

# Bay County Employees Retirement System Investment Review

As of March 31, 2016

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# Presenters

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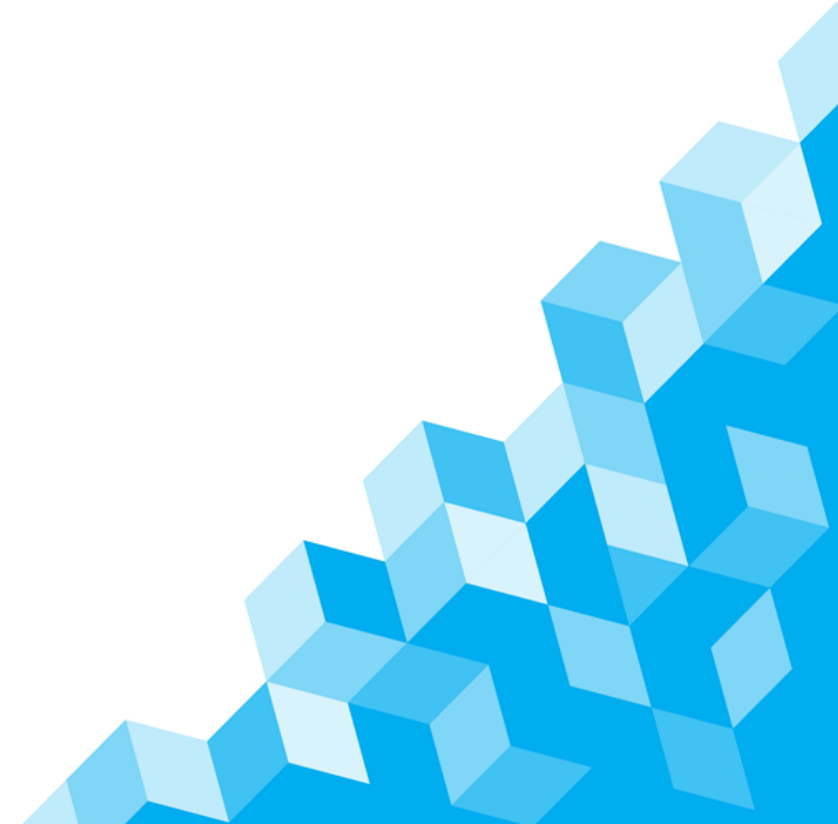
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# Investment team, philosophy and process



# Columbia Focused Value Team

- Dedicated team focused solely on value equity investing
- Experienced professionals with wide breadth of industry knowledge
- Complementary skills with clear accountability

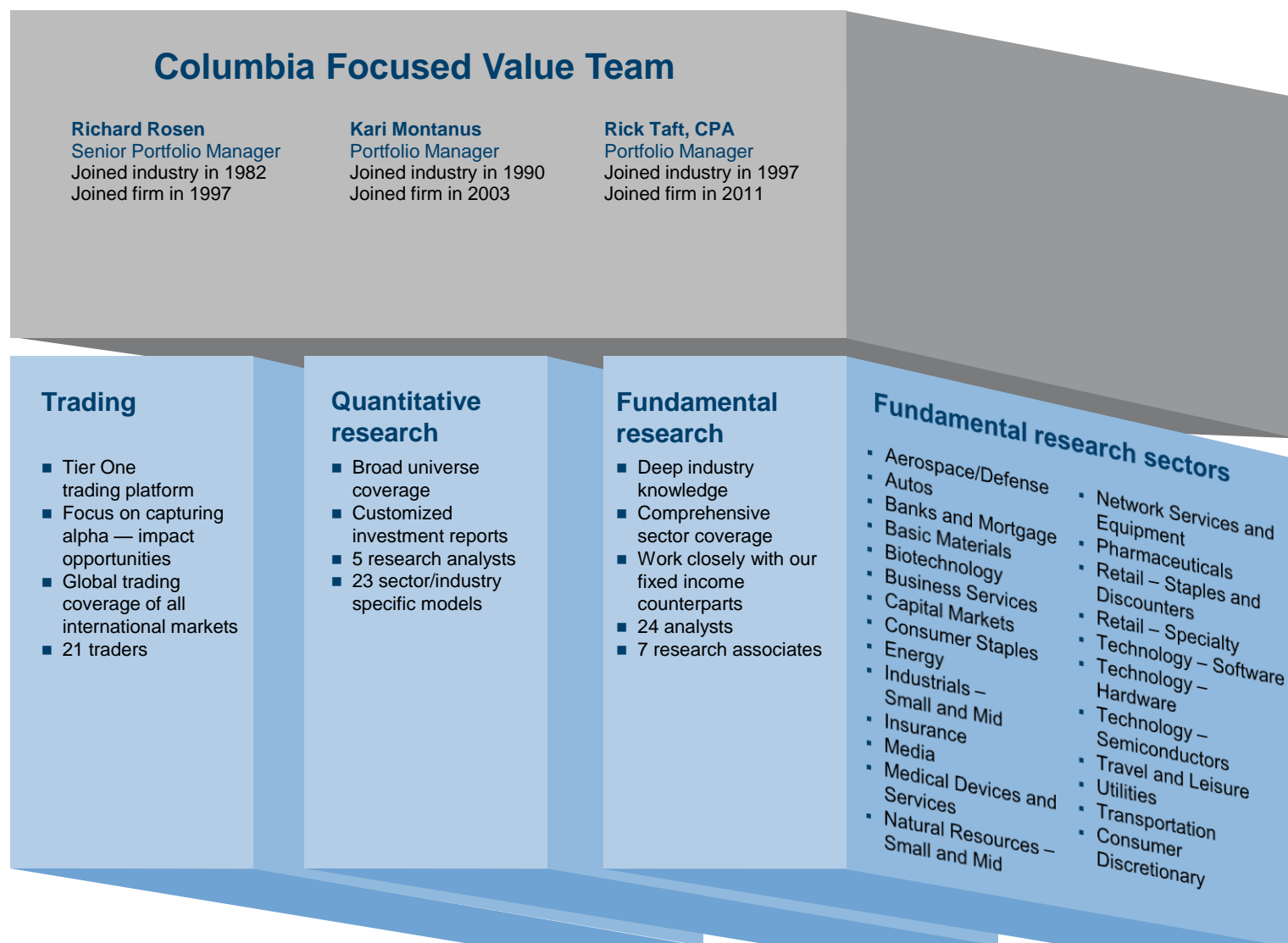
Professional	Title/ responsibilities	Year joined industry	Year joined firm
Richard Rosen	Senior Portfolio Manager	1982	1997
Kari Montanus	Portfolio Manager	1990	2003
Rick Taft, CPA	Portfolio Manager	1997	2011

Firm tenure includes time with legacy firms of Columbia Threadneedle Investments. As of December 31, 2015.

# Columbia Focused Value Team

Firm-wide resources

Independent perspectives available to all portfolio management teams



For staff that joined the firm as part of an acquisition, tenure includes time at legacy firms. As of December 31, 2015.

# Investment approach

## Seeks to:

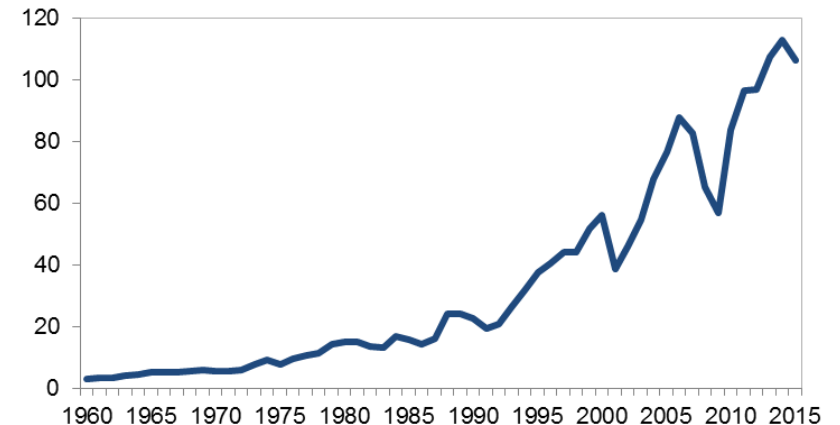
- Outperform benchmark and peer strategies
- Rank in top quartile over full market cycle

## Investment philosophy

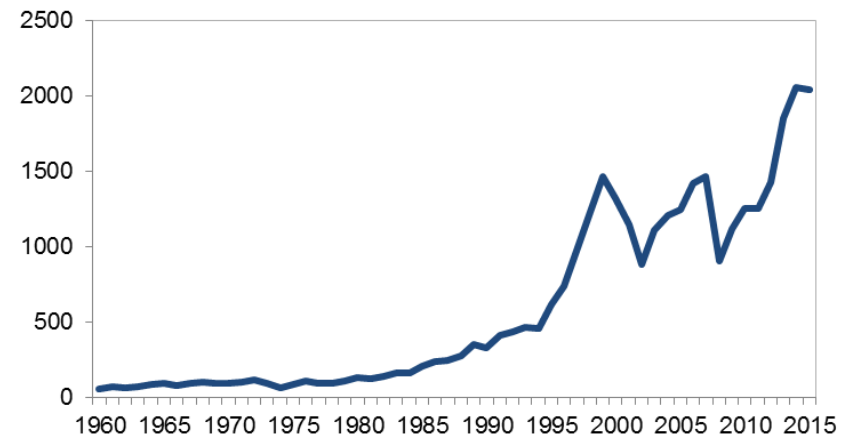
### We believe that:

- Companies that show accelerating earnings growth tend to outperform
- We can exploit inefficiencies created by low market expectations
- Value generally is defined by price-to-earnings levels below the general market
- Research can identify potential catalysts that will drive earnings acceleration
- A concentrated, low-turnover portfolio can maximize outperformance

**S&P 500 Annual EPS 1960-2015**



**S&P 500 Annual Price 1960-2015**



Source: FactSet, longrundata.com

**Past performance is not a guarantee of future results.** There is no guarantee that the investment objectives will be achieved or that return expectations will be met.

# Distinguishing features

## **Seasoned, stable investment team**

- Average more than 26 years of investing experience
- Complementary industry knowledge
- Ability to leverage extensive centralized resources

## **Distinct view of value**

- Seek stocks with attractive ‘value’ characteristics, combined with a potential for an acceleration in earnings growth
- Identifying a catalyst as the cornerstone of the investment process
- Long holding period fully captures the inflection point and full period of a stock’s outperformance

## **Benefits of a concentrated portfolio**

- Efficient way to capture alpha and mitigate risk exposures
- Allows manager to know companies extremely well

**Sound investment  
decision making**

**Portfolio  
concentrated in  
manager’s best ideas**

**Risk management**



# Investment process overview



# Step 1: Define and evaluate investable universe

**Objective:** Prioritize candidates for further research

**Look for stocks that have:**

- Market capitalizations in the range of companies in the Russell 1000® Value Index at the time of purchase
- Valuation metrics generally below market P/E, industry P/E multiple or company's historical P/E multiple
- Stocks that have come down hard for reasons we believe are temporary and/or are off their 52 week high



**100–200  
Stocks under  
consideration**

**Potential benefit:** Select from a broad-based group of stocks within the “value” style that deserve further research

## Step 2: Identify potential catalysts that could accelerate earnings growth

**Objective:** Focus research efforts on stocks with the potential to show earnings acceleration

**Potential catalysts could contribute to accelerating earnings growth:**

- Management change
- Corporate restructuring
- New product cycle

**Changing industry fundamentals can also drive earnings acceleration:**

- Improving competitive dynamics (i.e., consolidation)
- Attractive supply/demand trends
- A cyclical recovery
- New secular growth driver (i.e., new technology)



**50–75  
Stocks under  
consideration**

**Potential benefit:** Ability to overweight attractive or underweight unattractive industries in the portfolio leverages bottom-up research approach.

## Step 3: Construct portfolio and manage risk

**Objective:** Invest in 30-40 stocks with the best chance of exhibiting earnings acceleration

### **Risk control:**

- Position size limited to 5% at time of purchase; positions trimmed back when they reach 7%
- Sector exposure limited to 35% of portfolio
- Top 10 holdings typically account for less than 40% of the portfolio
- Contribution at risk (CAR) analysis ensures positions are in line with manager conviction
- Price targets maintained on all portfolio holdings; updated regularly
- Semi annual 5P review to ensure no unintentional style bias

### **Less is more — concentrated portfolio not necessarily more risky:**

- Allows managers to know companies well
- Diversification benefits can be captured within a 30–40 stock portfolio

**Potential benefit:** Concentrated portfolio with low turnover helps keep risk exposures balanced and maximizes alpha

## Step 4: Monitor holdings

**Objective:** Give stocks the time it takes for the catalyst to unfold and the market to reward accelerating earnings growth.

### **Outperformance takes patience:**

- Anticipate change early and allow sufficient time for company to become a better company
- Continuously monitor positions for leading indicators and signs of pending earnings growth improvement
- Upward earnings estimate revisions and P/E multiple expansion due to changing investor perceptions often accompany earnings acceleration and can generate significant multi-year outperformance

### **Constantly challenging existing positions. Sell or trim a position if:**

- Expected catalyst or market dynamics do not materialize or fundamentals deteriorate
- Team recognizes factors that may imperil investment thesis
- Stock becomes fully-valued relative to our price target or the market
- Better investment opportunity arises

**Potential benefit:** Maximize potential alpha of the portfolio through longer holding period

## Step 4 (continued): Monitor holdings

### Intensive fundamental research continually seeks additional drivers and assesses valuation

#### Stock Example: A leading freight rail company

##### Drivers over the duration of ownership have included:

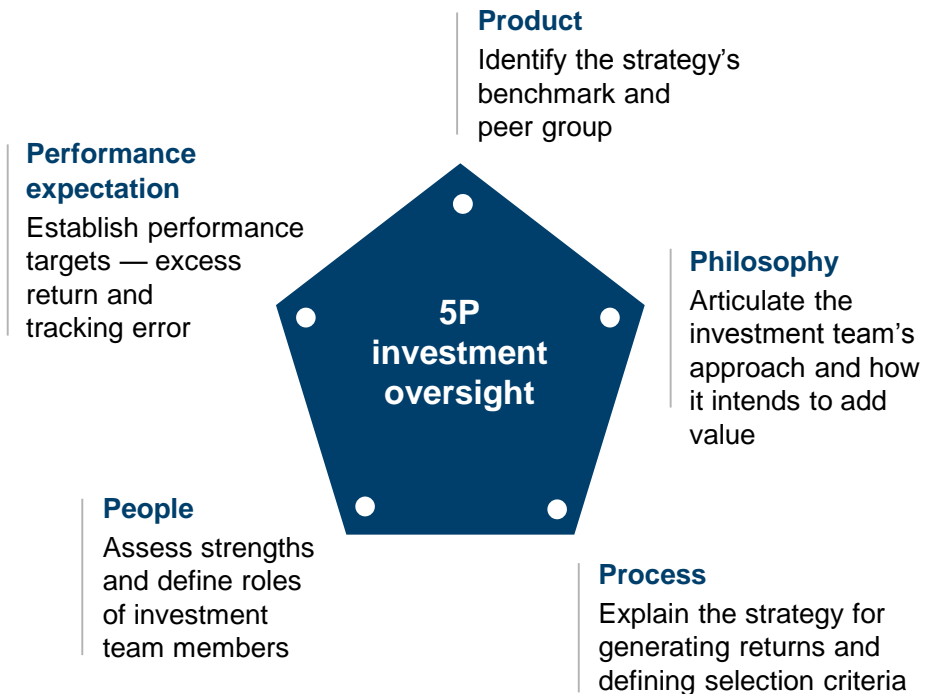
- **2003:** New CEO appointed; rail carriers taking share from trucking companies as oil prices and environmentally-based anti-truck sentiment rise; growth in intermodal rail; commitment to sell non-core business; New CFO appointed; management realignment flattens reporting lines
- **2004:** New technology initiatives allow pricing based on profitability and introduce profitability metrics; New COO appointed; pricing power increase on strong demand for rail
- **2005:** Secular changes in rail industry - continued price increases successfully implemented (2% -3% net pricing); increased capital budget geared to capacity increases; constrained truck capacity due to driver shortage; road congestion increases delivery times
- **2006:** Rising Asian imports fuel demand; rising diesel prices provides competitive advantage over truckers; share gains over rivals due to superior execution; intermodal sharing arrangement with BNI
- **2007:** Share repurchase program and dividend hike implemented
- **2008:** Export coal demand rises (company's highest margin business)
- **2009:** Effective cost management as volumes decline
- **2012:** New COO appointed; new technology deployed at Ohio intermodal hub
- **2013:** Increasing crude oil shipments by rail; improving agricultural and housing-related demand



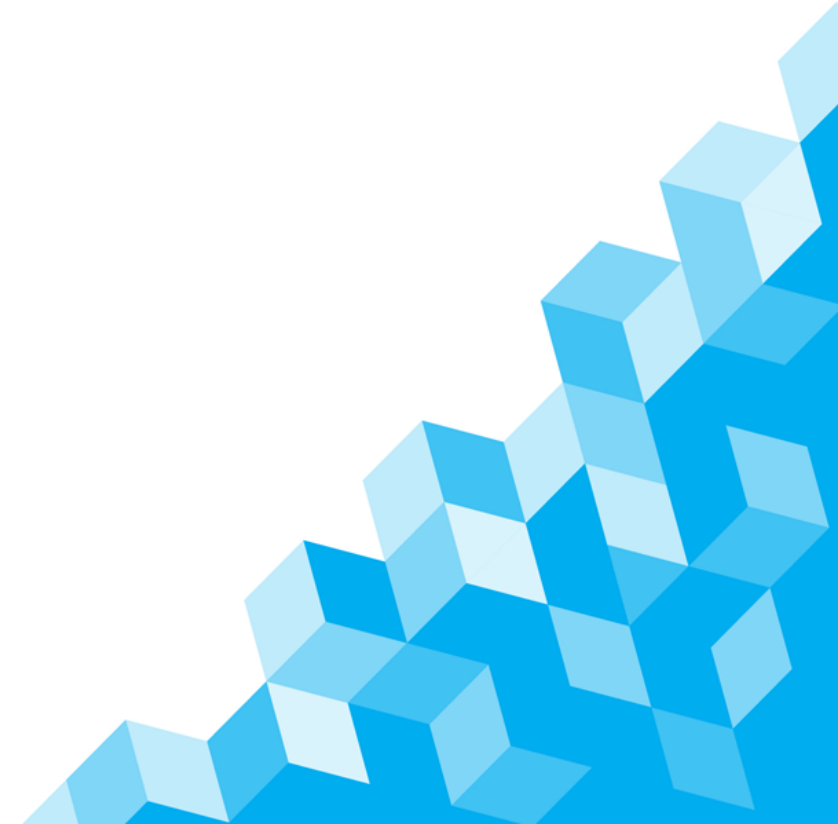
The securities listed are intended to illustrate the investment monitoring process and should not be construed as a recommendation to buy, sell, or hold. Holdings are subject to change, and securities discussed may or may not prove profitable. For a full listing of the holdings in this strategy please contact your relationship manager.

## 5P process overview

- Formally determine that the investment team is adhering to their philosophy and process.
- We do not tell portfolio managers what to do, we ensure they do what they say.
- The 5P assessment: Results are reviewed to assess adherence to strategy, product viability and performance.
  - *Product positioning* - define the product's positioning – style, benchmark, etc.
  - *Philosophy* - articulate the team's approach and how it intends to add value.
  - *People* - assess strengths and define roles of investment team members.
  - *Process* - explain the strategy for generating returns and defining stock criteria.
  - *Performance* - establish performance targets – excess return and tracking error.



# Performance and portfolio structure





# Portfolio performance

## As of March 31, 2016



	3 Months (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception <sup>1</sup> (%)
Bay County Employees Retirement Systems (Gross)	0.10	-3.79	10.00	10.37	7.88	6.69
Russell 1000 Value Index	1.64	-1.54	9.38	10.25	5.72	5.94

<sup>1</sup> Inception Date: January 27 2001

Source: Columbia Management Investment Advisers, LLC, Factset

**Past performance does not guarantee future results.** Please refer to the Disclosures at the end of this presentation for more information.

# Portfolio characteristics

## As of March 31, 2016

Characteristics	Bay County	Russell 1000 Value
Debt/Capital	45.1%	39.2%
3 Year Historical EPS Growth	9.7%	2.7%
3 to 5 Year Projected EPS Growth	9.1%	7.3%
Return on Equity	7.9%	9.4%
Dividend Yield	2.5%	2.6%
Weighted Average Market Cap (mil)	\$75,025.13	\$109,772.59

P/E Ratio <sup>1</sup>	Bay County	Russell 1000 Value
Last Twelve Months (LTM)	15.5x	16.4x
Next Twelve Months (NTM)	13.6x	14.8x
Next Twelve Months Relative to Russell 1000 Value	0.92x	1.00x

<sup>1</sup> Weighted Harmonic Average  
Source: Factset

# Portfolio characteristics

## As of March 31, 2016

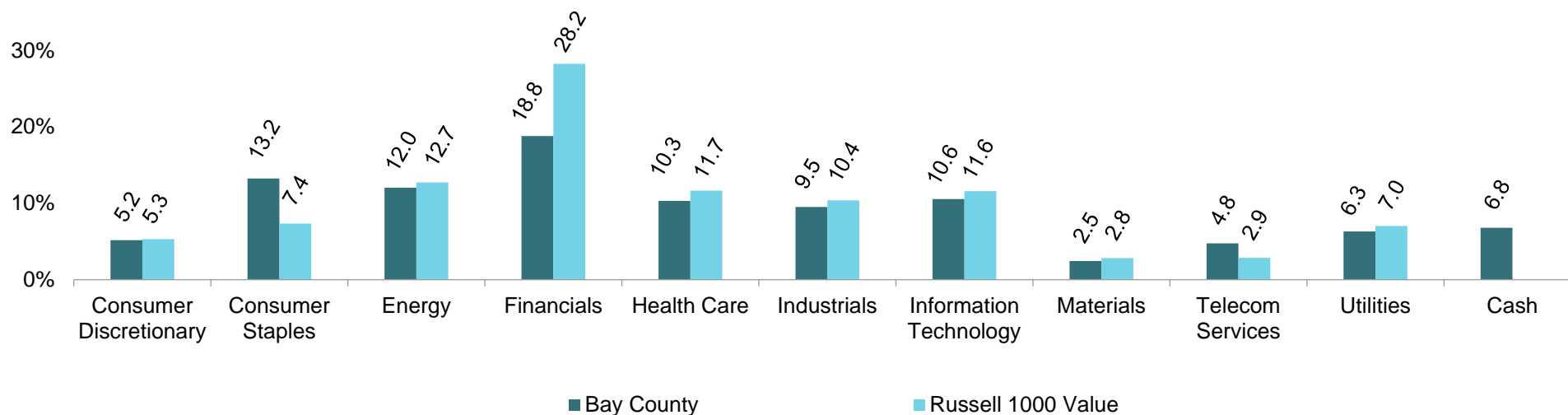
Top Ten Holdings	% Portfolio	Sector
Verizon Communications Inc.	5.1	Telecommunication Services
NextEra Energy, Inc.	4.2	Utilities
Tyson Foods, Inc. – Class A	4.2	Consumer Staples
Applied Materials Inc.	3.9	Information Technology
Lowes Companies	3.9	Consumer Discretionary
Humana Inc.	3.9	Health Care
Bristol-Myers Squibb Company	3.9	Health Care
Altria Group, Inc.	3.7	Consumer Staples
Philip Morris International Inc.	3.5	Consumer Staples
Unum Group	3.3	Financials
<b>Total</b>	<b>39.8</b>	

Source: Factset

# Portfolio characteristics

## As of March 31, 2016

### Sector allocation



Source: Factset

# Open and closed positions

## Calendar year 2015

### Open positions: 1/1/2015 – 12/31/2015

Security Name	Sector
Baxalta Inc.	Healthcare
FMC Corp.	Materials
Nextera Energy Inc.	Utilities

### Closed positions: 1/1/2015 – 12/31/2015

Security Name	Sector
General Dynamics Corp.	Industrials

Source: Columbia Management Investment Advisers, LLC.

# Open and closed positions

## First quarter 2016

### Open positions: 1/1/2016 – 3/31/2016

Security Name	Sector
Halliburton	Energy

### Closed positions: 1/1/2016 – 3/31/2016

Security Name	Sector
Baxalta Inc.	Healthcare
Freeport-McMoran Inc.	Materials
Conoco Phillips	Energy
Du Pont E.I. De Nemours	Materials

Source: Columbia Management Investment Advisers, LLC.

# Portfolio holdings



**Investment Portfolio Summary**  
 Base Currency: USD

Category	Cost	Market Value	Accrued Income	Current Yield	Est. Annual Income	% of Portfolio
CASH AND EQUIVALENTS	2,037,088	2,037,088	0	0.00%	0	6.80%
EQUITIES	19,501,231	27,927,237	32,122	2.49%	696,717	93.20%
<b>TOTAL</b>	<b>21,538,319</b>	<b>29,964,325</b>	<b>32,122</b>	<b>2.33%</b>	<b>696,717</b>	<b>100.00%</b>
ACCRUED INCOME		32,122				
TOTAL MARKET VALUE		29,996,447				



**Equity Portfolio Diversification**  
 Base Currency: USD

Sector	Cost	Market Value	% of Total Equity	Unrealized Gain/Loss
<b>Equities</b>				
CONSUMER DISCRETIONARY	613,887	1,556,055	5.57%	942,168
CONSUMER STAPLES	1,286,941	3,969,440	14.21%	2,682,499
ENERGY	3,268,346	3,608,911	12.92%	340,566
FINANCIALS	5,282,906	5,629,990	20.16%	347,084
HEALTH CARE	1,567,026	3,088,760	11.06%	1,521,734
INDUSTRIALS	902,914	2,851,520	10.21%	1,948,606
INFORMATION TECHNOLOGY	2,966,470	3,164,678	11.33%	198,208
MATERIALS	713,518	738,771	2.65%	25,253
TELECOMMUNICATION SERVICES	1,268,329	1,427,712	5.11%	159,383
UTILITIES	1,630,895	1,891,400	6.77%	260,505
<b>TOTAL EQUITY</b>	<b>19,501,231</b>	<b>27,927,237</b>	<b>100.00%</b>	<b>8,426,006</b>

							Holdings Valuation
							Base Currency: USD
<u>Cash and Equivalents</u>							
CASH AND EQUIVALENTS		Quantity	Cost/ Price	Market Value	Accrued Income	Est. Income/ Current Yield	% of Cash Equivalents
USD	US DOLLAR	2,037,088	2,037,088 1.00	2,037,088 1.00	0	0 0.00%	100.00%
TOTAL CASH AND EQUIVALENTS			2,037,088	2,037,088	0	0 0.00%	100.00%

							Holdings Valuation	
							Base Currency: USD	
<u>Equities</u>								
		Shares	Cost Basis		Market Value		Current Yield	% of Equity
CONSUMER DISCRETIONARY			Price	Total	Price	Total		
LOWE'S COS INC	LOW	14,500	24.08	349,231	75.75	1,098,375	1.48%	3.93%
NORDSTROM INC	JWN	8,000	33.08	264,656	57.21	457,680	2.59%	1.64%
TOTAL CONSUMER DISCRETIONARY				613,887		1,556,055	1.80%	5.57%

<u>Equities</u>		Shares	Cost Basis		Market Value		Holdings Valuation	
			Price	Total	Price	Total	Current Yield	% of Equity
CONSUMER STAPLES								
ALTRIA GROUP INC	MO	16,500	28.59	471,722	62.66	1,033,890	3.61%	3.70%
COSTCO WHOLESALE CORP	COST	5,000	42.67	213,361	157.58	787,900	1.02%	2.82%
PHILIP MORRIS INTERNATIONAL	PM	10,000	19.93	199,266	98.11	981,100	4.16%	3.51%
TYSON FOODS INC-CL A	TSN	17,500	23.01	402,592	66.66	1,166,550	0.90%	4.18%
<b>TOTAL CONSUMER STAPLES</b>				1,286,941		3,969,440	2.43%	14.21%

<u>Equities</u>		Shares	Cost Basis		Market Value		Holdings Valuation	
			Price	Total	Price	Total	Current Yield	% of Equity
ENERGY								
ANADARKO PETROLEUM CORP	APC	15,000	66.61	999,156	46.57	698,550	0.43%	2.50%
CHEVRON CORP	CVX	8,791	61.18	537,809	95.40	838,661	4.49%	3.00%
HALLIBURTON CO	HAL	17,500	33.12	579,652	35.72	625,100	2.02%	2.24%
MARATHON OIL CORP	MRO	10,000	30.01	300,108	11.14	111,400	1.80%	0.40%
MARATHON PETROLEUM CORP	MPC	7,000	20.48	143,375	37.18	260,260	3.44%	0.93%
VALERO ENERGY CORP	VLO	12,500	24.36	304,505	64.14	801,750	3.74%	2.87%
WILLIAMS COS INC	WMB	17,000	23.75	403,740	16.07	273,190	15.93%	0.98%
<b>TOTAL ENERGY</b>				3,268,346		3,608,911	3.82%	12.92%

<u>Equities</u>		Shares	Cost Basis		Market Value		Holdings Valuation	
			Price	Total	Price	Total	Current Yield	% of Equity
FINANCIALS								
BANK OF AMERICA CORP	BAC	60,000	15.54	932,379	13.52	811,200	1.48%	2.90%
CITIGROUP INC	C	17,000	35.07	596,167	41.75	709,750	0.48%	2.54%
JPMORGAN CHASE& CO	JPM	11,500	53.85	619,223	59.22	681,030	2.97%	2.44%
METLIFE INC	MET	12,000	59.09	709,127	43.94	527,280	3.41%	1.89%
MORGAN STANLEY	MS	21,000	34.84	731,579	25.01	525,210	2.40%	1.88%
PRUDENTIAL FINANCIAL INC	PRU	9,000	57.16	514,478	72.22	649,980	3.88%	2.33%
UNUM GROUP	UNM	30,000	23.17	695,157	30.92	927,600	2.39%	3.32%
WELLS FARGO& CO	WFC	16,500	29.38	484,795	48.36	797,940	3.10%	2.86%
TOTAL FINANCIALS				5,282,906		5,629,990	2.46%	20.16%

<u>Equities</u>		Shares	Cost Basis		Market Value		Holdings Valuation	
			Price	Total	Price	Total	Current Yield	% of Equity
HEALTH CARE								
BAXTER INTERNATIONAL INC	BAX	12,000	30.64	367,658	41.08	492,960	1.12%	1.77%
BRISTOL-MYERS SQUIBB CO	BMY	17,000	25.10	426,730	63.88	1,085,960	2.38%	3.89%
EXPRESS SCRIPTS HOLDING CO	ESRX	6,000	78.85	473,104	68.69	412,140	0.00%	1.48%
HUMANA INC	HUM	6,000	49.92	299,534	182.95	1,097,700	0.63%	3.93%
TOTAL HEALTH CARE				1,567,026		3,088,760	1.24%	11.06%

<u>Equities</u>		Shares	Cost Basis		Market Value		Holdings Valuation	
			Price	Total	Price	Total	Current Yield	% of Equity
INDUSTRIALS								
CSX CORP	CSX	25,000	7.93	198,312	25.75	643,750	2.80%	2.31%
HONEYWELL INTERNATIONAL INC	HON	7,500	27.17	203,802	112.05	840,375	2.12%	3.01%
UNION PACIFIC CORP	UNP	7,500	0.00	131,663	79.55	596,625	2.77%	2.14%
UNITED TECHNOLOGIES CORP	UTX	7,700	47.94	369,137	100.10	770,770	2.56%	2.76%
TOTAL INDUSTRIALS				902,914		2,851,520	2.53%	10.21%



<u>Equities</u>		<b>Holdings Valuation</b> Base Currency: USD						
		Shares	Cost Basis		Market Value		Current Yield	% of Equity
			Price	Total	Price	Total		
<b>INFORMATION TECHNOLOGY</b>								
APPLIED MATERIALS INC	AMAT	52,000	14.01	728,761	21.18	1,101,360	1.89%	3.94%
CORNING INC	GLW	38,200	20.79	794,256	20.89	797,998	2.58%	2.86%
JUNIPER NETWORKS INC	JNPR	28,000	20.21	565,986	25.51	714,280	1.57%	2.56%
TERADATA CORP	TDC	21,000	41.78	877,467	26.24	551,040	0.00%	1.97%
<b>TOTAL INFORMATION TECHNOLOGY</b>				2,966,470		3,164,678	1.66%	11.33%

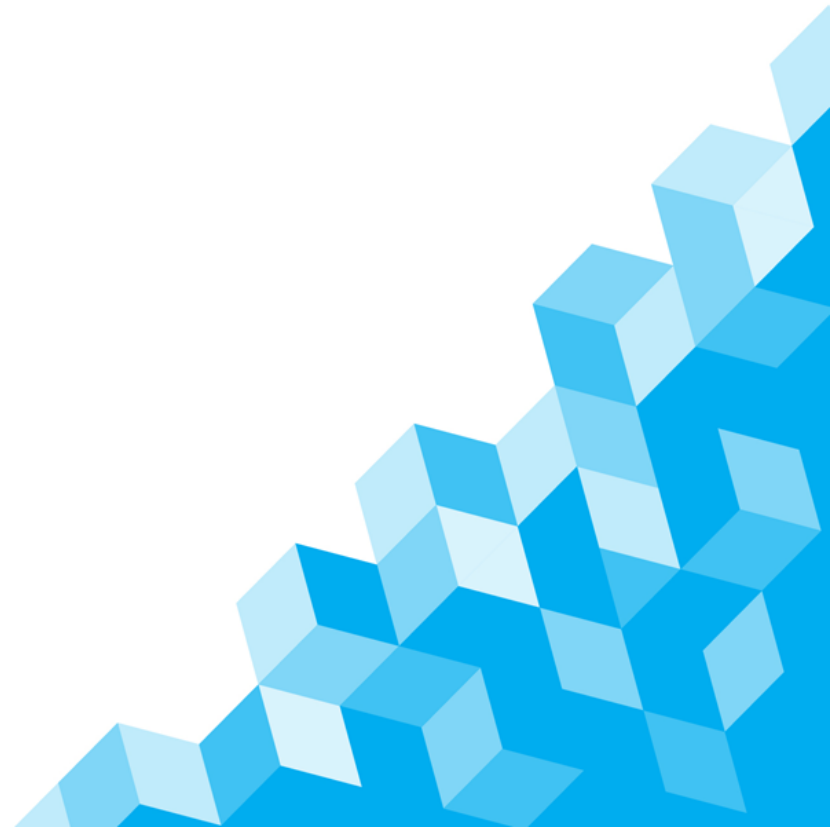
							<b>Holdings Valuation</b>	
							Base Currency: USD	
<u><b>Equities</b></u>								
		<b>Shares</b>	<b>Cost Basis</b>		<b>Market Value</b>		<b>Current Yield</b>	<b>% of Equity</b>
<b>MATERIALS</b>			<b>Price</b>	<b>Total</b>	<b>Price</b>	<b>Total</b>		
FMC CORP	FMC	18,300	38.99	713,518	40.37	738,771	1.63%	2.65%
<b>TOTAL MATERIALS</b>				713,518		738,771	1.63%	2.65%

							Holdings Valuation	
							Base Currency: USD	
<u>Equities</u>								
		Shares	Cost Basis		Market Value		Current Yield	% of Equity
TELECOMMUNICATION SERVICES			Price	Total	Price	Total		
VERIZON COMMUNICATIONS INC	VZ	26,400	48.04	1,268,329	54.08	1,427,712	4.18%	5.11%
TOTAL TELECOMMUNICATION SERVICES				1,268,329		1,427,712	4.18%	5.11%

							Holdings Valuation	
							Base Currency: USD	
<u>Equities</u>								
		Shares	Cost Basis		Market Value		Current Yield	% of Equity
UTILITIES			Price	Total	Price	Total		
AES CORP	AES	60,000	10.37	621,939	11.80	708,000	3.73%	2.54%
NEXTERA ENERGY INC	NEE	10,000	100.90	1,008,956	118.34	1,183,400	2.94%	4.24%
TOTAL UTILITIES				1,630,895		1,891,400	3.24%	6.77%

							<b>Holdings Valuation</b>	
							Base Currency: USD	
<u><b>Equities</b></u>			<b>Cost Basis</b>		<b>Market Value</b>		<b>Current</b>	<b>% of</b>
	<b>Shares</b>		<b>Price</b>	<b>Total</b>	<b>Price</b>	<b>Total</b>	<b>Yield</b>	<b>Equity</b>
TOTAL EQUITIES				19,501,231		27,927,237	2.49%	100.00%

# Appendix



# Biographies



## **Richard Rosen**

Senior Portfolio Manager, *Columbia Focused Value Team*

Richard Rosen is a senior portfolio manager on the Columbia Focused Value Team at Columbia Threadneedle Investments. Mr. Rosen joined one of the Columbia Threadneedle Investments legacy firms in 1997. Previously, Mr. Rosen was a senior portfolio manager at Bear Stearns Asset Management and a managing director at Bear, Stearns & Co. Inc. Mr. Rosen received a B.A. in economics from Brandeis University and an MBA in finance from the New York University Stern School of Business. He is a member of the New York Society of Security Analysts and the Financial Analysts Federation.

## **Kari Montanus**

Portfolio Manager, *Columbia Focused Value Team*

Kari Montanus is a portfolio manager on the Columbia Focused Value Team at Columbia Threadneedle Investments. Ms. Montanus joined one of the Columbia Threadneedle Investments legacy firms in 2003. Previously, she worked for Goldman Sachs & Co. as a vice president of Investment Research. Prior to that, she was an associate analyst of equity research for Morgan Stanley Dean Witter & Co. and for Morgan Stanley & Company in their Tokyo, Japan office. Ms. Montanus received a B.A. in international relations from Stanford University and an MBA in finance from The Wharton School, University of Pennsylvania.

## **Richard Taft, CPA**

Portfolio Manager, *Columbia Focused Value Team*

Rick Taft is a portfolio manager on the Columbia Focused Value Team at Columbia Threadneedle Investments. Mr. Taft joined one of the Columbia Threadneedle Investments firms in 2011, serving as a senior fundamental equity analyst, and has been a member of the investment community since 1997. Previously, Mr. Taft was a portfolio manager at Pioneer Path (Citadel). Before that, he was a managing director and associate portfolio manager at Swiss RE. Mr. Taft also worked at Pequot Capital and Glenview Capital. Mr. Taft began his career at Price Waterhouse, LLP where he was a senior accountant. Mr. Taft received a B.A. and an MBA from the State University of New York at Buffalo, and is also a certified public accountant.

## **Patrick Olk, CFA**

Senior Relationship Manager, *Institutional Client Service*

Pat Olk is a senior relationship manager on the Institutional Client Service Team at Columbia Threadneedle Investments. Mr. Olk joined one of the Columbia Threadneedle Investments legacy firms in 1998 and has been in the financial services industry since 1986. In his current role, Mr. Olk maintains institutional client relationships in the corporate, public fund, foundation, endowment and Taft-Hartley marketplaces. He was previously employed for five years as the director of cash and investments for Allina Health System, where he was responsible for implementing investment strategies and programs for Allina's retirement plans, insurance reserves and corporate assets. Prior to that, Mr. Olk was vice president of Investments for the Minnesota Workers' Compensation Reinsurance Association. He is a member of the CFA Society of Minnesota and holds the Chartered Financial Analyst® designation. Mr. Olk received a B.S. in business administration from Marquette University and an MBA from the University of Minnesota Carlson School of Management. Additionally he holds the Series 3 license with the NFA and the Series 7 and 63 licenses with FINRA.

# Disclosures

**Past performance does not guarantee future results.** Results are for the client's own account and are not composite results. Performance results in this report are calculated by Columbia Management Investment Advisers, LLC on a gross basis and do not reflect the deduction of management fees. Information on the impact of fees on performance is available upon request. Performance is based on time-weighted, daily calculation using values that are determined in good faith by Columbia Management Investment Advisers, LLC. Portfolio performance is calculated based on trade date, net of transaction costs and reflects accrued interest. If you have any questions regarding the above information, or if there are any changes in your investment objectives or guidelines, please contact your client Relationship Manager.

This performance report is separate from the custodial brokerage statement that is delivered to you identifying the securities and other assets held in your account at the end of the reporting period and setting forth all transactions in the account during the period. Transaction and valuation information reflected in this report may be inconsistent with the information presented in your custodial brokerage statement due to settlement dates and other factors. We urge you to compare the account statements from your custodian with those that you receive from Columbia Management Investment Advisers, LLC.

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Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.

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