution analysis

09/30/2014 THROUGH 09/30/2015 (%)

## Quality Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
Aaa	2.96	1.32	2.94	1.20	3.60	3.11	0.06
Aa	10.68	8.36	8.12	8.78	3.28	2.93	0.04
A	41.77	45.01	39.55	45.86	3.27	2.92	0.26
Baa	37.19	45.31	39.88	44.17	-0.79	0.13	-0.79
Ba	7.20	0.00	7.74	0.00	-1.06	1.66	-0.14
B	0.20	0.00	1.32	0.00	-3.10	1.66	-0.02
Caa & Lower	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Not Rated	0.00	0.00	0.43	0.00	17.13	1.66	0.07

## Currency Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
U S Dollars	100.00	100.00	100.00	100.00	1.15	1.66	-0.52

*The Attribution benchmark is Barclays U.S. Corporate Investment Grade. For split rated securities in the quality distribution, the higher of Moody and S&P is used. Total Effects are impacted by sector returns, allocation shifts and market timing. Total Effect excludes yield curve impact. Data Source: Barclays Capital*

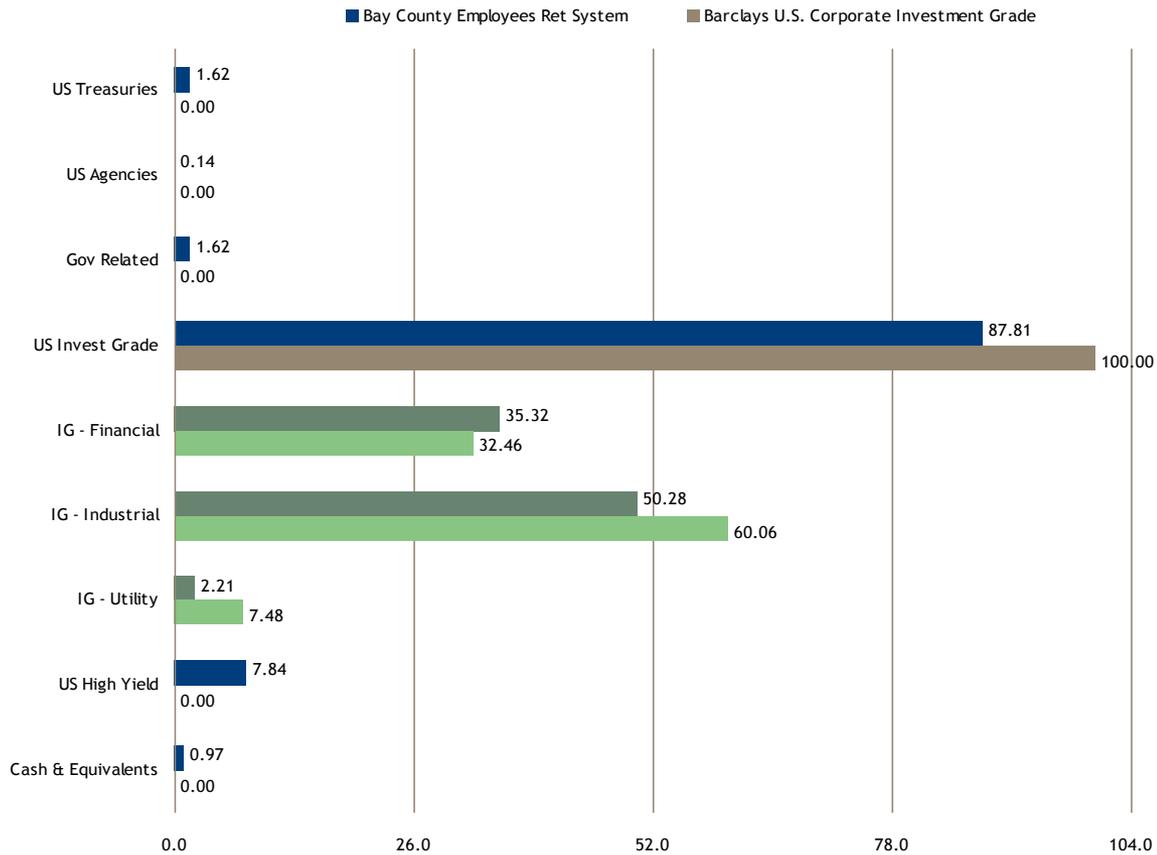
# historical characteristics summary

	<b>Portfolio 9/30/2014</b>	<b>Portfolio 09/30/2015</b>	<b>Benchmark 09/30/2015</b>
Yield	3.32%	3.76%	3.36%
Average Maturity	10.47 years	10.80 years	10.44 years
Average Duration	7.14 years	7.24 years	7.07 years
Average Coupon Rate	4.39%	4.28%	4.31%
Average Quality	A3	Baa1	Baa1
Market Value as of 9/30/15		\$35,683,811	

*The current benchmark is Barclays U.S. Corporate Investment Grade. Duration used is Effective. Equity securities are deemed to have a duration and maturity value of zero. Yield is Yield to Effective Maturity Data Source: Barclays Capital*

# characteristics summary

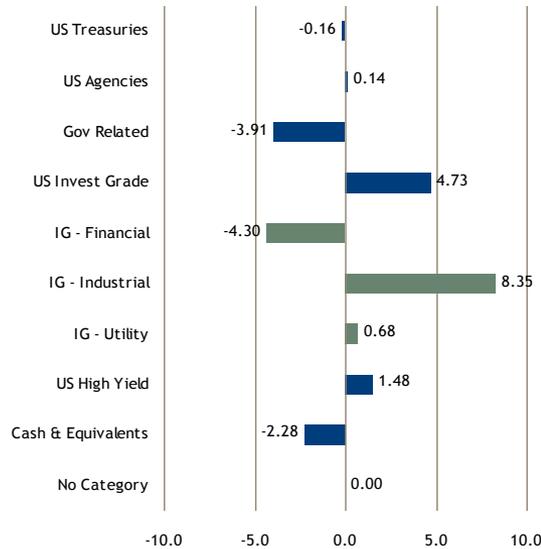
## SECTOR DISTRIBUTION (%) AS OF 9/30/2015



Data Source: Barclays Capital

# sector allocation change

09/30/2014 TO 09/30/2015 (%)

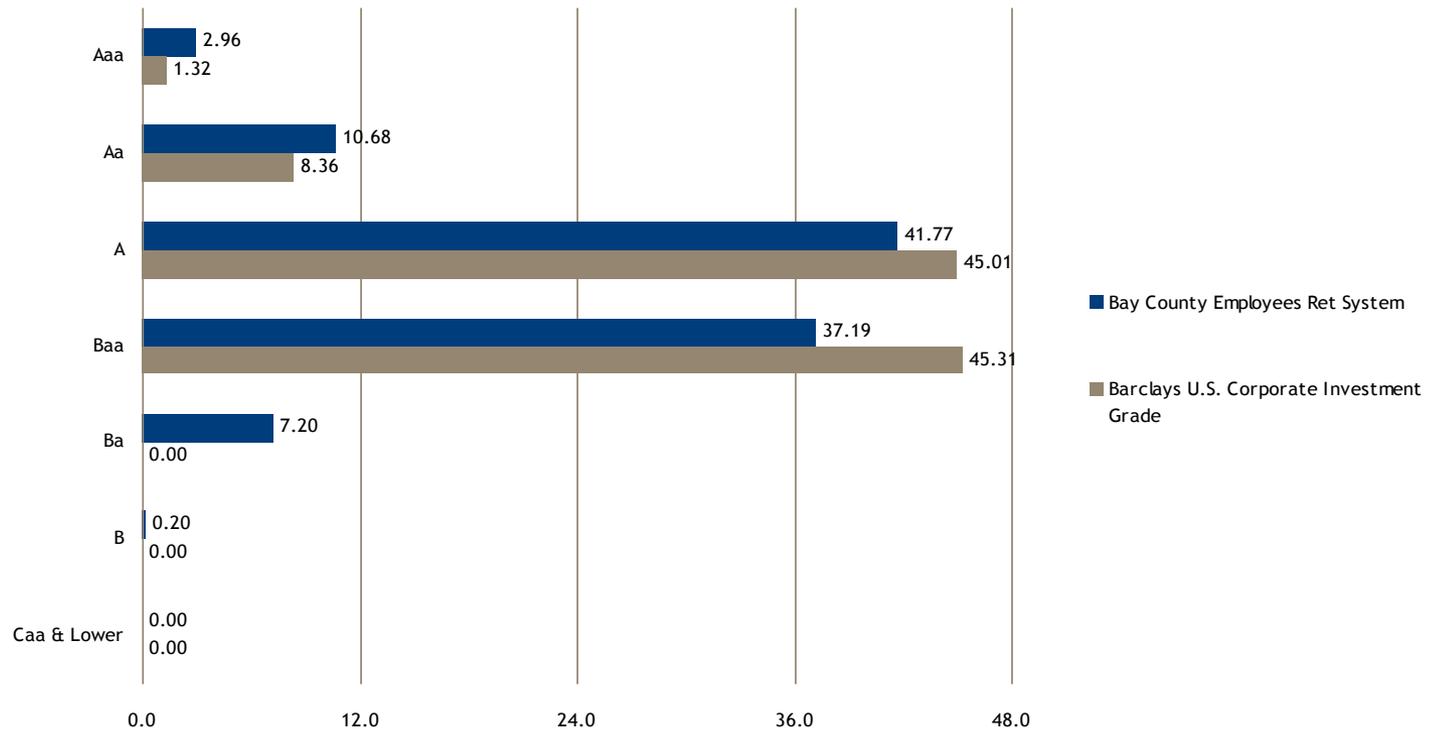


	Account Final Weight	Over/Under Weight
US Treasuries	1.62	1.62
US Agencies	0.14	0.14
Gov Related	1.62	1.62
US Invest Grade	87.81	(12.19)
IG - Financial	35.32	2.86
IG - Industrial	50.28	(9.78)
IG - Utility	2.21	(5.27)
US High Yield	7.84	7.84
Cash & Equivalents	0.97	0.97
No Category	0.00	0.00

The current benchmark is Barclays U.S. Corporate Investment Grade. Data Source: Barclays Capital

# characteristics summary

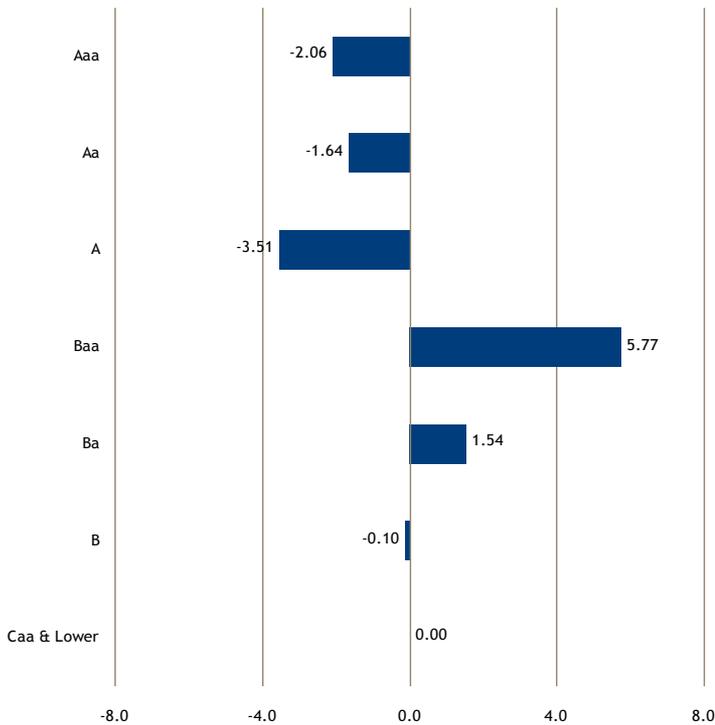
## QUALITY DISTRIBUTION (%) AS OF 9/30/2015



*For split rated securities in the quality distribution, the higher of Moody and S&P is used. The account's split rating treatment is based on client guidelines. The benchmark follows the vendor's methodology. Data Source: Barclays Capital*

# quality allocation change

09/30/2014 TO 09/30/2015 (%)

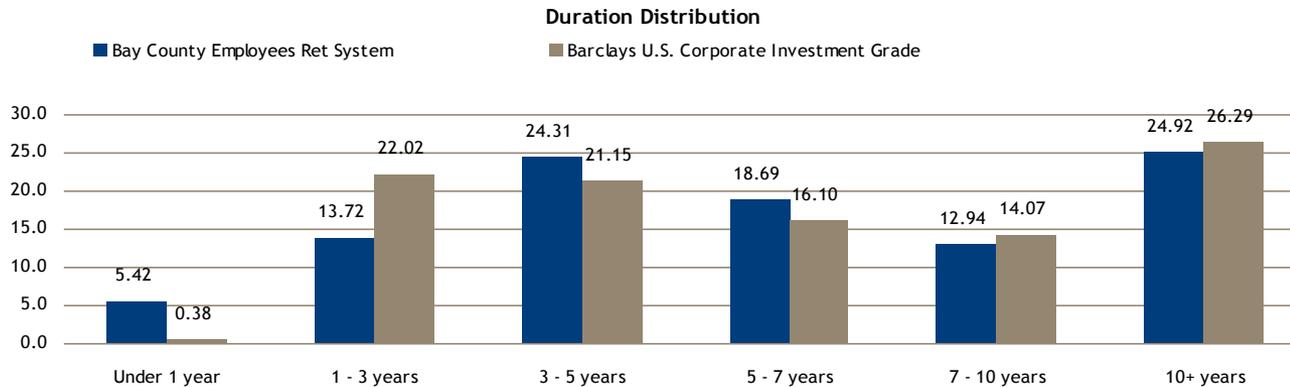
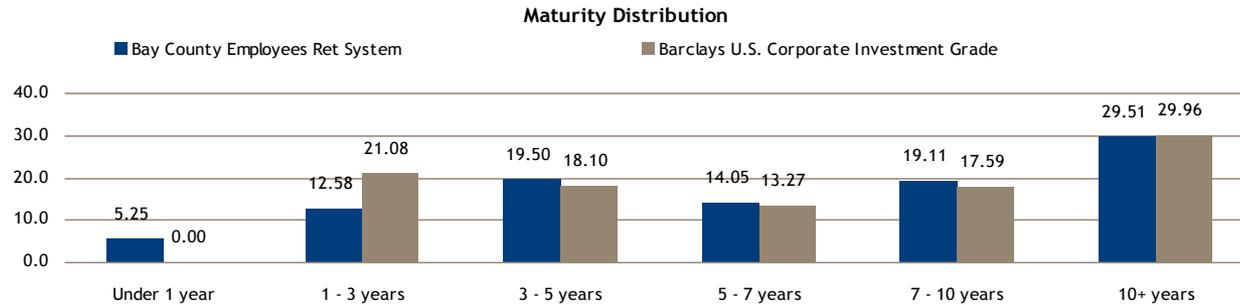


	Account Final Weight	Over/Under Weight
Aaa	2.96	1.64
Aa	10.68	2.32
A	41.77	(3.24)
Baa	37.19	(8.12)
Ba	7.20	7.20
B	0.20	0.20
Caa & Lower	0.00	0.00

*The current benchmark is Barclays U.S. Corporate Investment Grade. For split rated securities in the quality distribution, the higher of Moody and S&P is used. The account's split rating treatment is based on client guidelines. The benchmark follows the vendor's methodology. Data Source: Barclays Capital*

# characteristics summary

AS OF 9/30/2015 (%)



*The current benchmark is Barclays U.S. Corporate Investment Grade. Equity securities are deemed to have a duration and maturity value of zero. Data Source: Barclays Capital*

# macro economic environment and outlook

Year-end Forecast	U.S. Domestic			Global			Western Europe			Asia Pacific			Latin America		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Real GDP Growth	2.4%	2.5%	2.5%	3.4%	3.2%	3.3%	1.2%	1.7%	1.7%	4.8%	5.4%	5.2%	0.9%	0.3%	1.2%
Headline CPI Inflation	1.6%	0.2%	2.3%	3.5%	2.8%	3.1%	0.8%	0.3%	1.3%	3.6%	2.6%	2.6%	10.0%	8.0%	8.6%
Current Account Balance (% GDP)	-2.2%	-2.3%	-2.9%	-	-	-	2.0%	2.9%	2.8%	1.5%	1.4%	1.6%	-2.4%	-3.3%	-3.1%
Interest Rates (10-Year); end of year	2.2%	2.3%	3.0%	-	-	-	-	-	-	-	-	-	-	-	-

## U.S. economy poised for consistent growth in the face of slowing China

- On a year to year basis real economic growth in the United States is expected to remain stable and within a range between 2% and 3%.
- Housing starts are expected to rise steadily but not to the pre-crisis highs.
- The unemployment rate should stabilize around the historical NAIRU, non accelerating inflation rate of unemployment, which is between 4% and 5%.
  - The labor force participation rate should find a floor around the third quarter of this year while payroll growth slowly tapers off to a slower pace.
- Government spending growth is expected to increase at a modest rate over the coming quarters, which would provide more support for real GDP.
- Headline inflation remains tame but may accelerate with oil prices in 2016.

### Fed holds off on 1<sup>st</sup> hike in September, ECB willing to expand QE

- The September FOMC statement explicitly listed global economic and financial developments as a key reason for maintaining the federal funds rate.
- The committee has paid specific attention to such developments in China and other emerging market economies that have been showing signs of weakness.
  - FOMC growth and inflation estimates for 2016 and 2017 were revised downward relative to last quarter. Median fed funds rate forecasts also fell.
- The ECB governing council emphasized a willingness, a readiness and the capacity to act should economic conditions warrant new stimulus.
- After the September meeting, Chairman Draghi announced that the ECB raised the issue share limit on QE purchases from 25% to 33%.

## US corporate credit quality still strong in a disjointed cycle

- Profit margins, leverage and shareholder activity remain elevated near levels consistent with the late stage of an expansion, a time when the Fed would have already lifted rates well off the zero lower bound.
- Other credit metrics do not signal an end to the current cycle, but do represent conditions that have been consistent with a significantly higher policy rate.
  - When the Fed does hike, the trajectory of rates should not be steep, as inflation, wage growth and oil prices do not indicate an overheating economy.
  - Shareholder friendly activity is not necessarily alarming at this point, but as activity persists, corporate health could remain in a mildly deteriorating trend.

## Overall global risk appetite is low as a seasonally weak period approaches

- As the price of oil, base metals and agricultural products sunk, assets within the emerging markets that export those commodities also declined.
- Natural resource heavy Latin American countries were most impacted by the commodity rout. Currency, bond and stock markets all came under pressure.
- Fed Chair Janet Yellen provided a dovish message to investors without a rate hike but risk markets have yet to embrace the ultra accommodative policy stance.
- The majority of global equity indices are trading above recent lows made in late August but investor sentiment remains very cautious as market participants digest global growth concerns spurred by Chinese demand.

*The opinions expressed are based upon subjective judgments and will evolve as future events unfold.*

*Data as of 9/18/2015: Loomis Sayles Macro Strategies Group*

# bond market environment

## 10-YEAR US TREASURY YIELDS

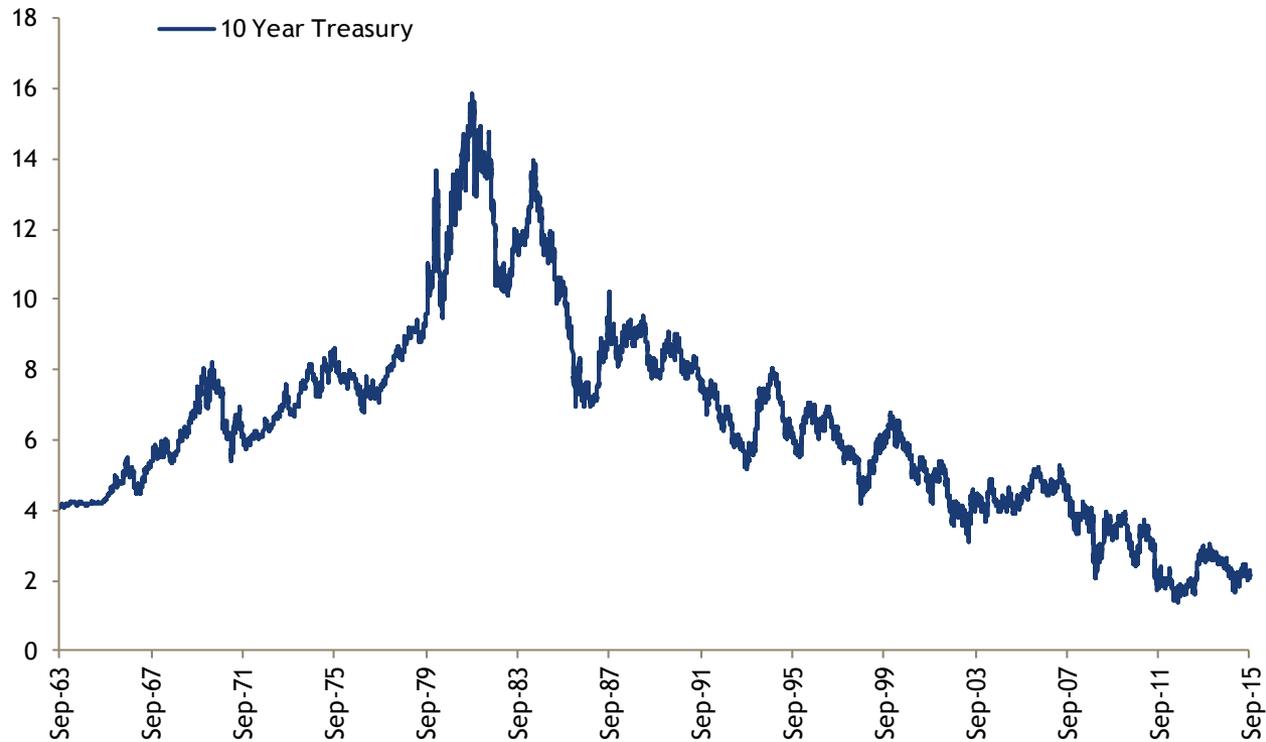
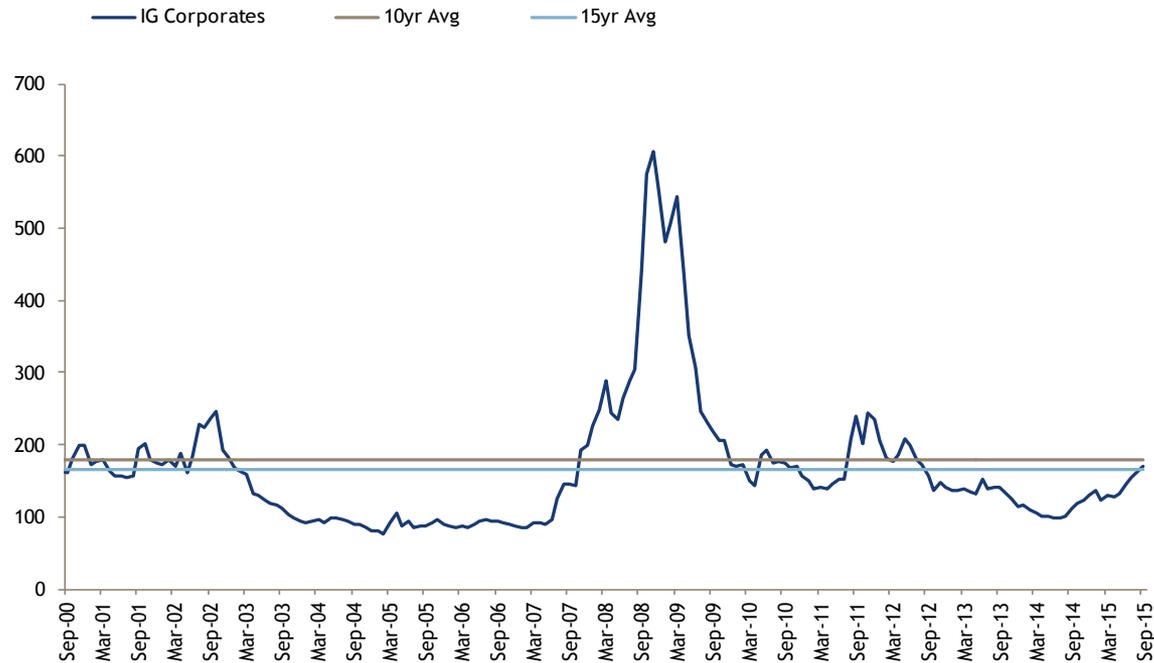


Chart illustrates 10 Year Treasury Yields from 1/02/1962 – 9/30/2015.

Data source: Bloomberg.

# bond market environment

## INVESTMENT GRADE SECTOR SPREADS

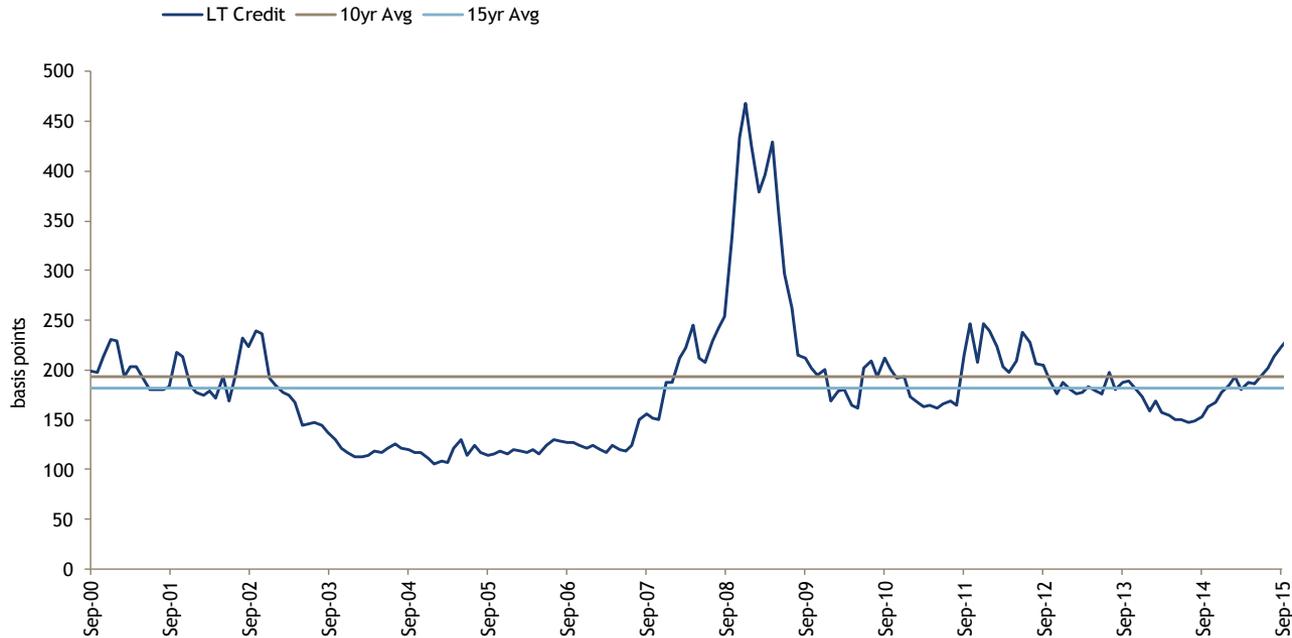


	9/30/2015	10 Yr Average	15 Yr Average	Current Spread to 10 Yr Avg	Current Spread to 15 Yr Avg
IG Financials	145	206	177	(61)	(32)
IG Industrials	184	162	160	22	24
IG Utilities	152	167	165	(15)	(13)
IG Corporates	169	179	166	(9)	3

Source: Barclays Capital; data through 9/30/2015.

# bond market environment

## LONG TERM CREDIT SPREADS

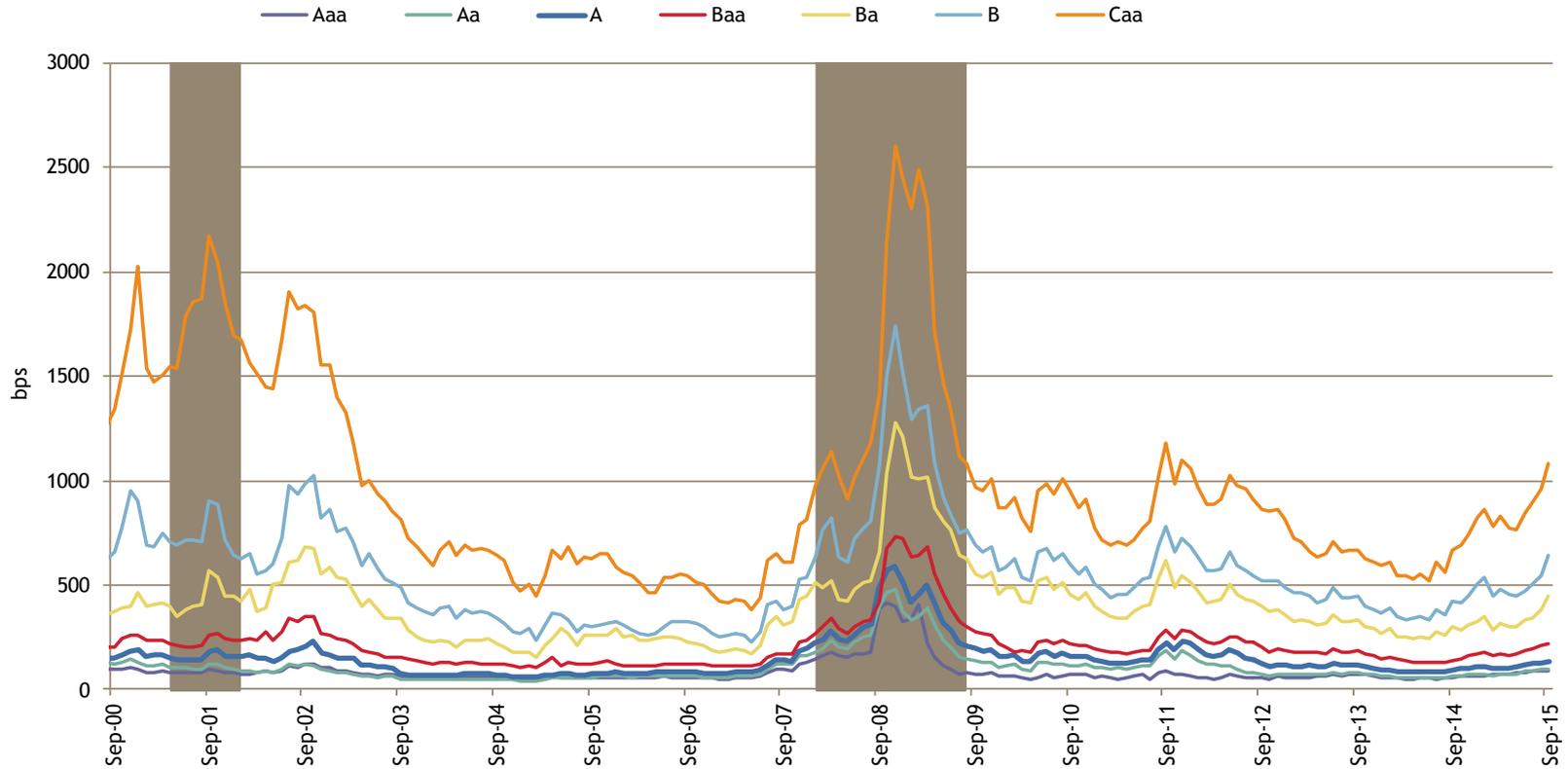


	9/30/2015	10 Yr Average	15 Yr Average	Current Spread to 10 Yr Avg	Current Spread to 15 Yr Avg
LT Credit	230	193	182	37	48
LT Aaa	113	98	95	15	18
LT Aa	160	140	124	19	36
LT A	188	179	163	9	25
LT Baa	288	230	224	58	63

Data source: Barclays Capital. Averages computed by Loomis Sayles. Data through 9/30/2015.

# bond market environment

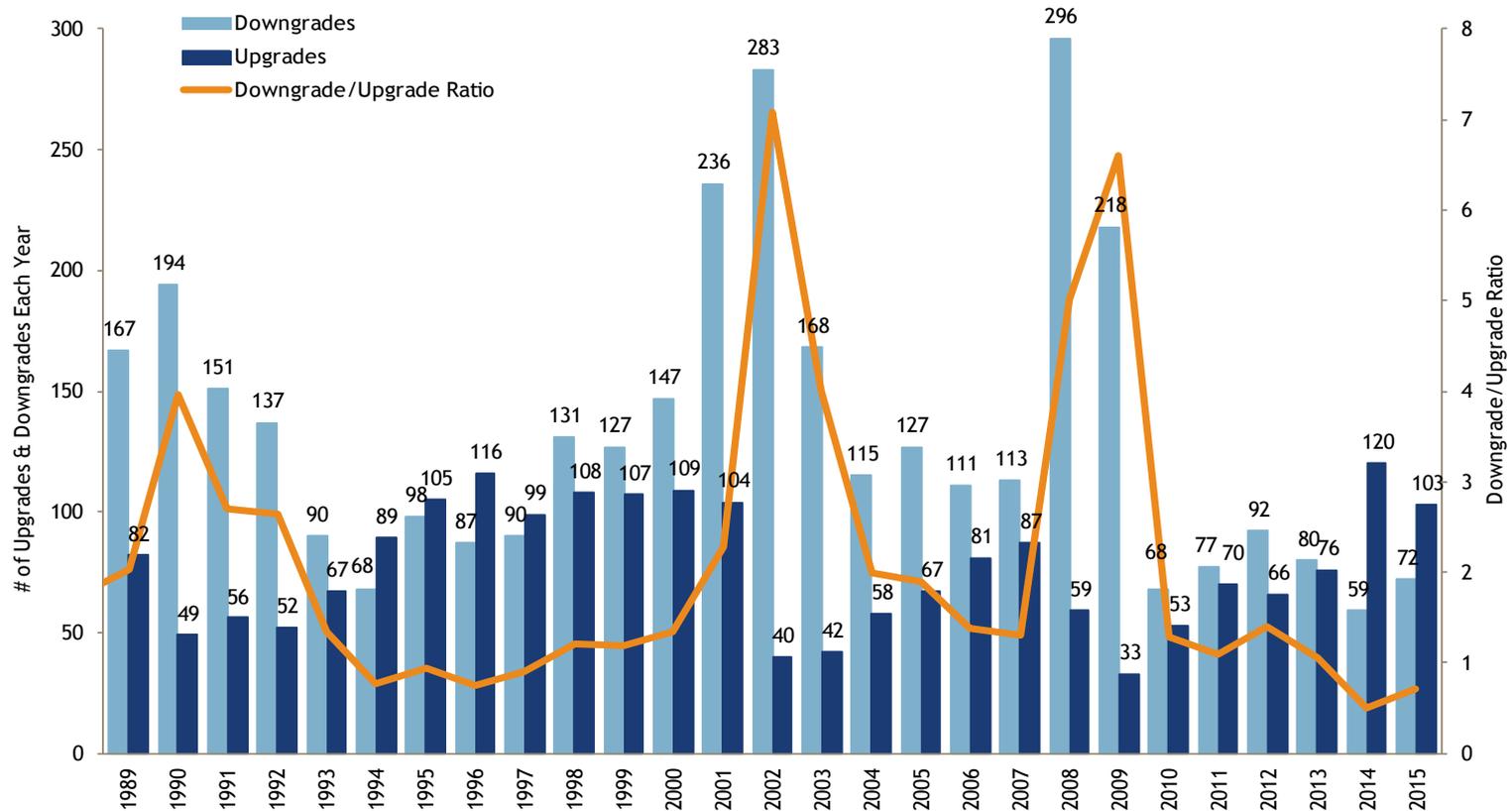
## SPREADS BY CREDIT QUALITY



Source: Barclays Capital; data through 9/30/2015. Shaded area denotes recession period.

# bond market environment

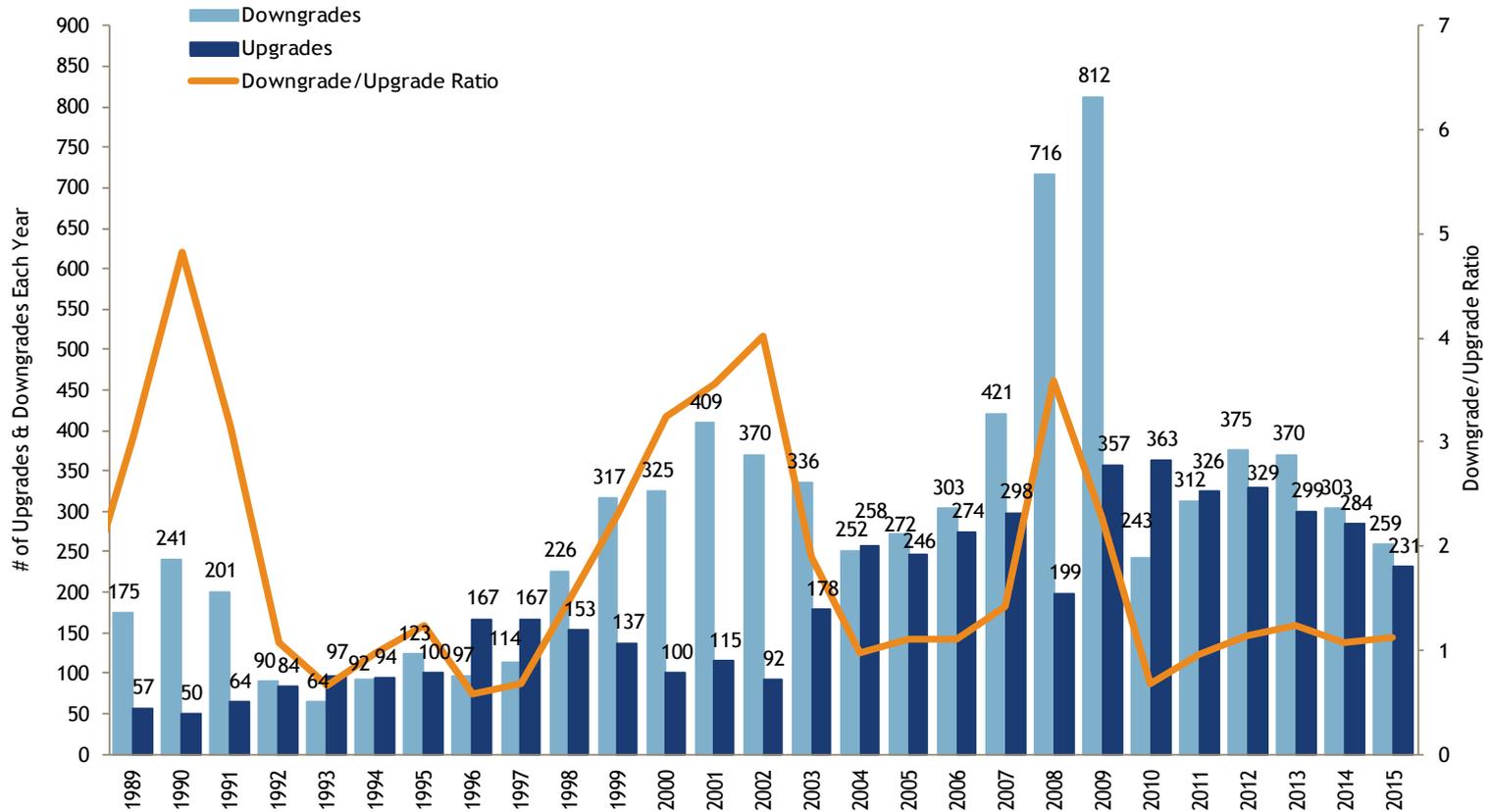
## US INVESTMENT GRADE CREDIT QUALITY TRENDS



Yearly Data. Source: Moodys, history through August 31, 2015.

# bond market environment

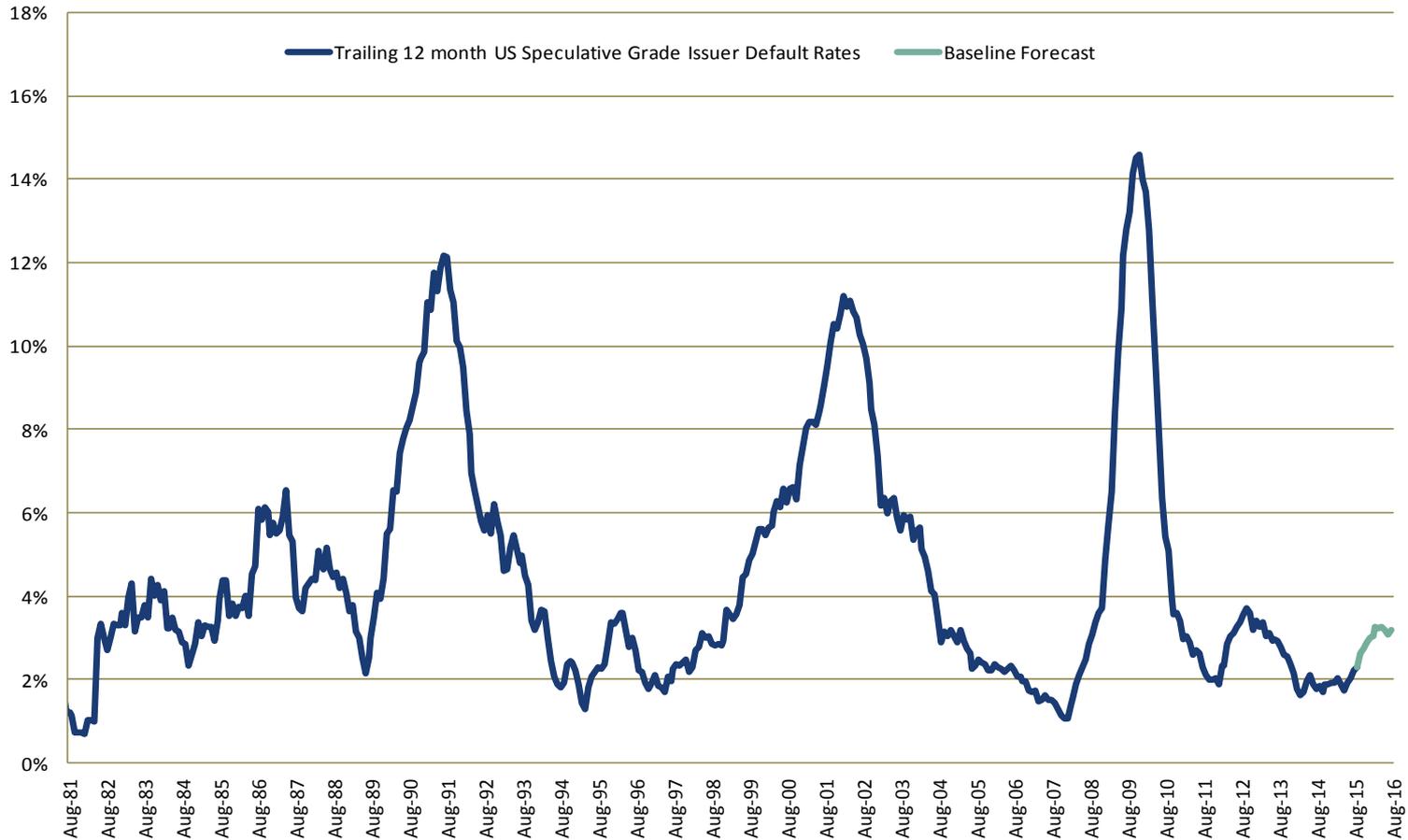
## US HIGH YIELD CREDIT QUALITY TRENDS



Yearly Data. Source: Moodys, history through August 31, 2015.

# bond market environment

## US SPECULATIVE GRADE DEFAULT TRENDS



Source: Moodys, history through August 2015. Moodys Forecast through August 2016.

# bond market environment

## US INVESTMENT GRADE AND HIGH YIELD OPTION-ADJUSTED SPREADS



Data source: Barclays Capital, history through 9/30/2015.

# contacts

## RELATIONSHIP MANAGEMENT

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**Carrie Gabel**  
Administrative Assistant  
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CGabel@loomissayles.com

## INVESTMENT MANAGEMENT

**Richard G. Raczkowski**  
Portfolio Manager

**Kurt L. Wagner, CFA, CIC**  
Portfolio Manager

**Gene Morrison, CFA**  
Product Manager

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