

Prepared for
Bay County Employees' Retirement System

April 25, 2013

Representing Baird Advisors

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Section 1

Firm Overview

Overview of 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

\$99 billion

Assets under management

\$961 million

Revenue

2,700

Employees

100+

Office locations on three continents*

10

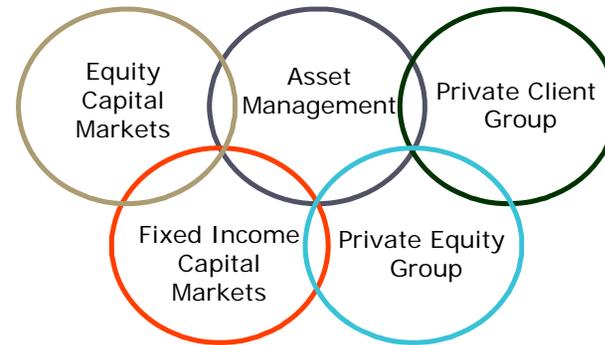
Number of consecutive years Baird has been recognized as one of the FORTUNE 100 Best Companies to Work For®

1

Ranked No. 1 “most trusted” research in Greenwich Associates survey 2004-2012

“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 **\$18.3 billion** of assets under management as of March 31, 2013
- Disciplined, research driven approach
- Focus on superior customer service

Baird’s International Presence

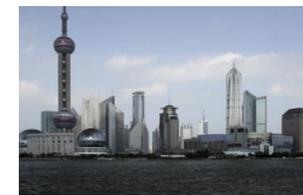
United States



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, April 2012. 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 Services Authority.

Baird Asset Management Update

BAIRD

The logo for Money magazine, featuring the word "Money" in a bold, green, sans-serif font.

Money magazine features the Baird Core Plus Bond Fund in its Investor Guide for 2013.

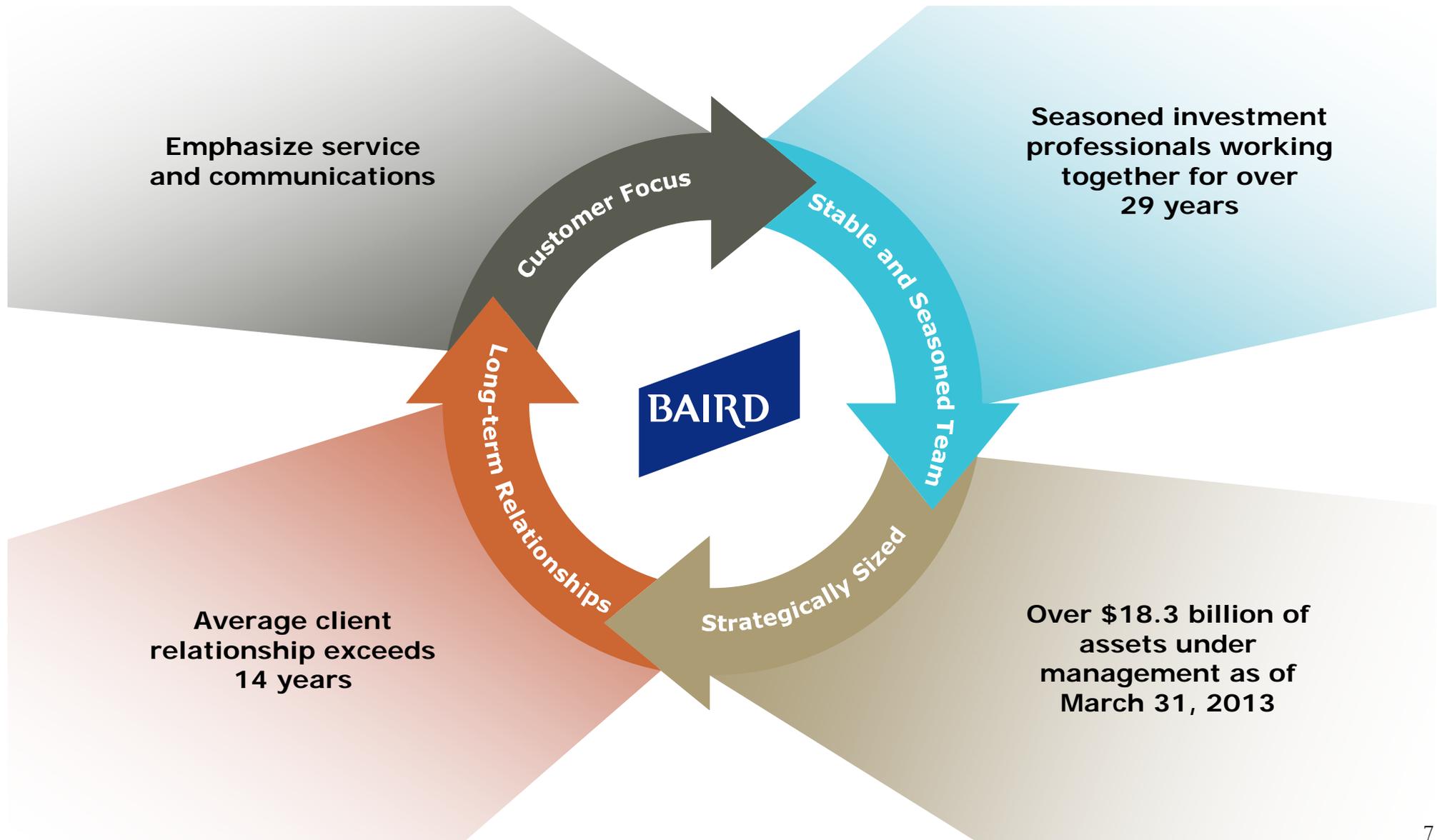
Baird Asset Management ranks # 1 in its category in *Pensions & Investments*' Best Places to Work in Money Management.

The logo for Pensions & Investments, featuring the text "Pensions & Investments" in a white, serif font on a dark green rectangular background.The logo for Barron's, featuring the word "BARRON'S" in a white, serif font on a dark blue rectangular background.

Barron's profiles the Baird Core Plus Bond Fund.

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 14 years

BAIRD

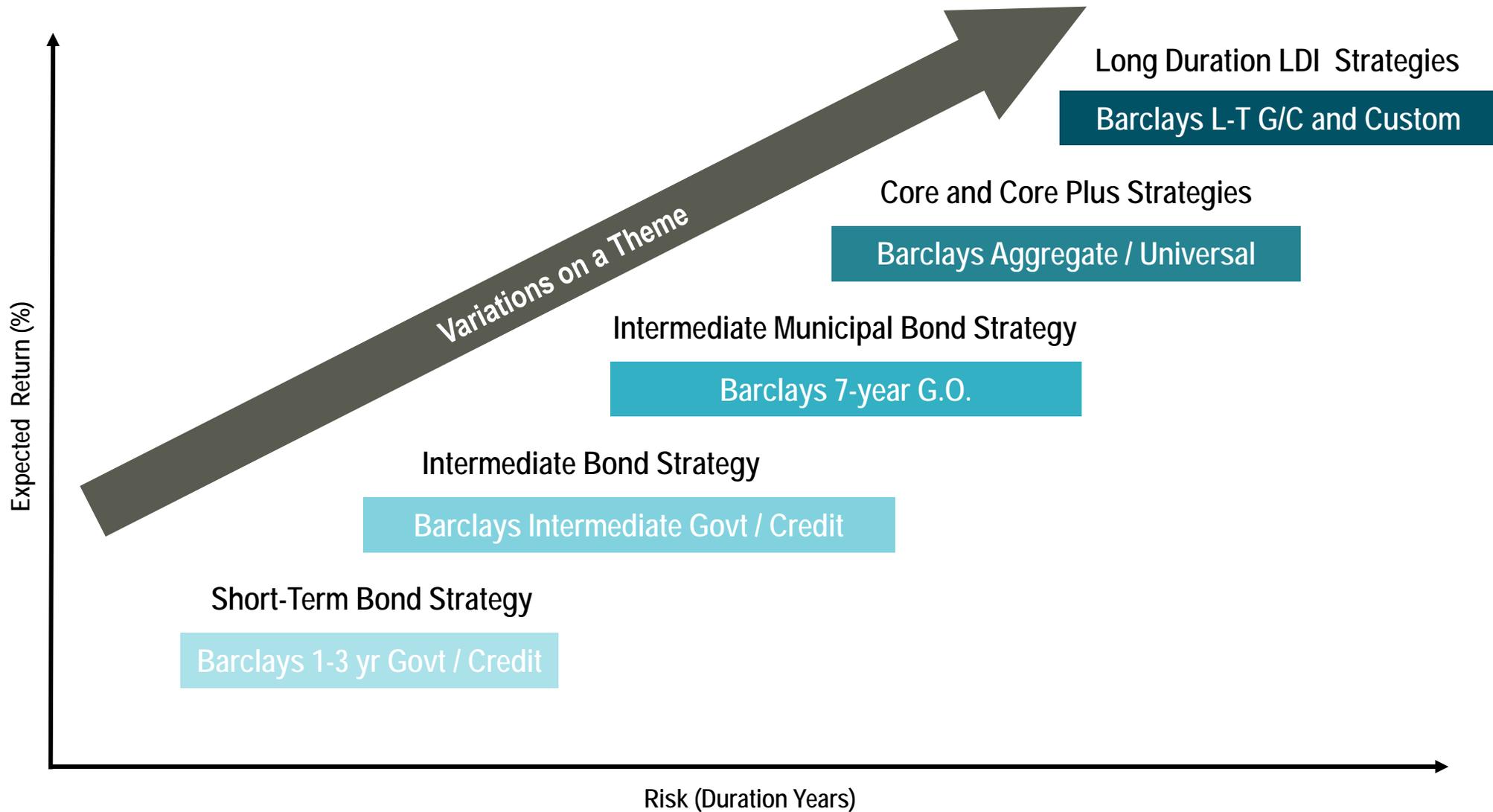
The collage features logos for the following categories:

- Insurance & Healthcare:** BROWARD HEALTH, MERITER, BLUE CROSS, PREMIERA, MARY GREELEY MEDICAL CENTER, WELLPOINT, UAW, maif, Great River Health Systems, Harris County Hospital District, UWHealth, Gundersen Lutheran, GUTHRIE, TexasMutual, Froedtert HEALTH, WPS HEALTH INSURANCE, HAMILTON HEALTH CARE SYSTEM, Boulder Community Hospital, CFSE, Mack, BAYLOR Health Care System, WCRB.
- Retirement Plans:** ATI, North Central States Regional Council of Carpenters' Benefit Funds, MedStar Health, Presence Health, LACERS, CERA, SPX, MOTOR HARLEY-DAVIDSON CYCLES, GOODYEAR, Nebraska Public Power District, Johnson Controls, the Pension Fund, BAY COUNTY MICHIGAN, CITY OF BALTIMORE, WYOMING MICHIGAN CITY OF VISION AND PROGRESS, NBA.
- Foundation / Endowment:** UNIVERSITY OF COLORADO BOULDER, UNIVERSITY HEALTH SYSTEMS of Eastern Carolina, MAKE-A-WISH, Charter School Growth Fund, MDA (Muscular Dystrophy Association), THE CATHOLIC COMMUNITY FOUNDATION, PBS, TUSKEGEE UNIVERSITY, UNIVERSITY OF MISSOURI, WINTER PARK HEALTH FOUNDATION, Fort HealthCare, UNIVERSITY OF WISCONSIN FOUNDATION, MEDICAL COLLEGE OF WISCONSIN, MARQUETTE UNIVERSITY, SAM HOUSTON STATE UNIVERSITY.
- Customized:** SUMMA Health System, DEARBORN PARTNERS, ASCENSION HEALTH, WEST BEND, Children's Hospital of Wisconsin, GAVI ALLIANCE, Aurora Health Care, WELS, LOCAL 139, ALLIANT HEALTH PLANS, CATHOLIC HEALTHCARE PARTNERS, BLOODCENTER of WISCONSIN, NASDAQ OMX, KERA kxt91.7 PUBLIC MEDIA FOR NORTH TEXAS.

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 Bond Funds

Net Returns as of March 31, 2013



| | 2013 YTD | 2012 | 2011 | Since Inception* | Since Inception Lipper Rank & Percentile |
|---|---------------|--------------|---------------|------------------|--|
| Baird Core Plus Bond Fund - Institutional | 0.32% | 7.95% | 7.89% | 7.08% | 13 of 226 |
| Barclays U.S. Universal Bond Index | <u>0.07%</u> | <u>5.53%</u> | <u>7.40%</u> | <u>6.20%</u> | 6% |
| <i>Difference</i> | +0.25% | +2.42% | +0.49% | +0.88% | |
| Baird Aggregate Bond Fund - Institutional | 0.46% | 7.92% | 7.85% | 6.47% | 37 of 226 |
| Barclays U.S. Aggregate Bond Index | <u>-0.12%</u> | <u>4.22%</u> | <u>7.84%</u> | <u>5.96%</u> | 17% |
| <i>Difference</i> | +0.58% | +3.70% | +0.01% | +0.51% | |
| Baird Intermediate Bond Fund - Institutional | 0.57% | 6.52% | 6.14% | 6.01% | 82 of 226 |
| Barclays Intermediate Govt/Credit Bond Index | <u>0.26%</u> | <u>3.89%</u> | <u>5.80%</u> | <u>5.50%</u> | 37% |
| <i>Difference</i> | +0.31% | +2.63% | +0.34% | +0.51% | |
| Baird Short-Term Bond Fund - Institutional | 0.52% | 4.16% | 2.08% | 3.48% | 40 of 139 |
| Barclays 1-3 Year Govt/Credit Bond Index | <u>0.20%</u> | <u>1.26%</u> | <u>1.59%</u> | <u>3.19%</u> | 29% |
| <i>Difference</i> | +0.32% | +2.90% | +0.49% | +0.29% | |
| Baird Intermediate Municipal Bond Fund - Institutional | 0.22% | 3.12% | 8.55% | 4.98% | 5 of 72 |
| Barclays 7 Year G.O. Bond Index | <u>0.26%</u> | <u>3.66%</u> | <u>10.58%</u> | <u>5.26%</u> | 7% |
| <i>Difference</i> | -0.04% | -0.54% | -2.03% | -0.28% | |

* The Baird Core Plus, Aggregate, and Intermediate Bond Funds Since Inception net returns are based on performance from September 30, 2000 through March 31, 2013. The Baird Intermediate Municipal Bond Fund Since Inception net return is based on performance from March 31, 2001 through March 31, 2013. The Baird Short Term Bond Fund Since Inception net return is based on performance from August 31, 2004 through March 31, 2013.

Consistency is the 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 | 87 % | 60 % | 93 % | 89 % | 59 % |
| 2 Year | 93 % | 71 % | 95 % | 92 % | 60 % |
| 3 Year | 99 % | 81 % | 99 % | 100 % | 72 % |
| 5 Year | 100 % | 100 % | 100 % | 100 % | 99 % |

Source: Morningstar Direct as of March 31, 2013.

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.

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 “roll down”
- 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

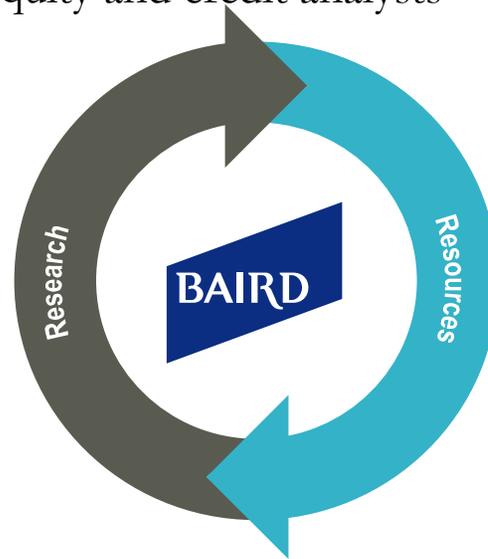
- Capitalize on market inefficiencies
- Timely market information
- Long-standing dealer relationships

Performance is consistent and competitive over complete market cycles

Research Driven Discipline

Wide breadth of resources and market research drive 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

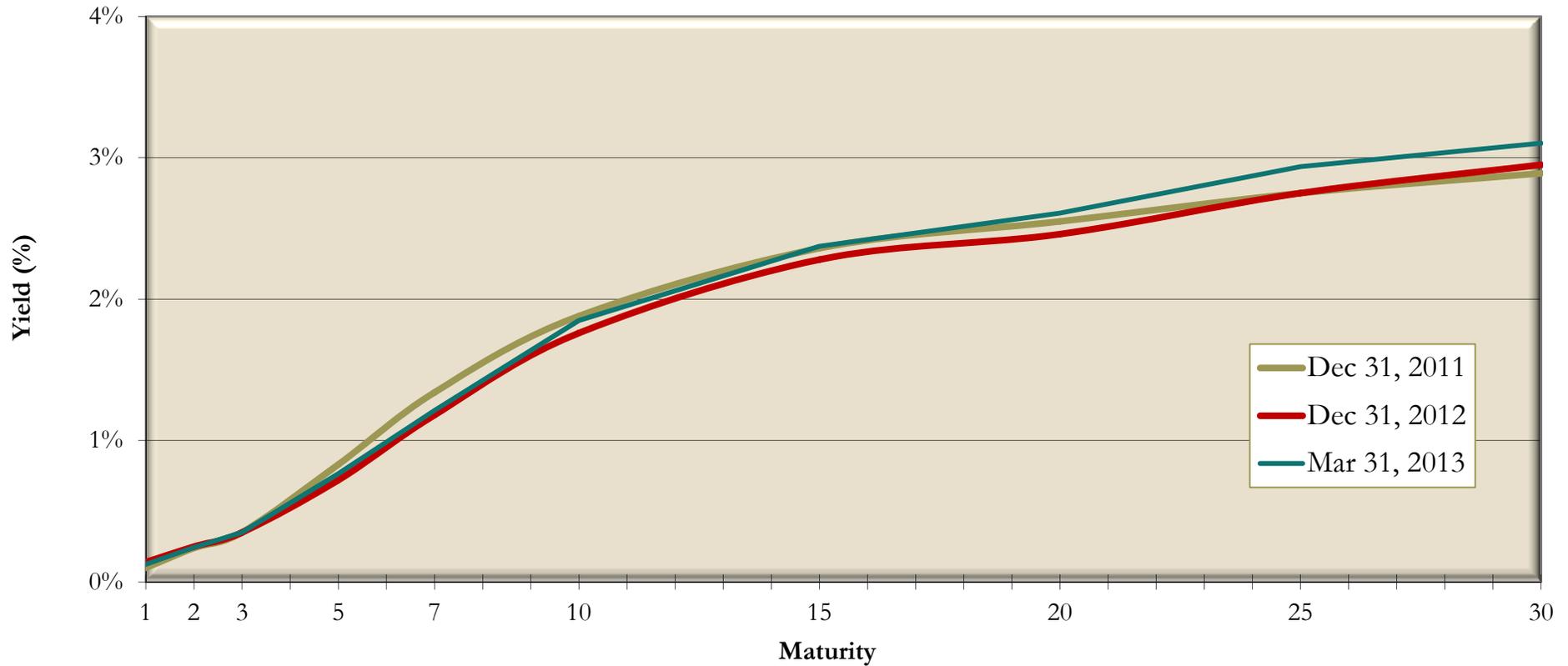
Section 2

Current Market Environment

Current Environment & Outlook

- **U.S. Economy:** Moderate Growth with Continued Headwinds
- **Inflation:** Wages Remain Benign with Core Consumer Inflation Near Fed's Target
- **Fed Policy:** Remains “Extraordinarily” Accommodative
- **Fiscal Policy:** At a Crossroads
- **Positive Developments:** Housing, Consumer, Manufacturing, Energy and Tech
- **Wide Range of Potential Outcomes Still Possible**

Treasury Yields

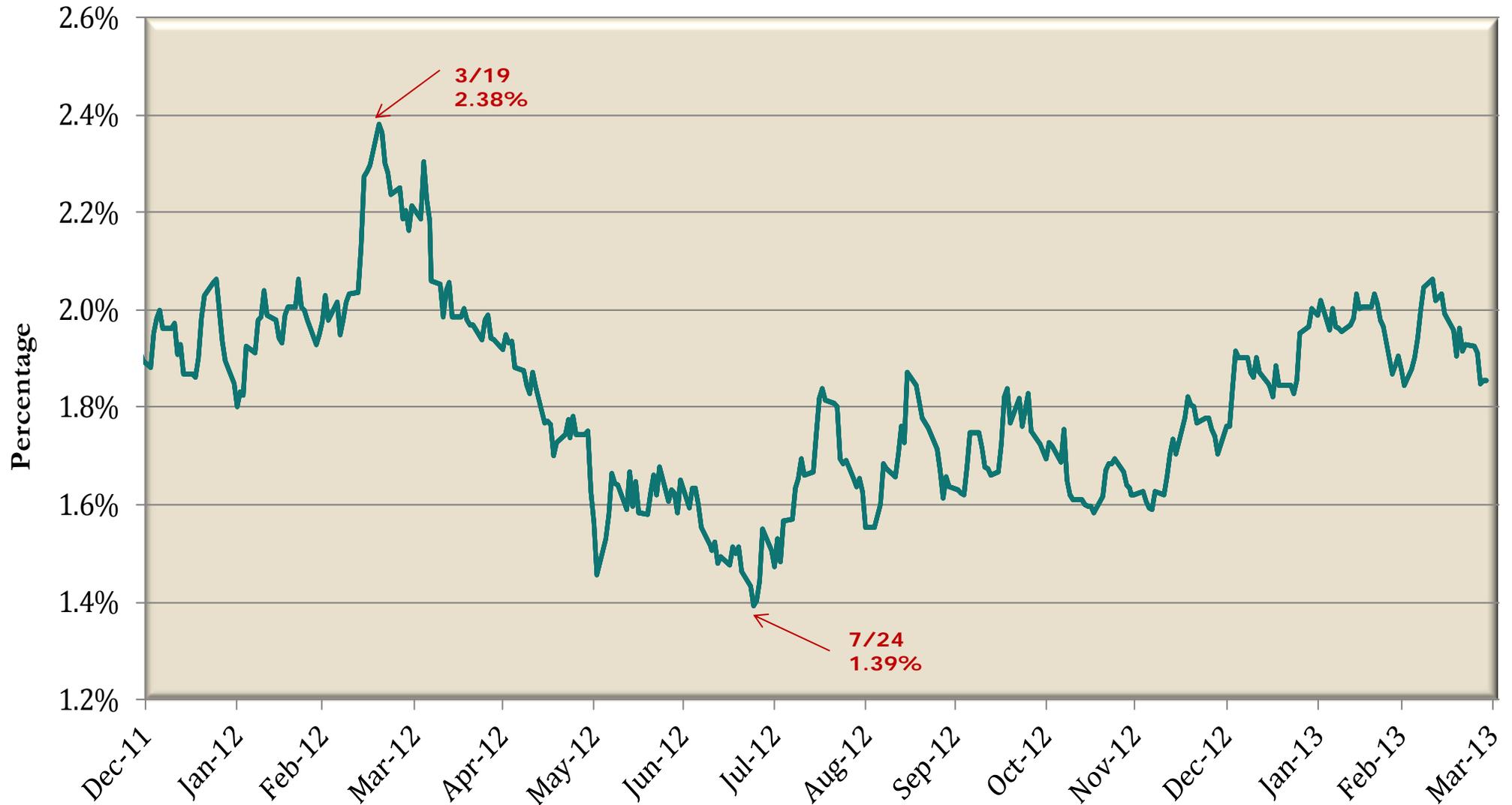


| <u>Maturity</u> | <u>Dec 31, 2011</u> | <u>Dec 31, 2012</u> | <u>Mar 31, 2013</u> | <u>YTD Change</u> |
|-----------------|---------------------|---------------------|---------------------|-------------------|
| 1 | 0.10% | 0.14% | 0.12% | -0.02 |
| 2 | 0.24% | 0.25% | 0.24% | -0.01 |
| 3 | 0.35% | 0.35% | 0.35% | 0.00 |
| 5 | 0.83% | 0.72% | 0.77% | 0.05 |
| 7 | 1.34% | 1.18% | 1.21% | 0.03 |
| 10 | 1.88% | 1.76% | 1.85% | 0.09 |
| 30 | 2.89% | 2.95% | 3.10% | 0.15 |

Source: Bloomberg
Data as of: 3/31/2013

Treasury Yields Volatile

10 Year Treasury Yield



Source: Bloomberg
Data as of: 3/31/2013

Spread Volatility Continues

| | Option-Adjusted Spreads (bps) | | | | | 2012 Change | 3/31/13 | 10 yr Avg OAS |
|--|-------------------------------|----------|----------|----------|------|----------------|---------|------------------|
| | 6/30/07 | 12/31/08 | 12/31/11 | 12/31/12 | | | | |
| U.S. Aggregate Index | 53 | 213 | 87 | 53 | -34 | 56 | 70 | |
| U.S. Agency (non-mortgage) Sector | 34 | 93 | 33 | 13 | -20 | 13 | 36 | |
| Mortgage and ABS Sectors | | | | | | | | |
| U.S. Agency Pass-Throughs | 65 | 145 | 75 | 50 | -25 | 58 | 57 | |
| Asset-Backed Securities | 57 | 955 | 99 | 43 | -56 | 49 | 145 | |
| CMBS | 82 | 1010 | 308 | 124 | -184 | 133 | 246 | |
| Corporate Sectors | | | | | | | | |
| U.S. Investment Grade | 97 | 555 | 234 | 141 | -93 | 139 | 172 | |
| Industrial | 104 | 500 | 184 | 133 | -51 | 137 | 158 | |
| Utility | 100 | 537 | 186 | 144 | -42 | 139 | 161 | |
| Financial Institutions | 88 | 629 | 337 | 155 | -182 | 142 | 197 | |
| U.S. High Yield | 292 | 1669 | 699 | 511 | -188 | 457 | 569 | |

Adding Value Through Security Selection

| | <u>Freddie Mac CMBS</u> | <u>Freddie Mac Debenture</u> |
|---------------------------------|--------------------------------------|------------------------------|
| Name | FHMS K711 A2 | Freddie Mac |
| Underlying Loans | New 7yr Multifamily Commercial Loans | N/A |
| Coupon | 1.73% | 1.25% |
| Maturity | 7/25/19 | 10/2/19 |
| Duration | 5.9 year | 6.3 year |
| Issuance Size | \$1.0 Billion | \$6.0 Billion |
| Yield | 1.53% | 1.36% |
| Spread to Treasury Curve | +50 | +25 |

- **25 bps of additional spread**
- Similar maturity and duration profile
- Same agency guarantee
- Agency CMBS has strong prepayment protections, which make cashflow timing similar to the debenture
- Large deal sizes

Portfolio Positioned to Benefit from Steep Yield Curve

- Duration neutral overall
- Emphasize securities with attractive yield curve “rolldown”
- Underweight Agency mortgage pass-throughs

Portfolio Positioned to Benefit from Spread Sector Outperformance

- Maintain significant underweight to U.S. Treasury sector
- Exposure to Agency CMBS

Risk control discipline critical in a higher risk environment

Experienced investment team and risk controlled process key to strategy’s long-term success

Section 3

Update on Bay County Employees' Retirement System

Bay County Employees' Retirement System Summary Investment Objectives and Portfolio Guidelines

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase letters on a blue, parallelogram-shaped background.

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, 2013



| | Nominal Weighted Composition | | Duration Weighted Composition | |
|-----------------------------|------------------------------|----------------------|-------------------------------|------------------|
| | Fixed Income Portfolio | Customized Benchmark | Fixed Income Portfolio | Customized Index |
| Yield to Maturity | 1.61% | 1.70% | | |
| Average Coupon | 3.34% | 3.17% | | |
| Duration | 4.58 years | 4.58 years | | |
| Average Maturity | 5.61 years | 6.08 years | | |
| Quality Breakdown | | | | |
| U.S. Treasury | 29% | 44% | 45% | 51% |
| U.S. Govt Agency | 67 | 56 | 55 | 49 |
| Aaa | 4 | 0 | 0 | 0 |
| Aa | 0 | 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 | 29% | 44% | 45% | 51% |
| U.S. Govt Agency Debentures | 6 | 6 | 6 | 5 |
| Agency Pass-Throughs | 42 | 50 | 31 | 44 |
| Agency CMOs | 6 | 0 | 4 | 0 |
| Agency CMBS | 13 | 0 | 14 | 0 |
| Cash | 4 | 0 | 0 | 0 |
| | 100% | 100% | 100% | 100% |
| Number of Issues | 73 | 1,846 | | |
| Market Value | \$22,542,092 | | | |

Customized Index: 50% Barclays Government & 50% Barclays MBS

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 (Jan) | -0.72% | -0.63% |
| (Feb) | 0.48% | 0.43% |
| (Mar) | 0.06% | 0.11% |
| Year-to-Date | -0.18% | -0.10% |
| Since Inception | | |
| Cumulative Return | 49.43% | 47.25% |
| Annualized Return | 5.90% | 5.68% |

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 <i>Portfolio</i> 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 (Jan) | -0.74% | -0.63% |
| (Feb) | 0.46% | 0.43% |
| (Mar) | 0.04% | 0.11% |
| Year-to-Date | -0.26% | -0.10% |
| Since Inception | | |
| Cumulative Return | 46.34% | 47.25% |
| Annualized Return | 5.59% | 5.68% |

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
- Total focus on fixed income management
- Culture and resources key to future success
- Importance of the relationship to Baird Advisors