

Prepared for
Bay County Employees' Retirement System

April 24, 2014

Representing Baird Advisors

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Section 1

Firm Overview

Overview of Baird

BAIRD

Baird has been helping clients achieve their asset management, investment banking and private equity goals for over 90 years.

1919

Founded in Milwaukee

2004

Baird becomes employee-owned

\$110 billion

Assets under management

\$1 billion

Revenue

2,900

Employees

100+

Office locations on three continents*

11

Number of consecutive years Baird has been recognized as one of the FORTUNE 100 Best Companies to Work For®

1

Ranked No. 1 "most trusted" research in Greenwich Associates survey 2004-2013

"Cross Border Deal of the Year" for 2012 - *The M&A Advisor*

A Comprehensive Financial Services Firm



Baird Advisors Highlights

- Dedicated team focused on fixed income
- Over **\$21.1 billion** of assets under management as of March 31, 2014
- Disciplined, research driven approach
- Focus on superior customer service

Baird's International Presence

United States



Europe



Asia



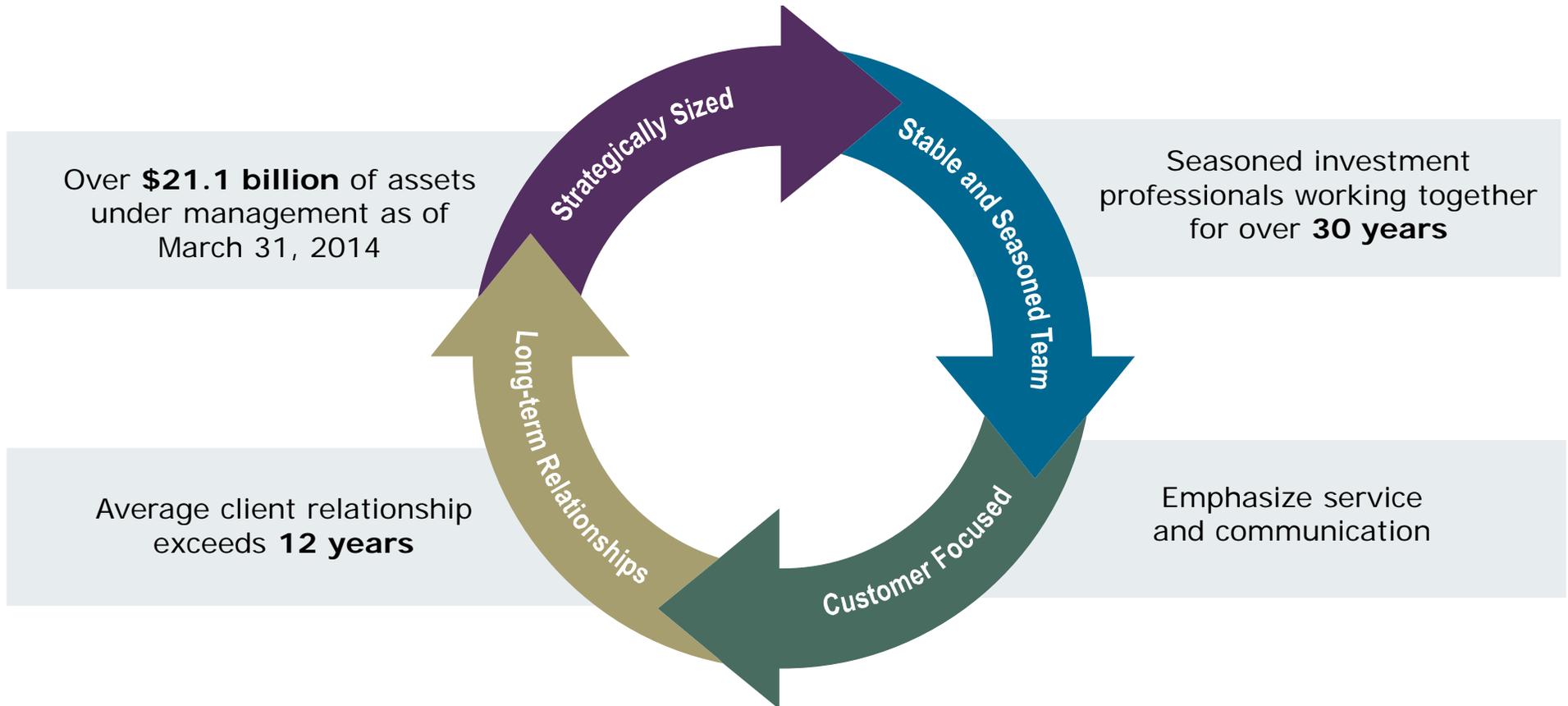
Milwaukee Chicago New York London Frankfurt Hamburg Hong Kong San Francisco Palo Alto
Atlanta Boston Philadelphia Tampa Washington, D.C. Beijing Shanghai Stamford Charlotte

Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, 2004-2013. Surveys conducted with 94 U.S. small-cap and mid-cap fund managers. Rankings based on top 10 research firms in survey. Baird ranked No. 1 for "Most Trusted" Research and No. 1 for "Top Five" Research Firms for Importance.

* Baird and its operating affiliates have offices in the United States, Europe and Asia. Robert W. Baird Ltd. and Baird Capital Partners Europe are authorized and regulated in the UK by the Financial Conduct Authority.

Overview of Baird Advisors

Experienced team with a track record of consistent results in high quality fixed income management



Baird Advisors - Representative Clients

Client relationships average 12 years

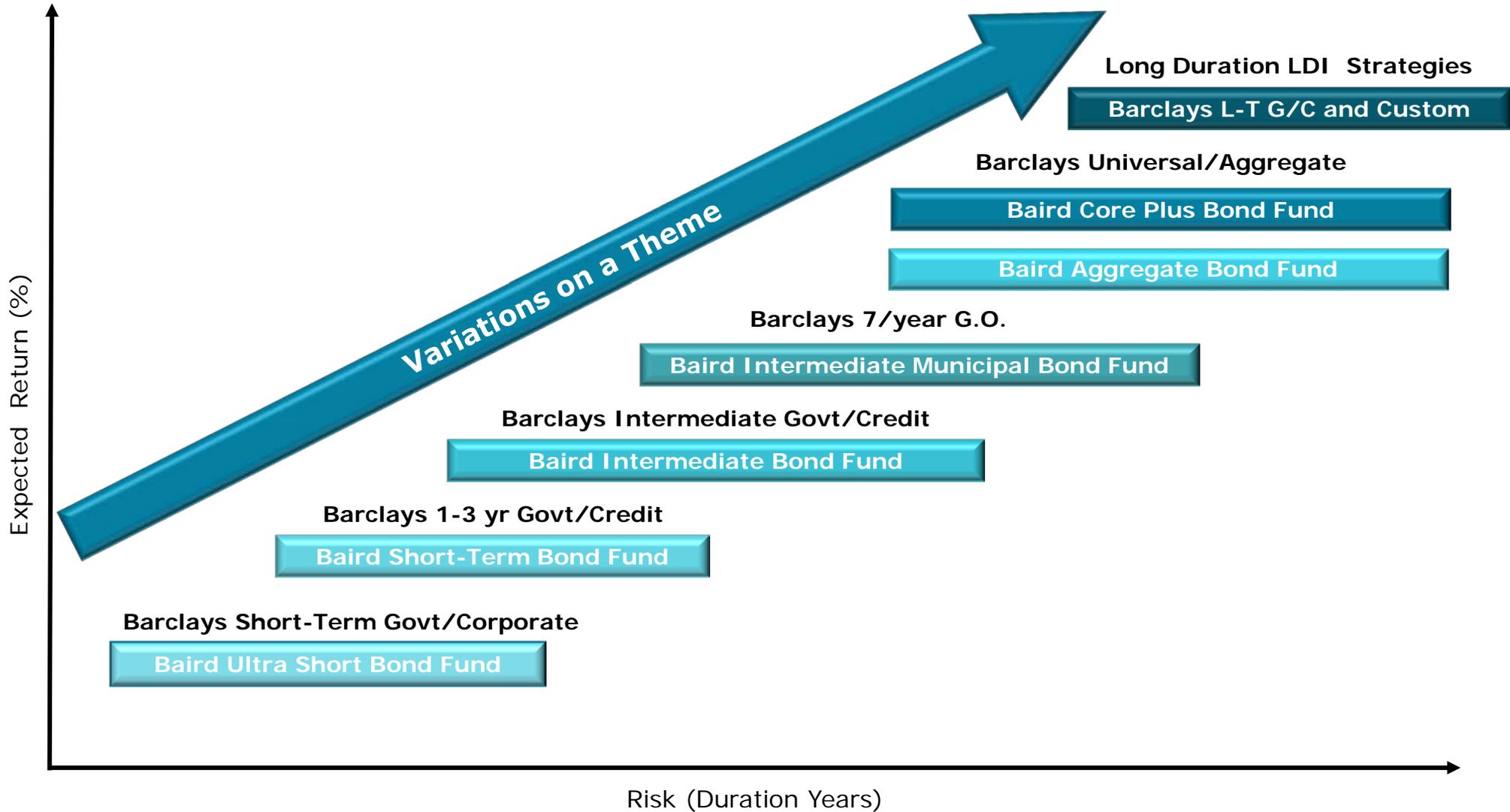
The collage features logos for the following clients and organizations:

- Insurance & Healthcare:** BROWARD HEALTH, MERITER, BLUE CROSS, PREMIERA, ATI, North Central States Regional Council of Carpenters' Benefit Funds, MedStar Health, MARY GREELEY MEDICAL CENTER, WELLPOINT, UAW, maif, ThysenKrupp, MILWAUKEE ERS, Presence Health, Great River Health Systems, Harris County Hospital District, Texas Mutual, CERA, SPX, MOTOR HARLEY-DAVIDSON CYCLES, GOODYEAR, LACERS, UWHealth, University of Wisconsin Hospital and Clinics, Gundersen Lutheran, GUTHRIE, Nebraska Public Power District, Johnson Controls, the Pension Fund, Froedtert HEALTH, WPS HEALTH INSURANCE, HAMILTON HEALTH CARE SYSTEM, WCRB, Mack, BAYLOR Health Care System, University of Colorado Boulder, UNIVERSITY HEALTH SYSTEMS of Eastern Carolina, ANCIILLA SYSTEMS, MAKE-A-WISH, TUSKEGEE UNIVERSITY, Charter School Growth Fund, THE CATHOLIC COMMUNITY FOUNDATION, PBS, UNIVERSITY OF NEW HAMPSHIRE, University of Missouri, HELEN BADER FOUNDATION, Fort HealthCare, UNIVERSITY OF WISCONSIN FOUNDATION, WAYNE STATE UNIVERSITY, WINTER PARK HEALTH FOUNDATION, C-SPAN, Sam Houston State University, MARQUETTE UNIVERSITY, MEDICAL COLLEGE OF WISCONSIN, BLOODCENTER of WISCONSIN, Children's Hospital of Wisconsin, GAVI ALLIANCE, Aurora Health Care, WELS, ALLIANT HEALTH PLANS, NASDAQ OMX, KERA kxt91.7 PUBLIC MEDIA FOR NORTH TEXAS.
- Retirement Plans:** (Logos are integrated into the main collage).
- Foundation / Endowment:** (Logos are integrated into the main collage).
- Customized:** (Logos are integrated into the main collage).

Note: The clients listed above represent various industry groups and geographic locations and were not selected based upon performance. Their appearance is not an indication of approval or disapproval of the investment management services provided.

Structured, Risk-controlled Portfolio Management

Consistent approach applied across risk spectrum



Baird Advisors Bond Funds

Total Net Returns as of March 31, 2014

	2014 YTD	<u>Annualized</u>				Since Inception	Since Inception Lipper Rank & Percentile
		<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>		
Baird Core Plus Bond Fund - Institutional	2.32%	0.65%	5.03%	8.26%	5.71%	6.59%	9 of 56
Barclays Universal Bond Index	1.95%	0.51%	4.23%	5.74%	4.78%	5.77%	16%
Baird Aggregate Bond Fund - Institutional	2.36%	0.62%	5.15%	7.26%	4.88%	6.02%	18 of 175
Barclays Aggregate Index	1.84%	-0.10%	3.75%	4.80%	4.46%	5.50%	11%
Baird Intermediate Bond Fund - Institutional	1.31%	0.56%	4.21%	6.22%	4.54%	5.59%	51 of 175
Barclays Intermediate Govt/Credit Index	1.00%	-0.13%	3.13%	4.18%	3.94%	5.08%	30%
Baird Short-Term Bond Fund - Institutional	0.59%	1.39%	2.49%	3.93%	n/a	3.26%	35 of 141
Barclays 1-3 Year Govt/Credit Index	0.23%	0.68%	1.18%	1.95%	n/a	2.93%	25%
Baird Ultra Short Bond Fund – Institutional *	0.78%	n/a	n/a	n/a	n/a	0.78%	2 of 121
Barclays U.S. Short-Term Government/Corporate Index	0.07%	n/a	n/a	n/a	n/a	0.07%	2%
Baird Intermediate Muni Bond Fund- Institutional	1.65%	0.21%	3.67%	3.68%	3.83%	4.61%	5 of 69
Barclays 7 Year G.O. Index	2.06%	0.61%	4.70%	4.77%	4.43%	4.89%	8%

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed, may be worth more or less than their original cost. The funds' current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please visit www.bairdfunds.com.

Expense Ratio for the Institutional Share Classes is 0.30%; for the Investor Share Classes is 0.55%
Returns shown include the reinvestment of all dividends and capital gains.

* Inception date for Baird Ultra Short Bond Fund is 12/31/13

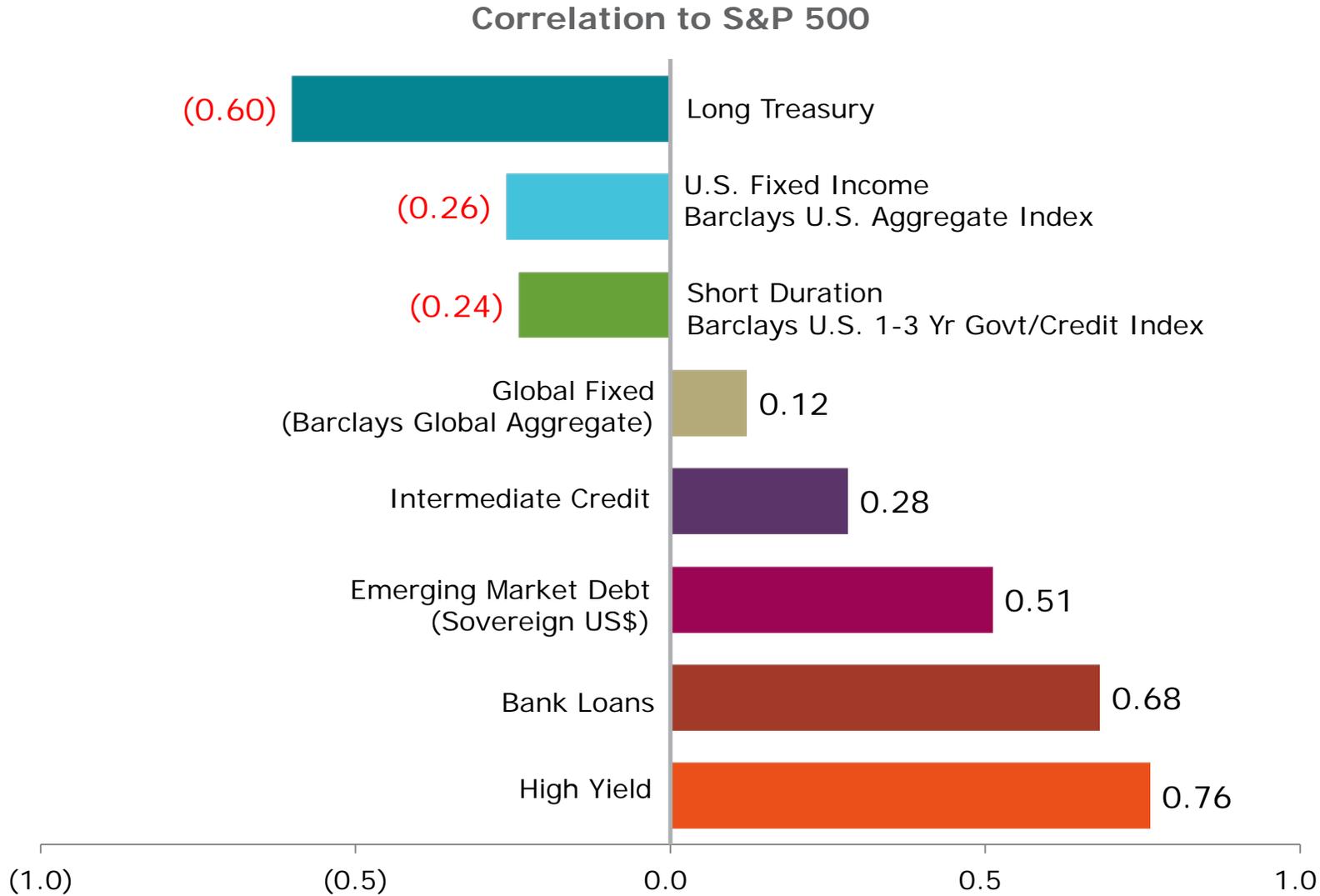
Consistency is Key

Baird Bond Funds – Institutional Shares

Percentage of Time the Funds Outperform their Morningstar Category Average					
Rolling Time Periods	Baird Short-Term Bond	Baird Intermediate Bond	Baird Aggregate Bond	Baird Core Plus Bond	Baird Intermediate Muni Bond
1 Year	89 %	62 %	93 %	89 %	61 %
2 Year	94 %	73 %	95 %	93 %	55 %
3 Year	99 %	83 %	99 %	100 %	65 %
5 Year	100 %	94 %	100 %	100 %	92 %

Source: Morningstar Direct as of March 31, 2014
 Performance numbers used are through each month end period from each fund's inception date.
 All supporting information available upon request.
 Past performance does not guarantee future results.

Diversification Benefits of High Quality Bonds



Analysis for 10 years through 12/31/13, using quarterly data
 Source: Callan Investments Institute

Two Fold Investment Process

✓ Structure portfolio to achieve return of benchmark for each client

Add incremental value through multi-step, risk-controlled process

Complete Understanding of Benchmark

- Purchase only U.S. dollar denominated securities
- Quantify duration, sector, and sub sector weightings
- Evaluate pricing, turnover and projected changes to benchmarks

Control Portfolio Risk by Remaining Duration Neutral

- Average duration precisely matched to index at all times
- Immediate adjustment to portfolio as contributions and withdrawals occur
- Month-end rebalancing to match benchmark changes

Maintain Strict Adherence to Portfolio Guidelines

- Constant monitoring of risk control measures
- Use of “what-if” modeling techniques
- Compliance systems for all portfolio trades

Emphasis on Security Structure and Credit Research

- Specific security covenants, cash flow and liquidity concerns
- Assessment of company financials and management
- Prospects for sector and position in industry

Achieve benchmark returns through duration neutral discipline

Two Fold Investment Process

Structure portfolio to achieve return of benchmark for each client

✓ Add incremental value through multi-step, risk-controlled process

Our goal is to add incremental return of 15-50 basis points through multiple investment strategies

Yield Curve Positioning

- Optimize yield and “rolldown”
- Analyze yield curve on a continual basis
- Dynamic process

Sector Allocation

- Long-term decisions to overweight and underweight
- Focus on relative value of different sectors
- Yield spreads and underlying risks change constantly

Security Selection

- Structure
- Attributes
- Liquidity

Competitive Execution

- Capitalize on market inefficiencies
- Timely market information
- Long-standing dealer relationships

Performance is consistent and competitive over complete market cycles

Research Driven Discipline

Wide breadth of resources and market research driven investment decisions

- All senior portfolio managers contribute to research driven process
- Access to leading Wall Street fixed income and equity research
- Access to Baird equity and credit analysts



- Interactive Data BondEdge: Portfolio & benchmark analysis, guideline compliance
- Barclays Live: Benchmark analysis
- Bloomberg: Security analysis, company research
- MarketAxess: Corporate trading platform and TRACE data market monitor
- TradeWeb: Treasury and Agency trading platform, historical curve information
- Intex Solutions and Bond Studio: Residential and commercial loan analysis
- Yield Book: Option-adjusted spread (OAS) and scenario analysis
- CreditSights: Independent credit research from a team of highly ranked analysts

Section 2

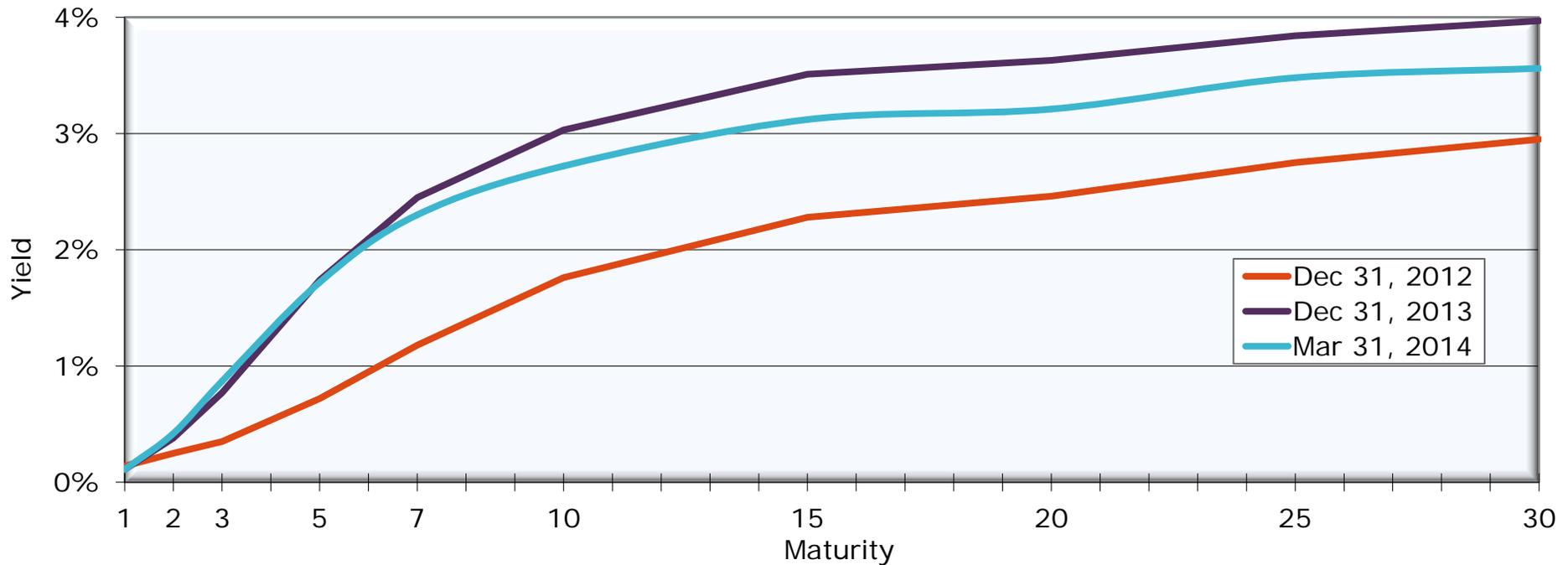
Market Update

Economic Outlook & Market Update

- **U.S. Economy:** Better in 2014 though growth still moderate with continued headwinds
- **Inflation:** Wages remain benign with consumer inflation below Fed's target
- **Fed Policy:** Despite QE Taper, extraordinarily accommodative policy continues
- **Fiscal Policy:** Small budget deals hide continued gridlock though deficits have improved
- **Positive Developments:** Broad signs growth may be modestly accelerating
- **Risk Environment:** Improved overall though continues to remain elevated with shift in "risk mix"
 - Fed exit plan
 - Outlook for economic growth
 - Geopolitical "hot spots"
 - Fiscal policy gridlock

Treasury Yield Curve Remains Steep

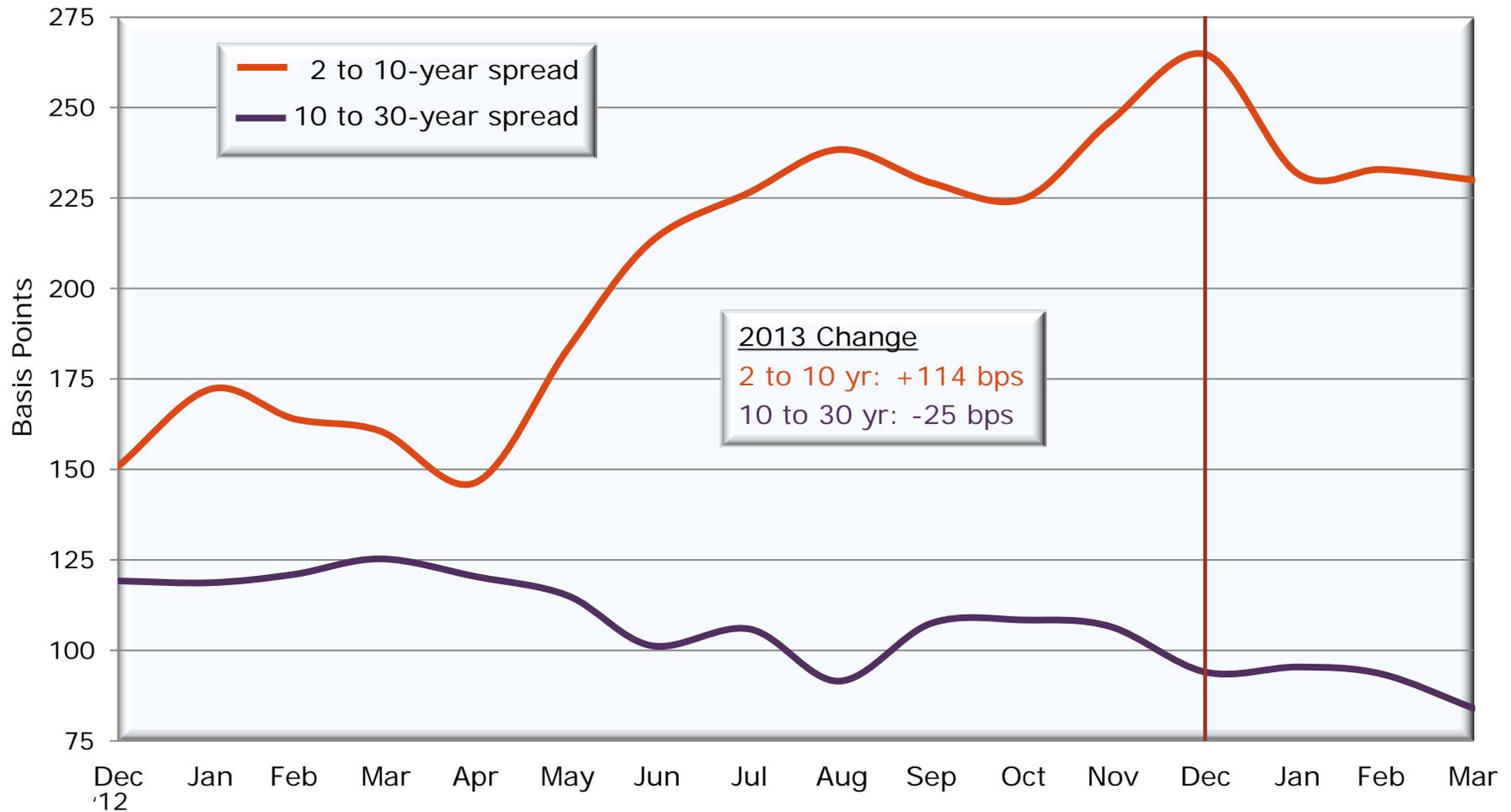
Very Attractive “Rolldown” Opportunities in Intermediate Maturities



Maturity	December 31, 2012	December 31, 2013	2013 Change	March 31, 2014	1Q 2014 Change
1	0.14%	0.11%	-0.03%	0.11%	0.00%
2	0.25%	0.38%	+0.13%	0.42%	+0.04%
3	0.35%	0.77%	+0.42%	0.87%	+0.10%
5	0.72%	1.74%	+1.02%	1.72%	-0.02%
7	1.18%	2.45%	+1.27%	2.30%	-0.15%
10	1.76%	3.03%	+1.27%	2.72%	-0.31%
30	2.95%	3.97%	+1.02%	3.56%	-0.41%

2013: A Tale of Two Treasury Curves

Short End Steepens, Long End Flattens

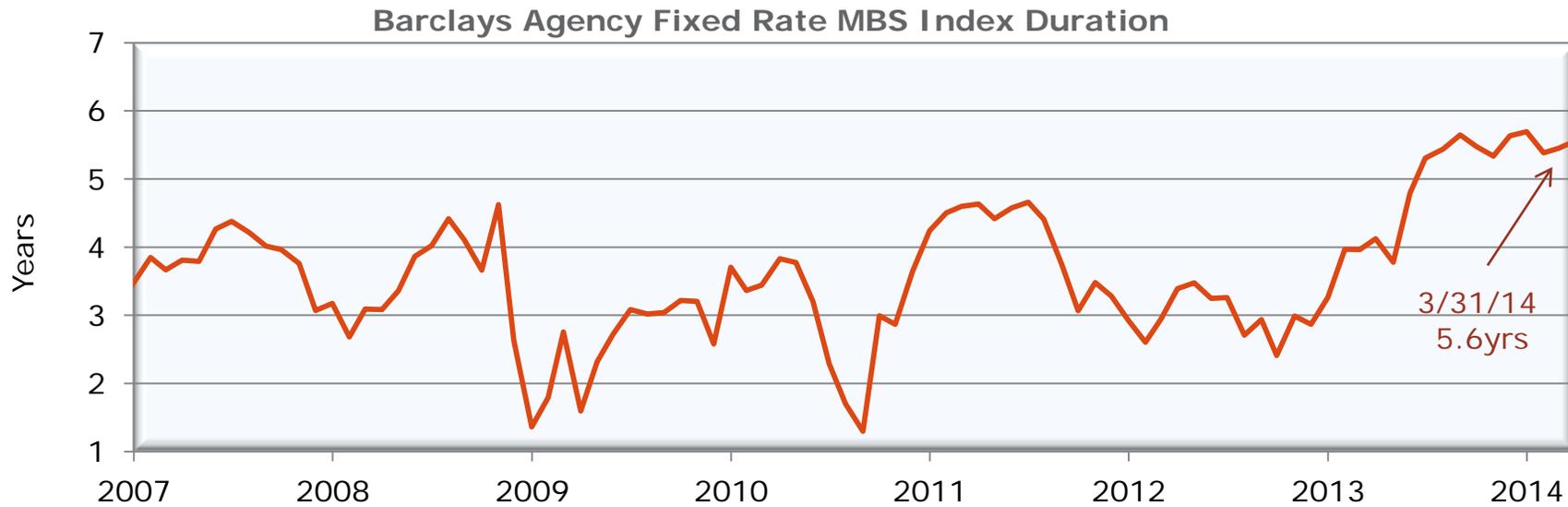
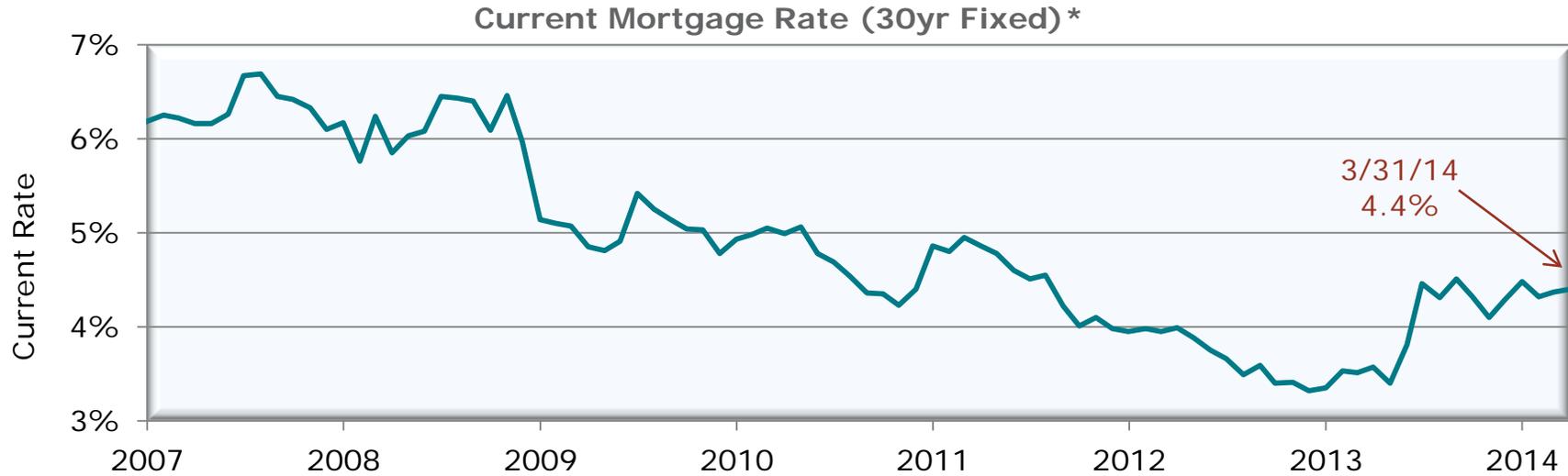


Source: Bloomberg
 Data as of: 3/31/14

Spreads Continue to Tighten

Option-Adjusted Spreads (bps)							
	6/30/07	12/31/08	12/31/13	2013 Change	3/31/14	1Q 2014 Change	10 yr Avg OAS
U.S. Aggregate Index	53	213	45	-8	44	-1	70
U.S. Agency (non-mortgage) Sector	34	93	17	4	16	-1	35
Mortgage and ABS Sectors							
U.S. Agency Pass-Throughs	65	145	34	-16	38	4	58
Asset-Backed Securities	57	955	55	12	50	-5	142
CMBS	82	1010	126	2	107	-19	250
Corporate Sectors							
U.S. Investment Grade	97	555	114	-27	106	-8	174
Industrial	104	500	114	-19	105	-9	158
Utility	100	537	125	-19	118	-7	163
Financial Institutions	88	629	109	-46	103	-6	200
U.S. High Yield	292	1669	382	-129	358	-24	561

Rate Increase Extends Mortgage Duration



*FHLMC Weekly Primary Mortgage Rate Survey
 Source: Bloomberg, Barclays
 Data as of: 3/31/14

Adding Value Through Security Selection

Senior Class Agency CMBS Attractive Versus Agency Pass-Throughs & Debentures

FHMS K003-A4 (4.5 year average life)

2.1% yield (+55 bps over comparable Treasury)

\$290 million tranche size

Buy Rationale:

- Senior in the capital structure (20% subordination and FHLMC guarantee)
- 76% of loans defeased to maturity with U.S. Treasuries, limiting prepayment uncertainty
- Very liquid asset class
- Attractive valuation versus Agency Pass-Throughs and Agency Debentures
- Fundamentals remain strong:
 - 1.5x Debt Service Coverage Ratio (DSCR)
 - 66% Loan-to-Value (LTV)
 - Conduit structure – well diversified with 60 loans across 22 states

Section 3

Update on Bay County Employees' Retirement System

Risk Control Discipline



Duration neutral to benchmark



U.S. Treasuries and Government Agencies Securities

- Emphasized for long duration exposures
- Used to match duration



Credit Securities

- Limited credit exposure in more volatile sectors with continuous review of credit allocation
- Focus on financial industry with higher priority given to credit rating
- Diversification increases as quality decreases



Mortgage-Backed and Asset-Backed Securities

- Focus on fixed-rate collateral vs. ARMs
- Seasoned, more stable mortgage-backed securities
- Safety of senior tranches if not U.S. Government Guaranteed
- Use Bloomberg, Intex, Real Point and Yield Book for residential and commercial loans

Risk control is the foundation of our investment discipline

Investment Outlook

- **Portfolios positioned to benefit from steep yield curve**
 - Duration neutral overall
 - Emphasize securities with attractive “roll-down”

- **Portfolios positioned to benefit from continued spread sector outperformance**
 - Maintain underweight to U.S. Treasury sector
 - Opportunities across spread sectors more selective

- **Continued Focus on Risk Control**
 - Strategy evolving to less spread sector overweight
 - Maintaining coupon advantage
 - Investment on floating rate holdings
 - Increased diversification

- **Experienced team and risk controlled process key to long-term success**

Bay County Employees' Retirement System

Summary Investment Objectives and Portfolio Guidelines

Investment Objective

The investment objective of the account is income generation and capital preservation.

Custom performance benchmark

A custom index comprised of 50% Barclays Government Index and 50% Barclays Mortgage Index plus 30 basis points.

Performance objective

Outperform benchmark net of fees over complete market cycle (3-5 year period).

Primary Investment Focus

- Permitted investments include U.S. Government and Government agency issues and U.S. Government agency mortgage-backed securities.
- Investment in interest only (IO's) and principal only (PO's) mortgage securities and other structures incorporating leverage is prohibited.
- The average duration of the portfolio will be maintained within +/- 20% of the duration of the custom benchmark.
- The account is intended to be fully invested. Residual cash will be invested in custodian's short-term investment fund (STIF) account.
- Manager will seek to maintain appropriate portfolio diversification.
- Manager will provide quarterly written portfolio review and timely notification of all significant portfolio and manager organizational issues. Manager shall meet with the Trustees at least annually.

Bay County Employees' Retirement System

Portfolio Characteristics as of March 31, 2014

	Nominal Weighted Composition		Duration Weighted Composition	
	Portfolio	Customized Benchmark	Portfolio	Customized Benchmark
Yield to Maturity	2.27%	2.27%		
Average Coupon	3.41%	2.97%		
Duration	5.26 years	5.26 years		
Average Maturity	6.22 years	6.85 years		
Quality Breakdown				
U.S. Treasury	38%	45%	53%	44%
U.S. Govt Agency	58	55	47	56
Aaa	3	0	0	0
Aa	1	0	0	0
A	0	0	0	0
Baa	0	0	0	0
Below Baa	0	0	0	0
	100%	100%	100%	100%
Sector Breakdown				
U.S. Treasury	38%	45%	53%	44%
U.S. Govt Agency	2	5	2	4
Other Govt Related	0	0	0	0
Industrials	0	0	0	0
Utility	0	0	0	0
Finance	0	0	0	0
Mortgages/CMOs	43	50	35	52
Asset-Backed	0	0	0	0
CMBS	15	0	10	0
Cash	2	0	0	0
	100%	100%	100%	100%
Number of Issues	79	1,328		
Market Value	\$24,451,455			

Bay County Employees' Retirement System

	Fixed Income Portfolio Gross of Fees	Customized Benchmark
2006 (Apr-Dec)	5.04%	4.85%
2007	7.20%	7.78%
2008	9.13%	10.36%
2009	3.72%	1.79%
2010	5.63%	5.46%
2011	7.91%	7.62%
2012	3.05%	2.32%
2013	-2.59%	-2.00%
2014 1st Qtr	1.56%	1.45%

Since Inception

Cumulative Return	48.10%	46.54%
Annualized Return	5.03%	4.89%

The performance is presented on a cumulative basis and does not reflect the deduction of investment advisory fees. Return would be reduced by advisory fee and other fees such as custodial expenses. The maximum fee found in Baird Advisors form ADV is 30 basis points. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Government & 50% Barclays MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

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The Baird Advisors Brochure, which serves as a substitute for Form ADV Part II, is available upon request.

Bay County Employees' Retirement System

	Fixed Income Portfolio Net of Fees	Customized Benchmark
2006 (Apr-Dec)	4.80%	4.85%
2007	6.89%	7.78%
2008	8.81%	10.36%
2009	3.41%	1.79%
2010	5.31%	5.46%
2011	7.59%	7.62%
2012	2.74%	2.32%
2013	-2.88%	-2.00%
2014 1st Qtr	1.48%	1.45%

Since Inception

Cumulative Return	44.61%	46.54%
Annualized Return	4.72%	4.89%

The performance is presented on a cumulative basis. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Government & 50% Barclays MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

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Benefits for Bay County Employees' Retirement System

- Long-term relationships focused on client and direct communication
- Experienced management team implementing proven investment discipline
 - Structured, risk controlled process
 - No derivatives, no non-\$ currency exposure
 - Focus on bottom-up added value from sector allocation and security selection
- Total focus on fixed income management
- Culture and resources key to future success
- Importance of the relationship to Baird Advisors

We believe our team, our entrepreneurial environment and substantial resources enable us to provide our clients with the best possible fixed income investment management services available