

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT REVIEW

OCTOBER 22, 2015

Convertible

EDWARD SILVERSTEIN, CFA

Senior Managing Director
Head of Convertible Division

BETH GRIPER

Director
Client Service Representative



Agenda

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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 164 dedicated employees, including 52 investment professionals

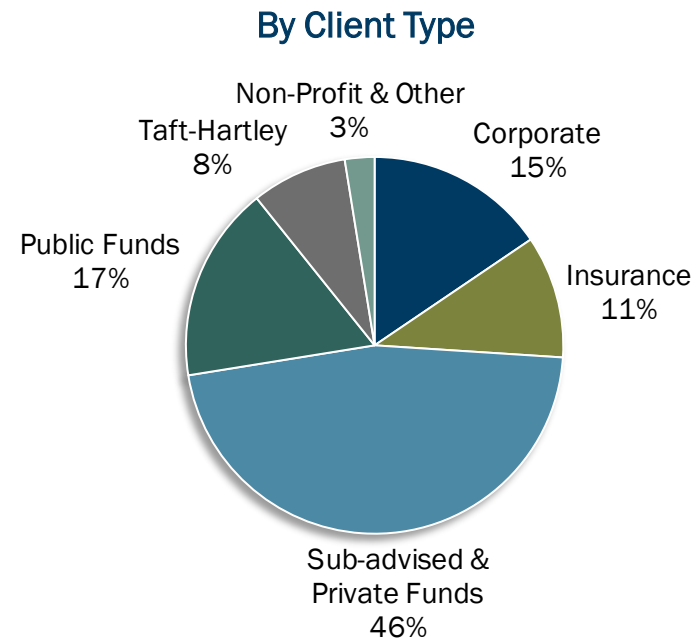
Our Approach

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

Long-Term Commitment

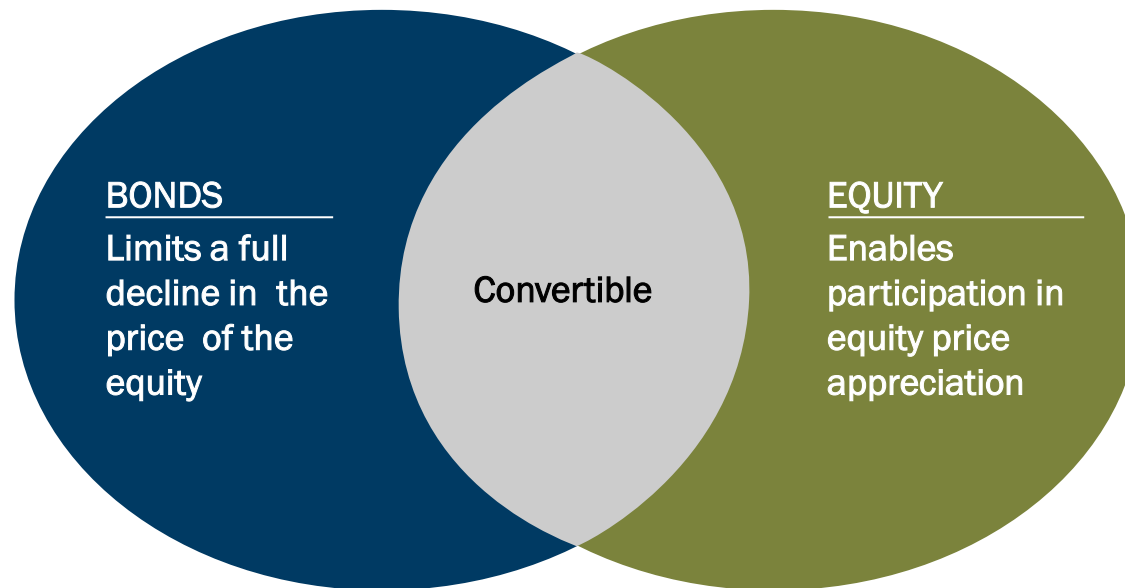
Similar to our investment approach, we take a long-term perspective toward our clients, their portfolios and our business

Total Assets Under Management: \$90.2B¹



¹ September 30, 2015 (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 and **past performance is no guarantee of future results.**

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.



Convertible securities provide investors with the income stream potential of bonds as well as the growth potential of stocks.

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.

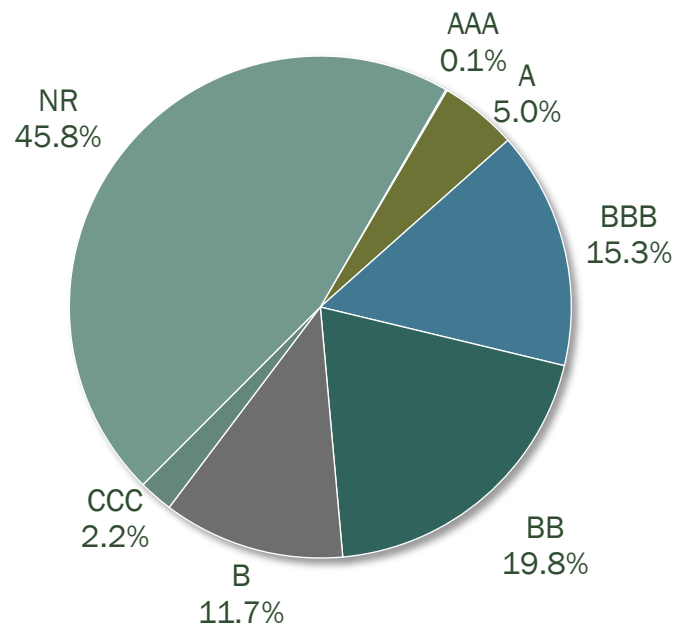
Correlation With Other Major Asset Classes

Asset Class	Correlation with Convertible Securities (1/1/99 – 12/31/14)
Large-Cap Stocks	0.83
Mid-Cap Stocks	0.91
Small-Cap Stocks	0.86
High Yield Corporate Bonds	0.80
Long-Term Corporate Bonds	0.38
Intermediate-Term Corporate Bonds	0.44
Long-Term Treasury Bonds	-0.21
Intermediate-Term Treasury Bonds	-0.27

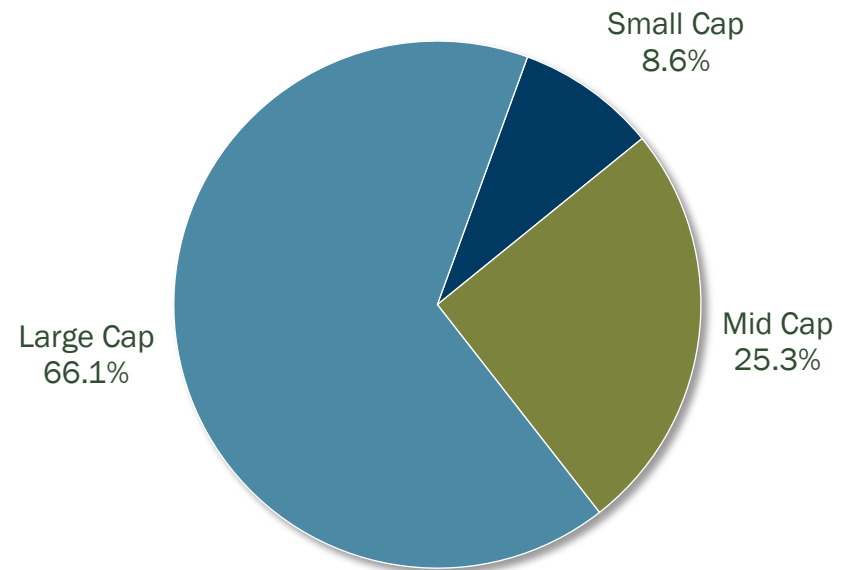
Source: Morningstar; 1/1/99-12/31/13. Convertible securities are represented by the Bank of America Merrill Lynch All Convertible Securities Index, an unmanaged market capitalization-weighted index of domestic corporate convertible securities that are convertible to common stock only. Large-capitalization 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 includes all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues with maturates of 10 years or longer. The returns we publish for the index are total returns, which include reinvestment of dividends. Intermediate-Term Treasury Bonds are represented by the Barclays Capital Intermediate Treasury Index 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. The returns we publish for the index are total returns, which include reinvestment of dividends. 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. The returns published for the index are total returns, which include reinvestment of dividends. 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. **Past performance is no guarantee of future results.** 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 June 30, 2015.

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.

Performance Over a Full Market Cycle

Ten Years Ending June 30, 2015

Asset Class	Cumulative Return ¹	Annualized Return ¹	Annualized Standard Deviation
Mackay Shields Convertible Composite	124.89	8.44	13.50
BofA Merrill Lynch All U.S. Convertibles Index	113.20	7.86	14.19
NASDAQ Index	169.41	10.42	17.63
Russell 3000 Index	118.94	8.15	16.56
S&P 500 Index	113.78	7.89	16.01

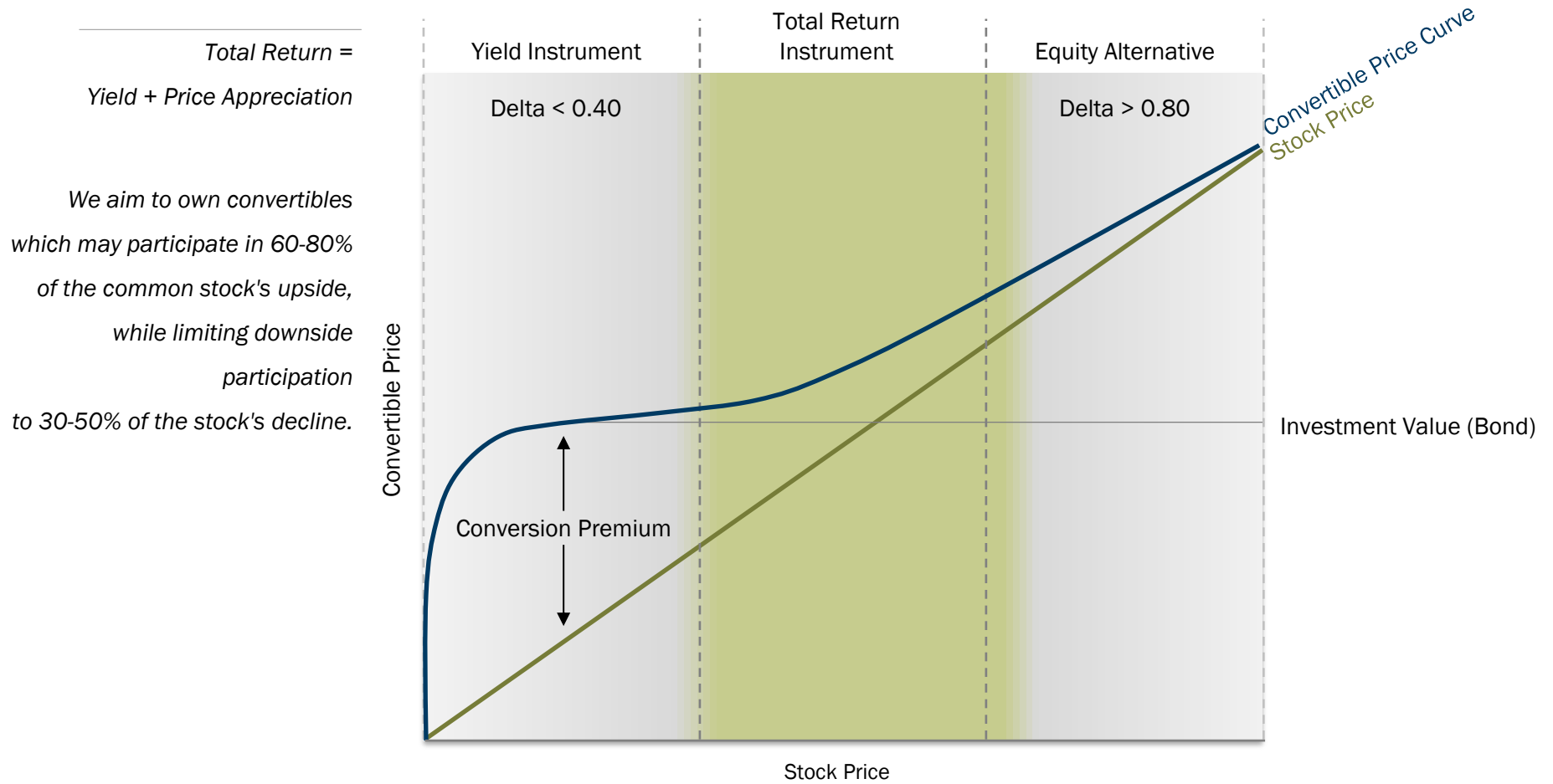
Source: Callan

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.

Gross of fees

Target the “Total Return” Instrument





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 <i>Senior Managing Director</i> <i>Portfolio Manager/Research Analyst</i>	20	Bank of New York New York Stock Exchange	Brooklyn Law School, JD Baruch College, MBA University of Vermont, BS
Thomas Wynn, CFA <i>Director</i> <i>Portfolio Manager/Research Analyst</i>	33	Centurion Capital Deutsche Bank AM Investment Partners	New York University, MBA University of Notre Dame, BA
Scott Mallek <i>Director</i> <i>Trader</i>	19	Salomon Smith Barney	Fairfield University, BA
J. Alex Leites <i>Associate Director</i> <i>Trader</i>	22	Credit Suisse First Boston	New York University, BS

Research Efforts Supported by the High Yield Investment Team¹

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

¹As needed.

Bay County Employees' Retirement System

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Asset Allocation

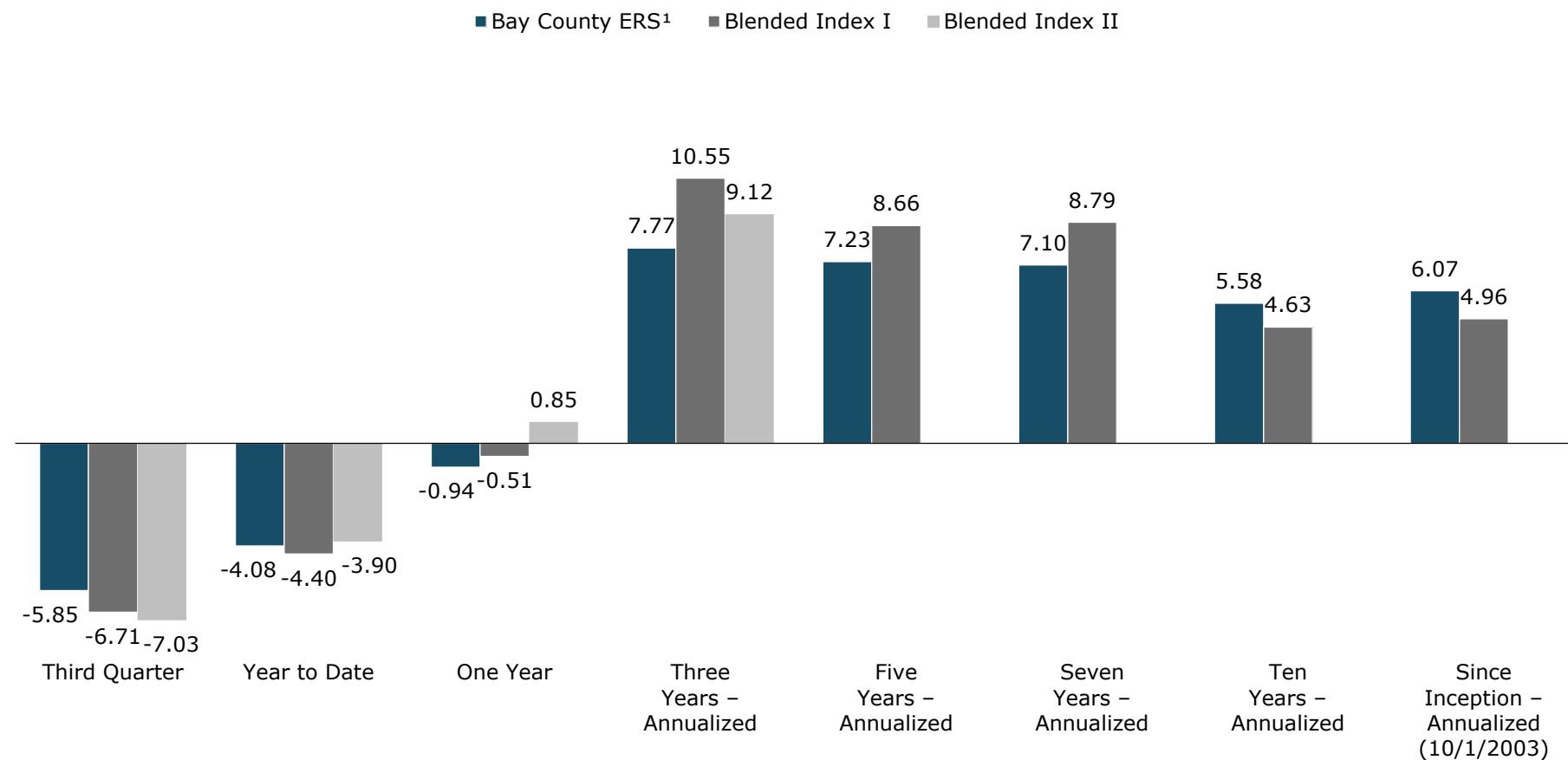
September 30, 2015
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	Market Value	Percent
Convertible Bonds	\$9,640,226	78.07%
Preferreds	\$1,745,196	14.13%
Cash	\$962,822	7.80%
Total Fund	\$12,348,244	100.00%

Bay County Employees' Retirement System

Historical Rates of Return (%)

Periods Ending September 30, 2015



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.

Blended Index II consists of the BofA Merrill Lynch Investment Grade Bonds 5% Cap Index from 1/1/12 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, 2015)



Portfolio Characteristics

	Bay County ERS	BofA Merrill Lynch All U.S. Convertibles Index
Years to Effective Maturity	4.22	n/a
Current Yield	1.26%	3.27%
Yield to Effective Maturity	2.27%	n/a
Delta	0.71 ¹	0.63
Conversion Premium	37.05% ¹	51.22%
Average Quality	BBB-	BB
Number of Holdings	56	479

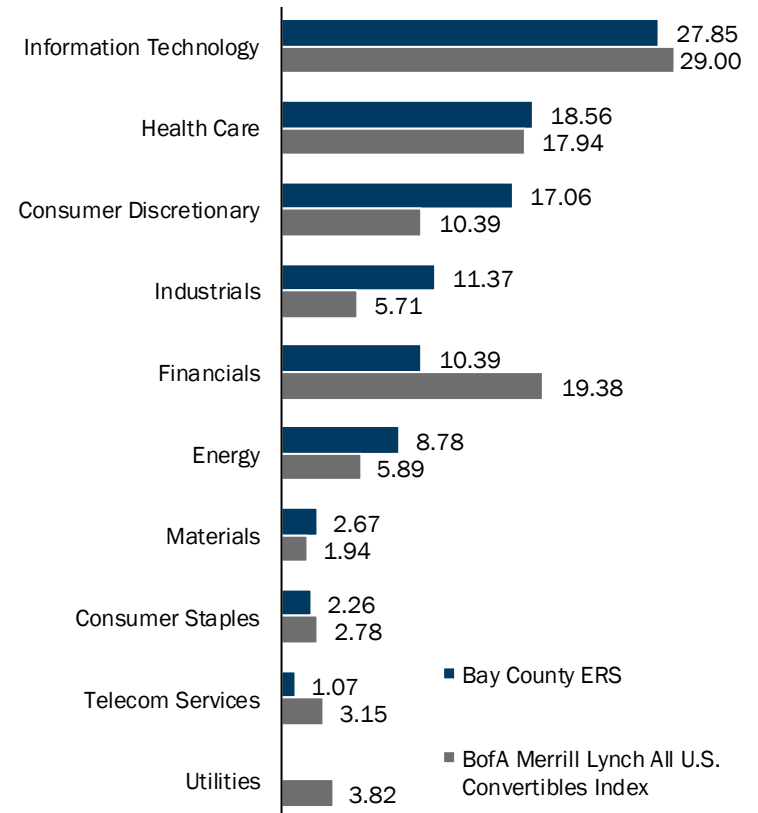
Credit Concentration

% Market Value

	Bay County ERS	BofA Merrill Lynch All U.S. Convertibles Index
AAA	8.87	0.11
AA	0.00	0.00
A	19.44	5.13
BBB	24.44	14.85
BB	24.51	21.24
B	22.10	10.41
CCC or lower	0.64	2.07
NR ²	0.00	46.18

Portfolio Sector Breakdown

% Market Value



Bay County Employees' Retirement System



Investment Objectives and Guidelines

Investment Guidelines:

The investment objective is to seek long term growth of capital together with current income.

Benchmark:

VXA1 — BofAML All US Investment Grade Convertibles Index plus 1% annually

Peer Group:

Becker Burke Convertible Portfolio Universe

Primary Investment Focus:

The account will invest primarily in domestic convertible securities such as bonds, debentures, corporate notes, and preferred stocks or other securities, i.e. synthetics that are convertible into common stock or the cash value of stock or a basket or index of equity securities. Any equity security received in the portfolio resulting from a conversion will be liquidated in an orderly and timely fashion as determined by the investment manager. Typically equities will not be purchased out right but would be in the portfolio as a result of another holding.

The account will be limited to invest up to 20% of the portfolio in convertible preferred stocks or other securities.

Rule 144A securities, convertible debt and equity, are permitted.

The account shall have an overall Moody's rating of "Baa3" or Standard & Poors rating of "BBB-". Individual fixed income securities shall have at a minimum a Moody's rating of "B3" or a Standard & Poors rating of "B".

The account is allowed to invest up to 25% of the portfolio in non-investment grade domestic convertible securities as identified above, however individual securities shall have at a minimum a "B3" rating as determined by Moody's and "B-" by Standard & Poors. The lowest of the ratings shall prevail. The account shall divest itself of all securities rated below "B" from either rating agency within 60 days of the reduction.

If any non-investment grade securities are convertible preferreds they will be applied against both maximums.

Performance Objectives:

To outperform the benchmark net of fees and to rank within the top one-third of the peer group over a 3 - 5 year period as identified above.

Bay County Employees' Retirement System

Convertible Portfolio



Bay County Employees' Retirement System



Summary Report — Account 1256

September 30, 2015

	Total Cost	Percent at Cost	Yield at Cost	Market Value	Percent of Assets	Yield at Market	Annual Income
Bonds	9,455,335	85.11	1.42	9,603,573	77.77	1.40	134,073
Stocks	1,653,598	14.89	1.27	1,739,933	14.09	1.21	21,004
Cash & Equivalents	0	0.00		962,822	7.80	0.00	0
Accrued Income				41,916	0.34		
Total Portfolio	\$11,108,933	100.00%	1.40	\$12,348,244	100.00%	1.26	\$155,077

Bay County Employees' Retirement System



Holdings Report — Account 1256

September 30, 2015

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Bonds									
220,000	AIR LEASE CORP 3.875 12/01/2018	129.50	284,900	126.38	278,025	2.25	3.07	8,525	NR
119,000	AIRTRAN HOLDINGS INC CONV BOND 5.250 11/01/2016	210.37	250,339	270.31	321,672	2.61	1.94	6,248	BBB
99,000	ALZA CORP CONV BOND 07/28/2020	89.91	89,010	129.06	127,772	1.03	0.00	0	AAA
147,000	ANTHEM INC (WELLPOINT INC) 2.750 10/15/2042	153.25	225,278	188.88	277,646	2.25	1.46	4,043	A
502,000	BANK OF AMERICA CORP 0.250 02/20/2018	109.39	549,138	98.35	493,737	4.00	0.25	1,255	NR
118,000	BOTTOMLINE TECHNOLOGIES INC 1.500 12/01/2017	109.88	129,653	106.44	125,596	1.02	1.41	1,770	NR
113,000	CARRIAGE SERVICES INC 2.750 03/15/2021	115.96	131,035	111.44	125,924	1.02	2.47	3,108	NR
169,000	CHART INDUSTRIES INC 2.000 08/01/2018	135.55	229,072	87.88	148,509	1.20	2.28	3,380	BB-
244,000	CITRIX SYSTEMS INC 0.500 04/15/2019	106.20	259,116	105.94	258,488	2.09	0.47	1,220	NR
130,000	DANAHER CORP CNV BND REG 01/22/2021	106.50	138,450	246.56	320,531	2.60	0.00	0	A
66,000	DEPOMED INC REG 2.500 09/01/2021	155.90	102,894	119.25	78,705	0.64	2.10	1,650	NR
142,000	ECHO GLOBAL LOGISTICS REG 2.500 05/01/2020	93.01	132,074	89.81	127,534	1.03	2.78	3,550	NR
77,000	GILEAD SCIENCES INC 1.625 05/01/2016	317.87	244,760	428.88	330,234	2.67	0.38	1,251	A-
241,000	HELIX ENERGY SOLUTIONS CONV BOND REG 3.250 03/15/2032	122.89	296,155	82.13	197,921	1.60	3.96	7,833	NR
81,000	HORIZON PHARMA INV LTD 144A 2.500 03/15/2022	127.00	102,870	97.13	78,671	0.64	2.57	2,025	CCC+
140,000	HOST HOTELS & RESORTS LP CNV BND 144A 2.500 10/15/2029	151.81	212,536	124.88	174,825	1.42	2.00	3,500	BBB
64,000	ILLUMINA INC 0.500 06/15/2021	120.99	77,433	116.69	74,680	0.60	0.43	320	BBB
222,000	ILLUMINA INC 06/15/2019	105.13	233,382	110.19	244,616	1.98	0.00	0	BBB
176,000	INTEL CORP CONV BOND 3.250 08/01/2039	127.38	224,180	151.06	265,871	2.15	2.15	5,720	A-
230,000	JARDEN CORP 1.875 09/15/2018	169.50	389,850	160.75	369,725	2.99	1.17	4,313	B+
350,000	JP MORGAN SCHLUMBERGER 05/03/2017	167.42	585,970	127.16	445,060	3.60	0.00	0	NR
184,000	LIVE NATION ENTERTAINMEN 2.500 05/15/2019	106.50	195,960	104.69	192,625	1.56	2.39	4,600	NR
269,000	MACQUARIE INFRASTRUCTURE REG 2.875 07/15/2019	113.84	306,234	114.00	306,660	2.48	2.52	7,734	BBB-
230,000	MEDIDATA SOLUTIONS INC 1.000 08/01/2018	111.50	256,450	105.94	243,656	1.97	0.94	2,300	NR
115,000	MGIC INVESTMENT CORP REG 5.000 05/01/2017	111.25	127,938	106.88	122,906	1.00	4.68	5,750	B+
278,000	MICROCHIP TECHNOLOGY INC 144A 1.625 02/15/2025	101.75	282,878	96.19	267,401	2.17	1.69	4,518	BB-
291,000	MICRON TECHNOLOGY INC 3.000 11/15/2043	89.75	261,173	84.56	246,077	1.99	3.55	8,730	BB
94,000	MOLINA HEALTHCARE INC 1.625 08/15/2044	138.88	130,543	130.06	122,259	0.99	1.25	1,528	NR
104,000	NVIDIA CORP 1.000 12/01/2018	125.01	130,010	132.06	137,345	1.11	0.76	1,040	BB+
175,000	NXP SEMICONDUCTOR NV 144A 1.000 12/01/2019	111.63	195,344	110.94	194,141	1.57	0.90	1,750	BB-
114,000	ON SEMICONDUCTOR CONV BOND 2.625 12/15/2026	114.25	130,245	112.19	127,894	1.04	2.34	2,993	BB-
136,000	ON SEMICONDUCTOR CORP 144A 1.000 12/01/2020	95.88	130,390	93.56	127,245	1.03	1.07	1,360	BB+
148,000	PROOFPOINT INC 144A 0.750 06/15/2020	105.50	156,140	105.06	155,493	1.26	0.71	1,110	NR

Bay County Employees' Retirement System



Holdings Report – Account 1256

September 30, 2015

Shares or Par Value	Security	Unit Cost	Total Cost	Current Price	Market Value	Percent of Assets	Yield	Annual Income	S & P
Bonds (Continued)									
161,000	RED HAT INC 144A 0.250 10/01/2019	100.00	161,000	120.38	193,804	1.57	0.21	403	BBB
114,000	RPM INTERNATIONAL INC REG 2.250 12/15/2020	126.00	143,640	111.94	127,609	1.03	2.01	2,565	BBB
131,000	SALESFORCE.COM INC 0.250 04/01/2018	111.38	145,901	122.75	160,803	1.30	0.20	328	NR
158,000	SANDISK CORP 0.500 10/15/2020	98.13	155,038	97.31	153,754	1.25	0.51	790	BB+
180,000	TELEFLEX INC CONV BOND REG 3.875 08/01/2017	101.42	182,550	202.75	364,950	2.96	1.91	6,975	B+
228,000	TEVA PHARMACEUTICALS CONV BOND 0.250 02/01/2026	112.35	256,158	136.13	310,365	2.51	0.18	570	BBB+
181,000	THE PRICELINE GROUP INC CONV BOND REG 1.000 03/15/2018	113.94	206,227	141.06	255,323	2.07	0.71	1,810	BBB+
247,000	VERINT SYSTEMS INC 1.500 06/01/2021	105.14	259,684	95.81	236,657	1.92	1.57	3,705	B+
303,000	WHITING PETROLEUM CORP 144A 1.250 04/01/2020	85.56	259,245	81.94	248,271	2.01	1.53	3,788	BB-
176,000	XILINX INC 2.625 06/15/2017	136.42	240,095	149.50	263,120	2.13	1.76	4,620	A-
120,000	XPO LOGISTICS INC CONV BOND 4.500 10/01/2017	212.00	254,400	149.56	179,475	1.45	3.01	5,400	NR
			9,455,335		9,603,573	77.77	1.40	134,073	B
Stocks									
200	A SCHULMAN INC REG	910.00	182,000	875.00	175,000	1.42	0.00	0	NR
187	ALLERGAN PLC REG	1,005.68	188,063	943.46	176,427	1.43	0.00	0	NR
1,900	AMERICAN TOWER CORP REG	102.30	194,375	99.56	189,169	1.53	1.33	2,518	NR
99	BANK OF AMERICA 7.250%	1,197.50	118,553	1,077.00	106,623	0.86	6.73	7,178	BB+
1,200	CROWN CASTLE INTL CORP	103.50	124,200	101.86	122,232	0.99	0.00	0	NR
1,000	FIAT CHRYSLER AUTOMOBILE REG 7.875 12/15/2016	121.50	121,500	118.62	118,620	0.96	0.00	0	B-
900	POST HOLDINGS INC	100.00	90,000	131.87	118,683	0.96	0.00	0	NR
3,400	SOUTHWESTERN ENERGY CO REG	37.25	126,650	31.08	105,672	0.86	0.00	0	NR
1,900	STANLEY BLACK & DECKER I CONV PFD UNITS	121.97	231,752	133.25	253,175	2.05	4.02	10,184	NR
2,700	TYSON FOODS INC REG	50.00	135,000	51.26	138,402	1.12	0.00	0	NR
150	WELLS FARGO & COMPANY 7.500%	610.04	91,506	1,168.00	175,200	1.42	0.64	1,125	BBB
1,000	WELLTOWER INC	50.00	50,000	60.73	60,730	0.49	0.00	0	BB+
			1,653,598		1,739,933	14.09	1.21	21,004	CC
Cash & Equivalents									
UNITED STATES DOLLAR 000		0.00	962,822	1.00	962,822	7.80	0.00	0	AAA
			962,822		962,822	7.80	0.00	0	AAA
Accrued Income					41,916	0.34			
Total Portfolio			\$12,071,755		\$12,348,244	100.00%	1.26	\$155,077	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 (%)	Firm Assets (\$Mil)
2015 (Thu 6/30)	3.4	3.6	6.5	6.9	92,818
2014	9.2	9.4	7.4	7.6	91,626
2013	24.4	24.9	10.7	9.5	80,331
2012	9.7	15.0	12.3	10.7	78,371
2011	-4.5	-5.2	13.6	12.7	58,115
2010	17.0	16.8	18.4	19.1	54,319
2009	41.8	49.1	17.2	18.3	43,197
2008	-32.2	-35.7	15.6	15.8	28,370
2007	15.2	4.5	6.7	6.7	38,094
2006	10.3	12.8	6.5	6.4	40,074
2005	7.1	1.0	6.3	7.0	38,329

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 December 31, 2014. 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.

June 30, 2015 number of accounts and composite assets (mil) were: 11, \$2,164. Year-end number of accounts, composite assets (mil) and internal dispersion were: 2014, 12, \$2,069, 1.4; 2013, 7, \$1,934, 2.9; 2012, 8, \$1,577, 0.9; 2011, 10, \$1,768, 1.4; 2010, 10, \$1,997, 3.1; 2009, 7, \$1,581, 5.2; 2008, five or fewer, \$974, 2.0; 2007, 8, \$1,538, 1.6; 2006, 8, \$1,526, 1.2; 2005, 8, \$1,497, 1.8.

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.