

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT REVIEW

OCTOBER 20, 2016

Convertible

EDWARD SILVERSTEIN, CFA

Senior Managing Director
Head of Convertible Division

BETH GRIPER

Director
Product Specialist

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MacKay Shields: A Leader in Income-Oriented Investing

About Us¹

Experience & Quality

With over 40 years of experience, we are committed to partnering with our clients to deliver:

- Tailored income-oriented investment solutions based on their goals and objectives
- The highest levels of client service and consistent investment performance

Our People

A firm comprised of over 160 dedicated employees, including 51 investment professionals

Our Approach

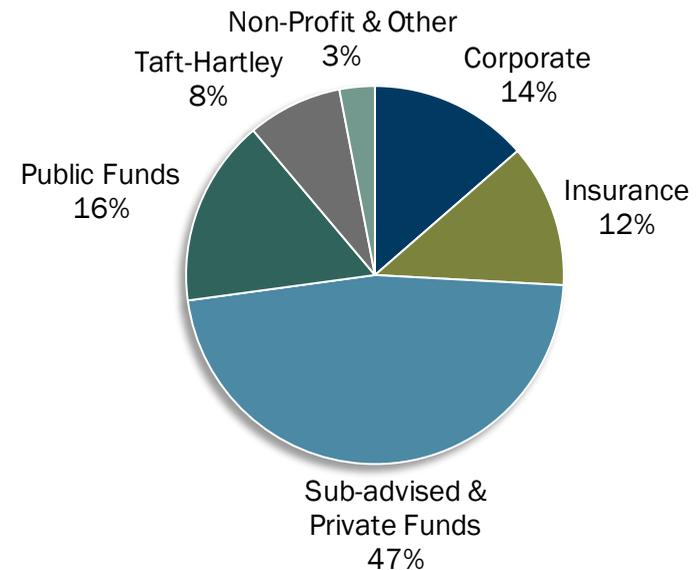
Investment teams recognize and integrate the importance of capital preservation into all of their investment philosophies

Long-Term Commitment

Similar to our investment approach, we take a long-term perspective toward our clients, their portfolios and our business

Total Assets Under Management: \$97.1B¹

By Client Type

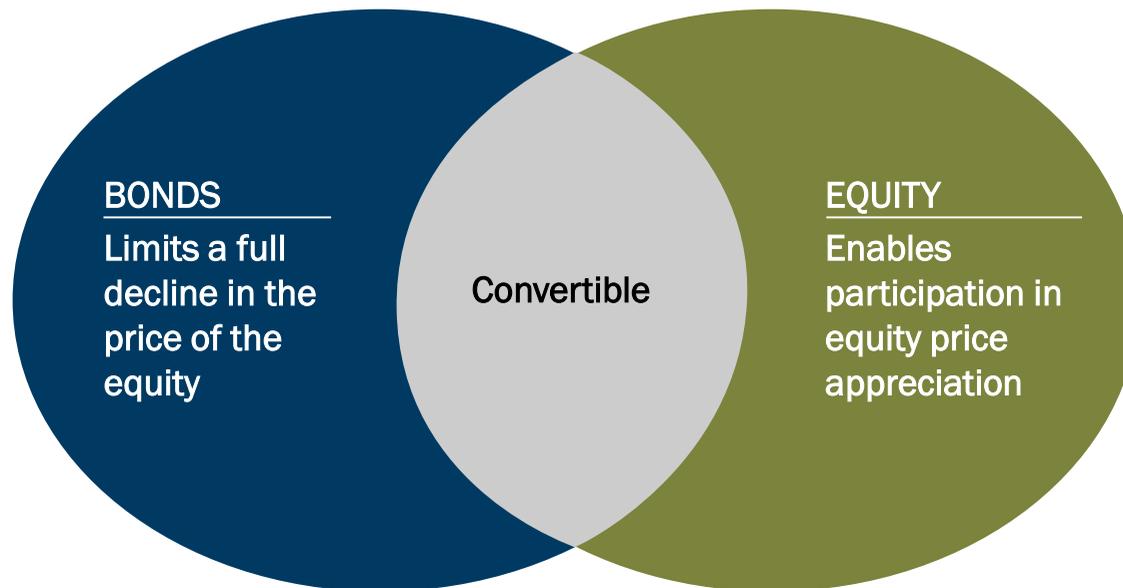


¹September 30, 2016 (preliminary)

In respect to AUM by client type, due to rounding the sum of the items may not equal 100% or any expressed totals as applicable. Investment goals may not be achieved.

Past performance is no guarantee of future results.

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A Convertible Security is a type of bond issued by a company that can be converted into a predetermined number of shares of common stock.
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.....
Convertible securities provide investors with the income stream potential of bonds as well as the growth potential of stocks.
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Why Convertibles?

- Equity Market Participation
- Potential for Downside Protection
- Current Income
- Potentially Less Volatile Than Equity Markets

Convertible securities are subject to a risk of loss. Convertible securities may be subordinate to other securities. The total return for a convertible security depends, in part, upon the performance of the underlying stock into which it can be converted. Additionally, an issuer may encounter financial difficulties which could affect its ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, an investor could lose its entire investment. There can be no assurance that investment objectives will be met and there is no guarantee against loss.

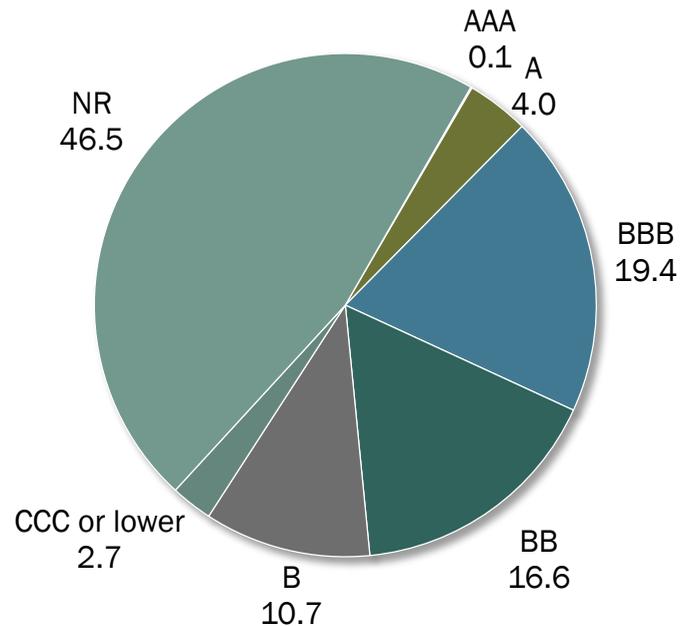
Correlation With Other Major Asset Classes

Asset Class	Correlation with Convertible Securities (1/1/2001 – 12/31/2015)
Large-Cap Stocks	0.88
Mid-Cap Stocks	0.92
Small-Cap Stocks	0.85
High Yield Corporate Bonds	0.82
Long-Term Corporate Bonds	0.37
Intermediate-Term Corporate Bonds	0.44
Long-Term Treasury Bonds	-0.25
Intermediate-Term Treasury Bonds	-0.31

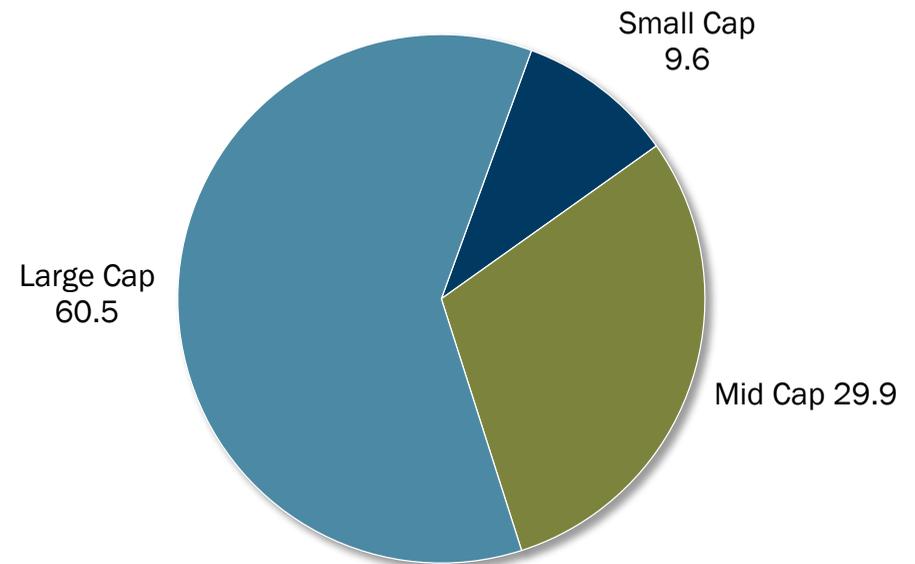
Source: Morningstar; 1/1/2001–12/31/2015 Convertible securities are represented by the Bank of America Merrill Lynch All Convertible Securities Index, an unmanaged market capitalization-weighted index of domestic corporate convertible securities that are convertible to common stock only. Large-capitalization stocks are represented by the S&P 500® Index, an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Mid-capitalization stocks are represented by the Russell Midcap® Index, an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000® Index. Small-capitalization stocks are represented by Russell 2000® Index, an unmanaged index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. Long-Term Treasury Bonds are represented by the Barclays Capital Long-Term Treasury Index which includes all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues with maturates of 10 years or longer. Intermediate-Term Treasury Bonds are represented by the Barclays Capital Intermediate Treasury Index which includes treasury bonds with maturates of at least one year and up to 10 years with an outstanding par value of at least 100 million. They include fixed-rate debt issues, rated investment grade or higher by Moody's Investor Services, Standard & Poor's Corporation, or Fitch Investors Service (in that order). Treasuries include all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues. Long-Term Corporate Bonds are represented by the Barclays Capital Long-Term Credit Index which serves as a measure of all public-issued nonconvertible investment-grade corporate debts that have a maturity of 10 years or more. Intermediate-Term Corporate Bonds are represented by the Barclays Capital Intermediate Credit Index which serves as a measure of all public-issued nonconvertible investment-grade corporate debts that have a maturity of one to three years. Results assume reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index. Correlation is a statistical measure of how two securities move in relation to each other. Correlations are used in advanced portfolio management.

The Convertible Market Today¹

Breakdown by Credit Quality (%)



Breakdown by Size (%)



¹Source: BofA Merrill Lynch Convertibles Research; data as of September 30, 2016.

Bond ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade. Different rating services use the same letter grades, but use various combinations of upper- and lower-case letters to differentiate themselves. To illustrate the bond ratings and their meaning, we'll use the Standard & Poor's format: AAA and AA = High credit-quality investment grade; AA and BBB = Medium credit-quality investment grade; BB, B, CCC, CC, C = Low credit-quality (non-investment grade), or "junk bonds"; D = Bonds in default for non-payment of principal and/or interest. Ratings apply to the underlying portfolio of debt securities held by the BofA ML All Convertible Index and are rated by an independent rating agency, such as Standard and Poor's, Moody's, and/or Fitch. Securities that are unrated by the rating agencies are reflected as such in the breakdown. Unrated securities do not necessarily indicate low quality. S&P rates borrowers on a scale from AAA to D. AAA through BBB represent investment grade, while BB through D represent non-investment grade.

Due to rounding, sums may not equal 100%.

Performance Over a Full Market Cycle

Ten Years Ending June 30, 2016

Asset Class	Cumulative Return	Annualized Return	Annualized Standard Deviation ¹
Mackay Shields Convertible Composite ²	100.02	7.18	13.74
BofA Merrill Lynch All U.S. Convertibles Index	86.24	6.42	14.45
NASDAQ Index	148.79	9.54	17.79
Russell 3000 Index	104.11	7.40	16.79
S&P 500 Index	104.65	7.42	16.26

Source: Callan

Past performance is no guarantee of future results.

¹Standard deviation of quarterly returns is shown as supplemental information to the GIPS-compliant presentation in the appendix.

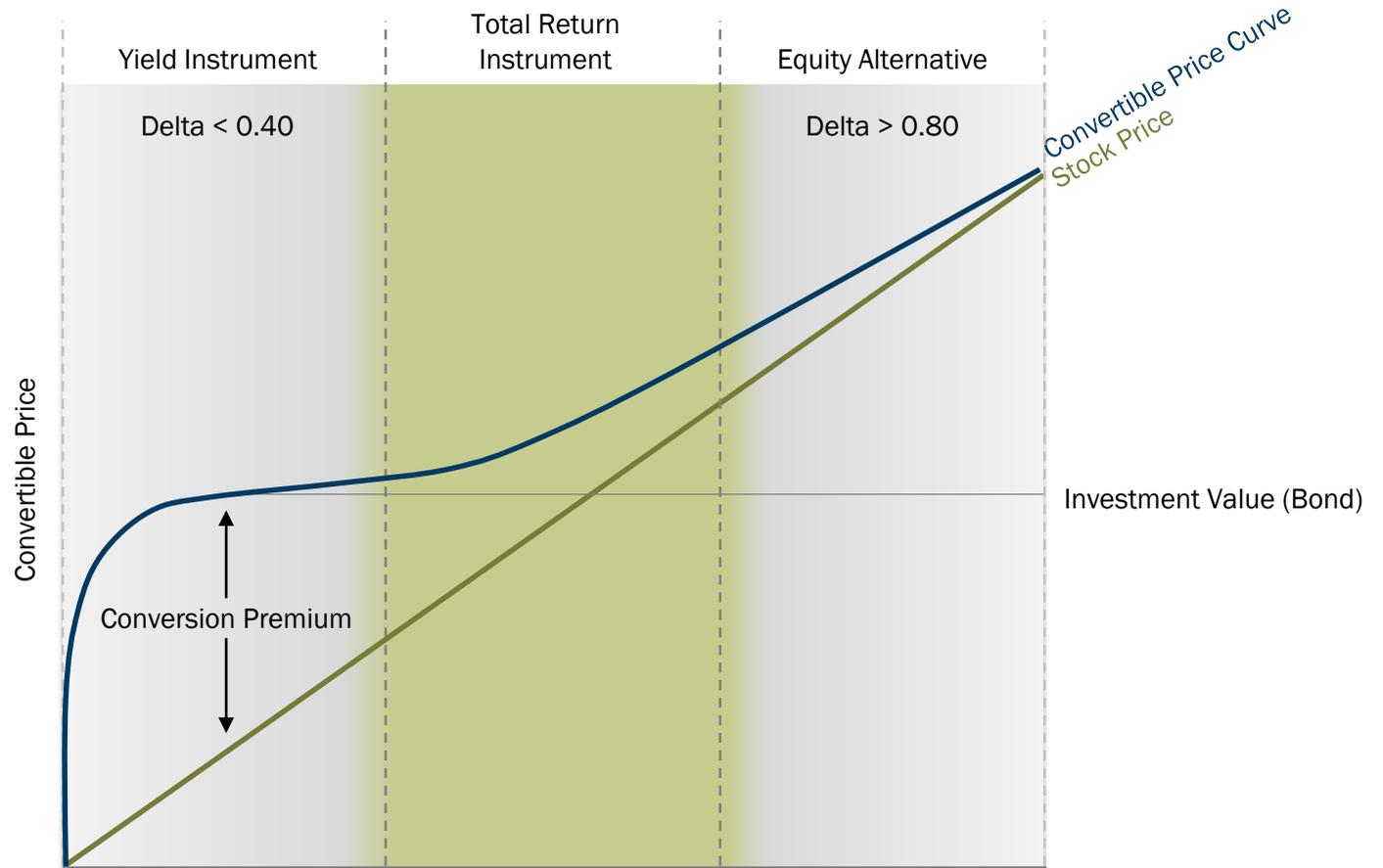
²Gross of fees

Please refer to the Appendix for disclosures related to comparisons to an index.

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.*





Objective

Seek to maximize total return by outperforming the market and our competition while protecting against downside risk



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
-



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

Convertible securities are subject to a risk of loss. Convertible securities may be subordinate to other securities. The total return for a convertible security depends, in part, upon the performance of the underlying stock into which it can be converted. Additionally, an issuer may encounter financial difficulties which could affect its ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, an investor could lose its entire investment. There can be no assurance that investment objectives will be met and there is no guarantee against loss.



Objectives

- Exclude Illiquid Convertibles
- Target Balanced Convertibles
- Reduce Risk
- Stress Test
- Up/Down Market Capture to Identify Asymmetry of Returns
- Determine Timelines of Investments
- Complement Our Quantitative Tests with Fundamental Analysis
- Accumulate Convertibles with the Best Risk/Reward Profile and Favorable Company Fundamentals

Criteria

- Generally Equity Market Cap Above \$300 Million and at Least \$100 Million of Convertible Bonds Issued
- Equity Sensitivity
- Model 60-80% Upside/30-50% Downside
- Bond Value
- Conversion Premium
- Internal Credit Research
- Valuation
- Positive Earnings Trend
- Free Cash Flow
- Positive Fundamental Change in Industry and/or Company
- In-Depth Analysis
- Company Contact
- Insider Buying/Ownership
- ~80—100 Companies

Screening Objectives with an Emphasis on Risk Management

Managing 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 rigorous 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	21	Bank of New York New York Stock Exchange	Brooklyn Law School, JD Baruch College, MBA University of Vermont, BS
Thomas Wynn, CFA Director Portfolio Manager/Research Analyst	33	Centurion Capital Deutsche Bank AM Investment Partners	New York University, MBA University of Notre Dame, BA
Scott Mallek Managing Director Trader	20	Salomon Smith Barney	Fairfield University, BA
J. Alex Leites Director Trader	23	Credit Suisse First Boston	New York University, BS
Richard Lee Associate Trader	2		Georgetown University, BS

Research Efforts Supported by the High Yield Investment Team¹

Andrew Susser Managing Director Lead Portfolio Manager	<ul style="list-style-type: none"> Generalist 	Ryan Bailes, CFA Director Analyst/Portfolio Manager	<ul style="list-style-type: none"> Gaming Paper/Packaging Utilities Homebuilding 	Dohyun Cha, CFA Managing Director Analyst/Portfolio Manager	<ul style="list-style-type: none"> Energy Utilities
Won Choi Managing Director Analyst/Portfolio Manager	<ul style="list-style-type: none"> Chemicals Metals Paper/Packaging 	Eric Gold Managing Director Analyst/Portfolio Manager	<ul style="list-style-type: none"> Cable/Broadcasting, Technology Telecommunications 	Nate Hudson, CFA Managing Director Portfolio Manager/Analyst	<ul style="list-style-type: none"> Auto/Transportation Building Materials Homebuilding Services
Michael A. Snyder Managing Director Portfolio Manager/Analyst	<ul style="list-style-type: none"> Aerospace/Defense Consumer Products Manufacturing Media 	James S. Wolf Managing Director Portfolio Manager/Analyst	<ul style="list-style-type: none"> Finance Healthcare 	Thomas Metcalf Associate Director Research Analyst	<ul style="list-style-type: none"> Retail

¹As needed.

Bay County Employees' Retirement System



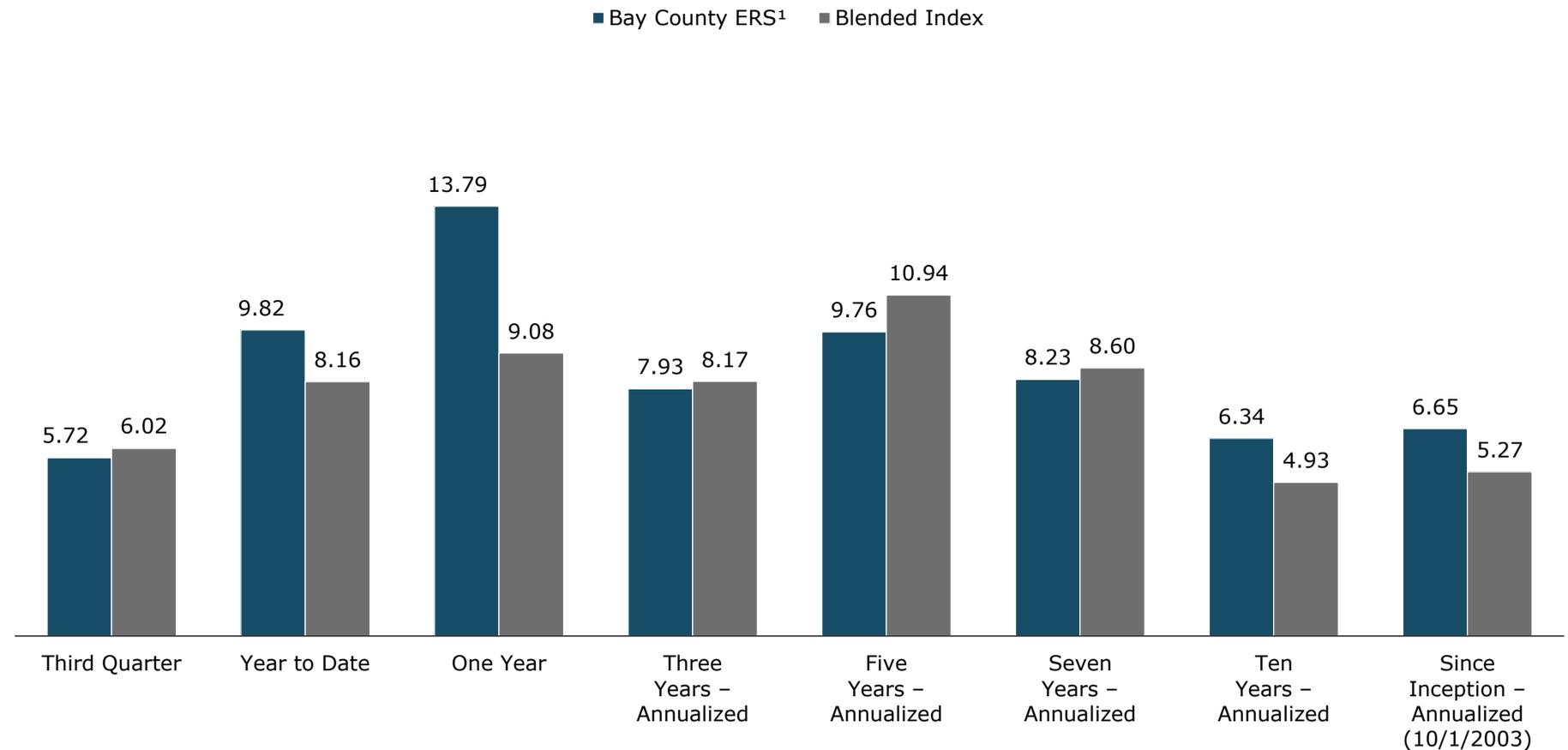
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Asset Allocation
September 30, 2016
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	Market Value	Percent
Convertible Bonds	\$9,229,414	78.84%
Preferreds	\$2,166,714	18.51%
Cash	\$309,784	2.65%
Total Fund	\$11,705,912	100.00%

Bay County Employees' Retirement System

Historical Rates of Return (%)

Periods Ending September 30, 2016



Blended Index I consists of the BofA Merrill Lynch Investment Grade Bonds Index from inception through 8/31/15 and the BofA Merrill Lynch All Convertible Index thereafter.

¹Portfolio returns are expressed as gross of fees.

Past performance is not indicative of future results.

Bay County Employees' Retirement System

As of September 30, 2016

Portfolio Characteristics

	Bay County ERS	BofA Merrill Lynch All U.S. Convertibles Index
Years to Effective Maturity	4.27	n/a
Current Yield	1.26%	3.09%
Yield to Effective Maturity	2.21%	n/a
Delta	0.73 ¹	0.60
Conversion Premium	29.98% ¹	66.93%
Average Quality	BB+	BB+
Number of Holdings	57	431

Credit Concentration

% Market Value

	Bay County ERS	BofA Merrill Lynch All U.S. Convertibles Index
AAA	4.07	0.09
AA	0.00	0.00
A	13.36	4.01
BBB	25.69	19.43
BB	25.11	16.59
B	30.56	10.73
CCC or lower	1.20	2.68
NR ²	0.00	46.51

¹Source: BofA Merrill Lynch/Bloomberg

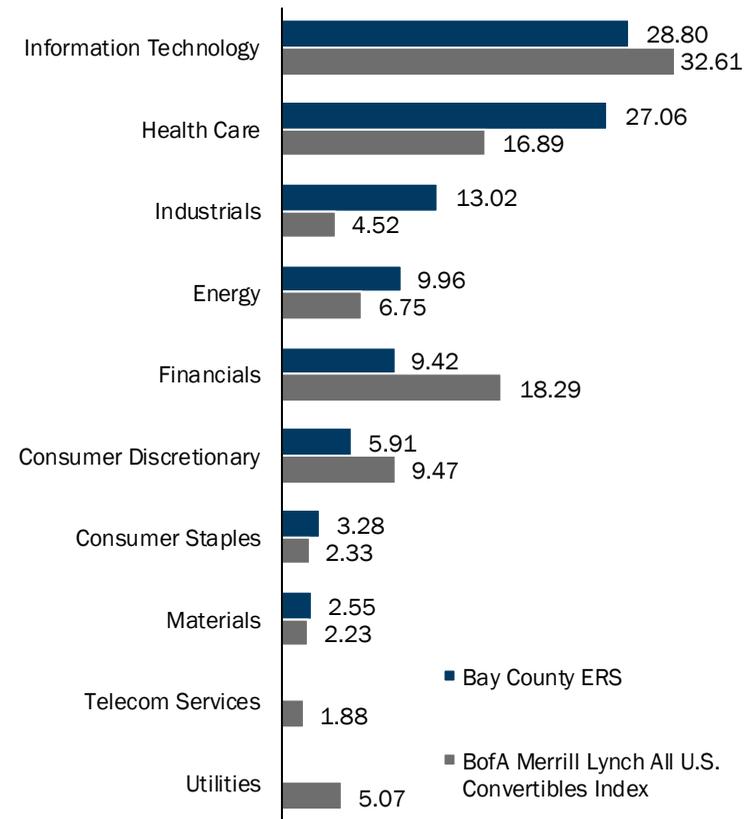
²Securities rated NR have been provided with MacKay Shields' internal rating.

Index data source: BofA Merrill Lynch Convertible Research

Due to rounding the sum of the items may not equal 100% or any expressed totals as applicable.

Portfolio Sector Breakdown

% Market Value



Investment Objectives and Guidelines (as amended 9/2015)

I. Specific Investment Goals

Over the investment horizon established in the investment policy, it is the goal of the assets managed by MacKay to:

- A. The primary objective of the MacKay portfolio shall be to achieve a return over the longer term, 3 to 5 years, in excess of the All U.S. Convertible Index.
- B. The secondary objective of the portfolio shall be to achieve a rate of return over the longer term, 3 to 5 years that ranks in the top 50th percentile of a representative universe of similarly managed portfolios.
- C. The volatility of the Fund's total returns is expected to be similar to that of the All U.S. Convertible Index (VXAO).

II. Investment Guidelines

Within the guidelines contained in the Bay County Employees' Retirement System Investment Policy, the portfolio must comply with the following:

- A. Permitted securities shall include, but are not limited to, convertible securities such as bonds, debentures, corporate notes, preferred stocks or other instruments that are convertible into common stock or the cash value of stock. Preferred stock is permitted up to 20% of the portfolio. Common stock and any other non-convertible debt will not be purchased outright, but would be in the portfolio as a result of a convertible preferred or fixed income conversion. Common stock and any other non convertible debt will be sold within 90 days.
- B. The diversification of the securities held in the manager's portfolio among industries and issuers is the responsibility of the investment manager. However, the overall manager's portfolio characteristics should exhibit characteristics with an aggregate convertible "Core" focus.
- C. The account shall have an overall credit quality restriction of BB+ or higher. In case of split rated securities between S&P, Moody's and Fitch, the higher rating shall prevail. Securities that are not rated will be assigned an internal rating.
- D. Foreign securities (defined by country of domicile) must be dollar-denominated and are limited to 10% of the manager's portfolio.
- E. Maintain a fully-invested fixed income portfolio. The manager shall notify the Bay County Employees' Retirement System and its Investment Consultant whenever investments in cash and equivalents exceed 10% of the portfolio.
- F. No more than 8% of the manager's assets shall be invested in the bond/security of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding debt of the company.
- G. Short sales are prohibited.
- H. The use of futures and options for hedging purposes is prohibited unless specifically authorized by the Board and the manager is notified in writing.
- I. No securities may be purchased which are not publicly traded. Notwithstanding, Rule 144A securities (convertible debt) are permitted, either with or without registration rights.
- J. No use may be made of margin or leverage purchases.
- K. No direct commodities are to be purchased.

Bay County Employees' Retirement System

Convertible Portfolio



Bay County Employees' Retirement System



Summary Report — Account 1256

September 30, 2016

	Total Cost	Percent at Cost	Yield at Cost	Market Value	Percent of Assets	Yield at Market	Annual Income
Bonds	8,138,892	80.88	1.67	9,194,681	78.55	1.48	136,309
Stocks	1,924,365	19.12	0.56	2,161,451	18.46	0.50	10,820
Cash & Equivalents	0	0.00		309,784	2.65	0.00	0
Accrued Income				39,996	0.34		
Total Portfolio	10,063,257	100.00%	1.46	\$11,705,912	100.00%	1.26	147,129

Bay County Employees' Retirement System



Holdings Report — Account 1256

September 30, 2016

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Bonds									
129,000	ADVANCED MICRO DEVICES	102.42	132,120	109.00	140,610	1.20	1.95	2,741	CCC
220,000	AIR LEASE CORP	129.50	284,900	124.13	273,075	2.33	3.12	8,525	NR
56,000	AIRTRAN HOLDINGS INC CONV BOND	211.00	118,160	274.25	153,580	1.31	1.91	2,940	BBB
99,000	ALZA CORP CONV BOND 07/28/2020	89.91	89,010	162.69	161,061	1.38	0.00	0	AAA
147,000	ANTHEM INC (WELLPOINT INC)	153.25	225,278	175.63	258,169	2.21	1.57	4,043	A
224,000	BIOMARIN PHARMACEUTICAL REG	129.24	289,499	120.44	269,780	2.30	0.62	1,680	NR
113,000	CARRIAGE SERVICES INC	115.96	131,035	117.69	132,987	1.14	2.34	3,108	NR
169,000	CHART INDUSTRIES INC	135.55	229,072	98.75	166,888	1.43	2.03	3,380	NR
244,000	CITRIX SYSTEMS INC	106.20	259,116	113.56	277,093	2.37	0.44	1,220	NR
130,000	DANAHER CORP CNV BND REG 01/22/2021	106.50	138,450	299.69	389,594	3.33	0.00	0	A
163,000	DEPOMED INC REG	134.63	219,452	142.75	232,683	1.99	1.75	4,075	NR
229,000	DISH NETWORK CORP 144A	101.49	232,409	110.00	251,900	2.15	3.07	7,729	B-
142,000	ECHO GLOBAL LOGISTICS REG	93.01	132,074	94.63	134,368	1.15	2.64	3,550	NR
241,000	HELIX ENERGY SOLUTIONS CONV BOND REG	122.89	296,155	94.69	228,197	1.95	3.43	7,833	NR
138,000	HOLIGIC INC CONV BOND	130.46	180,029	136.50	188,370	1.61	1.47	2,760	B+
64,000	ILLUMINA INC	120.99	77,433	109.63	70,160	0.60	0.46	320	BBB
176,000	INTEL CORP CONV BOND	127.38	224,180	183.06	322,191	2.75	1.78	5,720	A
113,000	INTERCEPT PHARMAS REG	100.00	113,000	112.31	126,913	1.08	2.89	3,673	NR
207,000	JP MORGAN SCHLUMBERGER 05/03/2017	167.42	346,559	137.62	284,873	2.43	0.00	0	NR
339,000	MACQUARIE INFRASTRUCTURE REG	114.18	387,060	117.69	398,961	3.41	2.44	9,746	BBB-
230,000	MEDIDATA SOLUTIONS INC	111.50	256,450	117.31	269,819	2.30	0.85	2,300	NR
65,000	MGIC INVESTMENT CORP	118.62	77,104	126.69	82,347	0.70	1.58	1,300	BB
176,000	MICROCHIP TECHNOLOGY INC	102.61	180,597	128.00	225,280	1.92	1.27	2,860	B+

Bay County Employees' Retirement System



Holdings Report — Account 1256

September 30, 2016

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Bonds (Continued)									
125,000	MICRON TECHNOLOGY INC	89.75	112,188	89.38	111,719	0.95	3.36	3,750	BB
167,000	MOLINA HEALTHCARE INC	128.04	213,823	118.88	198,521	1.70	1.37	2,714	NR
72,000	NVIDIA CORP	125.01	90,007	340.75	245,340	2.10	0.29	720	BBB-
175,000	NXP SEMICONDUCTOR NV	111.18	194,556	118.25	206,938	1.77	0.85	1,750	BB+
96,000	OASIS PETROLEUM INC REG	99.90	95,905	113.31	108,780	0.93	2.32	2,520	B+
114,000	ON SEMICONDUCTOR CONV BOND	114.25	130,245	119.50	136,230	1.16	2.20	2,993	B+
158,000	ON SEMICONDUCTOR CORP	95.21	150,431	101.88	160,963	1.38	0.98	1,580	BB-
148,000	PROOFPOINT INC	105.50	156,140	116.13	171,865	1.47	0.65	1,110	NR
181,000	RED HAT INC	110.83	200,595	127.06	229,983	1.96	0.20	453	BBB
114,000	RPM INTERNATIONAL INC REG	126.00	143,640	120.31	137,156	1.17	1.87	2,565	BBB
155,000	SALESFORCE.COM INC	113.77	176,344	119.81	185,709	1.59	0.21	388	NR
138,000	SERVICENOW INC 11/01/2018	109.20	150,701	122.25	168,705	1.44	0.00	0	NR
137,000	SL GREEN OPERATING PARTNERSHIP CB 144A	130.86	179,274	139.75	191,458	1.64	2.15	4,110	NR
117,000	TELEFLEX INC CONV BOND REG	102.18	119,550	273.69	320,214	2.74	1.42	4,534	BB-
94,000	TEVA PHARMACEUTICALS CONV BOND	112.35	105,609	119.81	112,624	0.96	0.21	235	BBB
181,000	THE PRICELINE GROUP INC CONV BOND REG	113.94	206,227	158.75	287,338	2.45	0.63	1,810	BBB+
256,000	VERINT SYSTEMS INC	104.75	268,168	95.25	243,840	2.08	1.57	3,840	B+
133,000	WEATHERFORD BERMUDA	101.82	135,420	112.44	149,542	1.28	5.23	7,814	BB-
58,000	WEBMD HEALTH CORP	139.73	81,045	115.88	67,208	0.57	1.29	870	NR
73,000	WEBMD HEALTH CORP 144A	100.00	73,000	97.88	71,449	0.61	2.68	1,916	NR
162,000	XILINX INC	140.31	227,297	188.63	305,573	2.61	1.39	4,253	A-
153,000	XPO LOGISTICS INC CONV BOND	202.34	309,583	225.25	344,633	2.94	2.00	6,885	NR
			8,138,892		9,194,681	78.55	1.48	136,309	B-
Stocks									
200	A SCHULMAN INC REG	910.00	182,000	760.56	152,113	1.30	0.00	0	NR
287	ALLERGAN PLC REG	941.58	270,233	819.00	235,053	2.01	0.00	0	NR
1,900	AMERICAN TOWER CORP REG	102.30	194,375	110.81	210,544	1.80	1.20	2,518	NR
99	BANK OF AMERICA 7.250%	1,197.50	118,553	1,225.25	121,300	1.04	5.92	7,178	BB+

Bay County Employees' Retirement System



Holdings Report — Account 1256

September 30, 2016

Shaares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Stocks (Continued)									
1,800	CROWN CASTLE INTL CORP	105.35	189,630	113.02	203,436	1.74	0.00	0	NR
3,800	HESS CORP	49.65	188,652	66.20	251,560	2.15	0.00	0	NR
900	POST HOLDINGS INC	100.00	90,000	168.16	151,344	1.29	0.00	0	NR
3,400	SOUTHWESTERN ENERGY CO REG	37.25	126,650	31.91	108,481	0.93	0.00	0	NR
300	TEVA PHARMACEUTICAL INDU REG	959.22	287,767	810.85	243,255	2.08	0.00	0	NR
2,700	TYSON FOODS INC REG	50.00	135,000	82.39	222,453	1.90	0.00	0	NR
150	WELLS FARGO & COMPANY 7.500%	610.04	91,506	1,300.25	195,038	1.67	0.58	1,125	BBB
1,000	WELLTOWER INC	50.00	50,000	66.88	66,875	0.57	0.00	0	BB+
			1,924,365		2,161,451	18.46	0.50	10,820	C
Cash & Equivalents									
	UNITED STATES DOLLAR 000	0.00	309,784	1.00	309,784	2.65	0.00	0	AAA
			309,784		309,784	2.65	0.00	0	AAA
	Accrued Income				39,996	0.34			
Total Portfolio			\$10,373,041		\$11,705,912	100.00%	1.26	\$147,129	B-

Appendix



Convertible: Performance Composite Disclosures

Period	MacKay Shields Composite ¹ (%)	BofA Merrill Lynch All U.S. Convertibles Index (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	No. of Accts.	Composite Assets (Mil)	Firm Assets (\$Mil)	Standard Deviation of Annual Returns
2016 (Thru 6/30)	2.4	2.0	8.9	8.9	17	1,778	95,873	N/A
2015	-0.3	-3.0	7.9	8.1	16	1,811	89,196	0.9
2014	9.2	9.4	7.4	7.6	12	2,069	91,626	1.4
2013	24.4	24.9	10.7	9.5	7	1,934	80,331	2.9
2012	9.7	15.0	12.3	10.7	8	1,577	78,371	0.9
2011	-4.5	-5.2	13.6	12.7	10	1,768	58,115	1.4
2010	17.0	16.8	18.4	19.1	10	1,997	54,319	3.1
2009	41.8	49.1	17.2	18.3	7	1,581	43,197	5.2
2008	-32.2	-35.7	15.6	15.8	5	974	28,370	2.0
2007	15.2	4.5	6.7	6.7	8	1,538	38,094	1.6
2006	10.3	12.8	6.5	6.4	8	1,526	40,074	1.2

¹Gross of fees

The Convertible Composite includes all discretionary convertible accounts managed with similar objectives for a full month, including those accounts no longer with the firm. This strategy primarily consists of convertible securities such as bonds, debentures, corporate notes, and preferred stocks or other securities that are convertible into common stock or the cash value of a stock or a basket or index of equity securities. The strategy may invest in debt securities that are rated investment grade and below investment grade or, if unrated, that we determine to be of equivalent quality. Composite performance reflects reinvestment of income and dividends and is a market-weighted average of the time-weighted return, before advisory fees and related expenses, of each account for the period since inception. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Performance is expressed in US Dollars. The composite inception date is 1/1/90. The composite creation date is 1/1/01. Advisory fees, which are described in the firm's ADV Part 2A, and related expenses will reduce returns. For example, in flat markets a .50% annual investment advisory fee, our highest fee, applied quarterly, would have the effect of reducing the annual compound return by .50% in the first year and by a cumulative 2.53% in the fifth year. All portfolios in the composite are fee-paying portfolios. There can be no assurance that the rate of return for any account within a composite will be the same as that of the composite presented. **Past performance is not indicative of future results.**

MacKay Shields LLC, an SEC-registered investment adviser, claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The firm has been independently verified from January 1, 1988 through March 31, 2016. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list of composite descriptions is available upon request. The primary benchmark for this composite is the BofA Merrill Lynch All Convertibles Index. The CS First Boston Convertible Index was the primary benchmark for this product until 1/1/05. It was removed because CS First Boston ceased publication of this index. Indices do not incur management fees, transaction costs or other operating expenses. Investments cannot be made directly into an index. The BofA Merrill Lynch All Convertibles Index is referred to for comparative purposes only and is not intended to parallel the risk or investment style of the portfolios in the MacKay Shields Composite. Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the index returns over the preceding 36-month period.

Convertible Team

Edward Silverstein, CFA

*Senior Managing Director
Portfolio Manager/Research Analyst
Head of Convertible*

Edward Silverstein is a Senior Managing Director and Head of Convertibles, where he oversees the management and research of the firm's Convertible strategy. He is a member of the firm's Management Committee. Edward joined MacKay Shields as a Research Analyst in 1998, becoming a Portfolio Manager/Research Analyst in 1999. Prior to joining MacKay Shields, he worked as a Portfolio Manager and Law Clerk at the Bank of New York. He also interned at the New York Stock Exchange Enforcement Division. Ed is a member of the firm's Management Committee.

He has a BS from the University of Vermont, an MBA from the Baruch College and a JD from Brooklyn Law School. He is a CFA charterholder and also a member of the New York State Bar. He authored, *Wise Up!: A Portfolio Manager's Guide to Better Investment Decisions*. He has been working in the investment industry since 1995.

Thomas Wynn, CFA

*Director
Portfolio Manager/Research Analyst*

Rejoining MacKay Shields in 2015, Tom has returned to his role as a Convertible portfolio manager. With MacKay Shields from 1995 to 2004 in our Convertible area, Tom left us to pursue opportunities in the hedge fund community with AM Investment Partners. Most recently Tom was an Equity Long/Short portfolio manager with Centurion Capital and previously with Deutsche Bank. Tom has an MBA in Finance from New York University and BA in Economics from the University of Notre Dame. He is a CFA and has been in the investment management business since 1983.

Scott Mallek

*Director
Trader*

Scott joined MacKay Shields in 2002 after spending six years with Salomon Smith Barney, where he was an Assistant Vice President involved with IFG High Yield Trading. Scott received a BA in Economics from Fairfield University and has been in the investment management industry since 1996.

J. Alex Leites

*Associate Director
Trader*

Alex joined MacKay Shields in 2002 from Credit Suisse First Boston where he was a Settlements Specialist. Alex was previously affiliated with Kinexus, Inc. and Bank of New York. Earlier in his career he was with Lazard Asset Management and Prudential Securities. Alex has a BS in Economics and Business Management from New York University's Stern School of Business and has been in the investment management industry since 1993.

Senior Management

Jeffrey Phlegar

Chairman & Chief Executive Officer

Jeffrey Phlegar is Chairman and Chief Executive Officer, responsible for setting the firm's strategy and leading the organization as it implements these goals across its fixed income business. This includes oversight of the portfolio management teams, enterprise risk, sales and new product development. He is a member of the firm's Board of Managers and leads the firm's Senior Leadership Team. He joined MacKay Shields in December 2011 after 18 years of service at AllianceBernstein, where he served most recently as president of Special Opportunities and Advisory Services, responsible for building a variety of new business initiatives, including the firm's new alternatives platform. From 2004 to 2008, Jeff co-led AllianceBernstein's fixed income division as executive vice president and chief investment officer. In this role, he was responsible for overseeing all aspects of the firm's fixed income business, including oversight of its portfolio management, research and risk management teams, client relationships worldwide, as well as the development and implementation of new products and successful strategies for distribution, servicing and technology/operations.

Jeff's previous roles at AllianceBernstein included serving as Director of U.S. Fixed Income and Insurance, Director of Liquid Markets/MBS and portfolio manager for Taxable Fixed Income & Insurance. Prior to joining AllianceBernstein in 1993, he had portfolio manager responsibilities at Equitable Capital Management and served as a fixed income product specialist at Dreyfus Corporation.

He earned his MBA from Adelphi University and a BBA at Hofstra University. He has been working in the investment industry since 1987.

Lucille Protas

President & Chief Operating Officer

Lucille P. Protas is an Executive Managing Director and President and Chief Operating Officer of MacKay Shields, responsible for managing all aspects of the firm's infrastructure divisions, including finance/accounting, human resources, administration and back-office operations. She is actively involved in shaping the firm's direction through her participation on its Board of Managers and the firm's Senior Leadership Team. Lucille joined the firm in 1973 as an Investment Research Assistant and later became a Senior Analyst in the accounting and financial division in 1977. She was named Treasurer in 1983, Chief Administrative Officer in 1992 and Chief Operating Officer in 2007.

She attended Fairleigh Dickinson University. She has been working in the investment industry since 1973.

Marketing & Client Service

John W. Akkerman, CFA CAIA *Executive Managing Director* *Global Head of Distribution*

John W. Akkerman is an Executive Managing Director and Global Head of Distribution, responsible for creating and implementing strategies for MacKay Shield's distribution, marketing, consultant relations and client service practices. He is a member of the firm's Senior Leadership Team. He joined MacKay Shields in September 2012 after 16 years in various leadership roles at AllianceBernstein, where he most recently led the firm's specialist institutional sales and marketing functions focused on alternatives and fixed income. From 2004 to 2010 he was responsible for the expansion and leadership of AllianceBernstein's institutional business in Canada, the United States and Latin America. This followed the launch and development of AllianceBernstein's Canadian business from 1996 to 2004. Prior to joining AllianceBernstein in 1996, John was a shareholder at TAL Investment Counsel, a business development executive at Sun Life and a corporate banking officer with Bank of Montreal.

He earned a BComm from Saint Mary's University and an MBA from the University of Western Ontario. A member of the Toronto Society of Financial Analysts, he is a CFA charterholder and a Chartered Alternative Investment Analyst. He has been working in the investment industry since 1987.

Virginia E. Rose *Senior Managing Director* *Head of Institutional Client Service*

Virginia is a Senior Managing Director and Head of Institutional Client Service. She is responsible for managing the firm's day-to-day relationships with clients, consultants and private fund investors, as well as all aspects of client reporting and data. She is a member of the firm's Management Committee. Prior to joining MacKay Shields in 1990, Virginia was a Marketing Assistant with Glickenhau & Co., Stamford Capital and a Research Analyst at New York Capital Resources specializing in Mergers & Acquisitions.

She attended Northeastern University. She has been working in the investment industry since 1985.

Beth Griper *Director* *Product Specialist*

Beth joined MacKay Shields in 2007 as a Director in the Institutional Client Service Division. Prior to joining MacKay Shields, she was a Director within the Global Corporate Client Group at NYSE Euronext where she was responsible for soliciting new listings and managing relationships with 120 listed companies. Beth also spent six years with Zurich Financial Services Group as a Business Development Analyst working with institutional and high net worth clients. Prior to that, Beth was with Credit Suisse First Boston and Shearman & Sterling. She received an MBA in Finance and Economics from New York University's Leonard N. Stern School of Business and a BA in International Relations and German from Bucknell University. Beth's career in the financial service industry began in 1996.