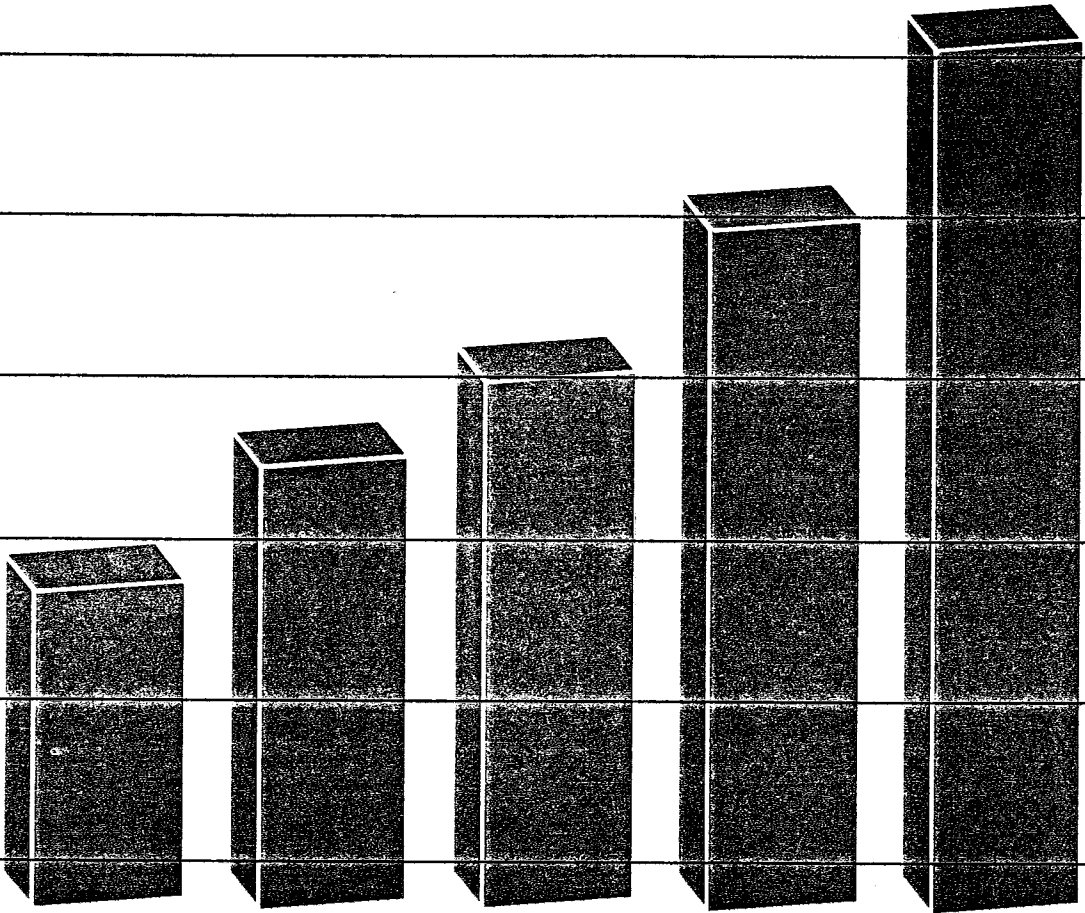


# SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

(Since 1937)



**Investment Report 1976**



# THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



President  
GEORGE J. MAZZARO  
Cleveland Heights-  
University Heights



Vice President  
CHARLES T. LEWIS  
Cleveland



BERTHE E. WEIST  
Kettering



WILLIAM J. BROWN  
Attorney General



THOMAS E. FERGUSON  
Auditor of State

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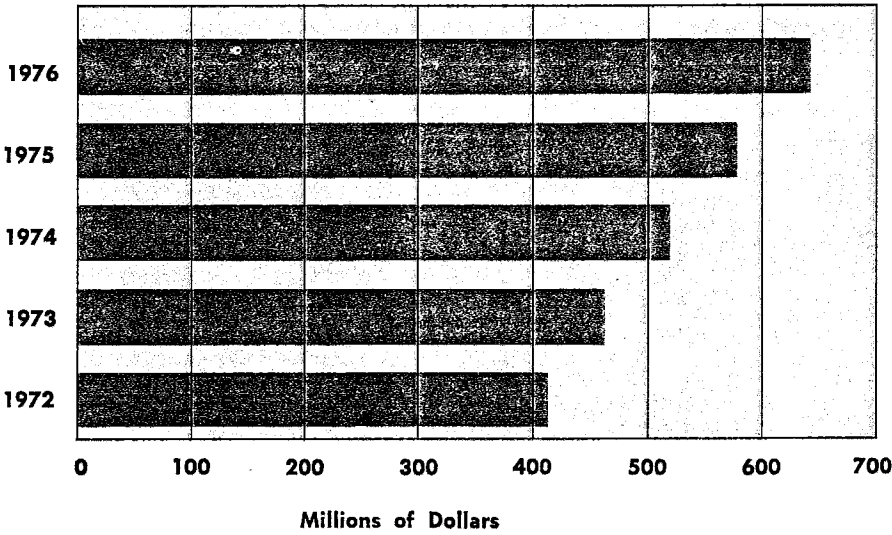
JAMES O. BRENNAN  
Executive Director

R. JACK COOPER  
Investment Officer

## INVESTMENT COUNSELORS

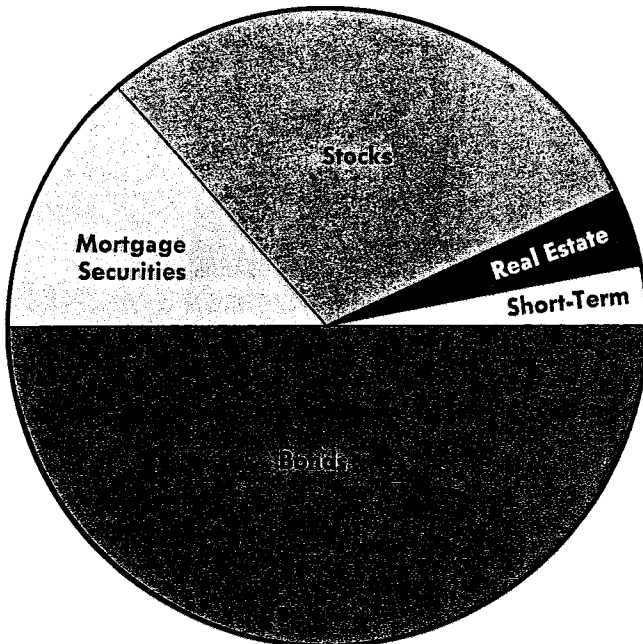
Bankers Trust Company

U. S. Trust Company



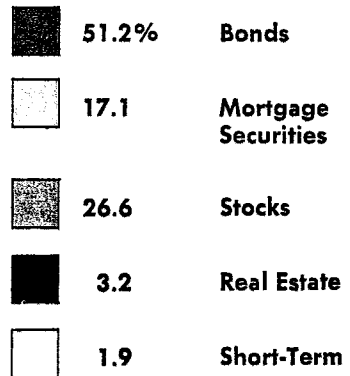
### GROWTH OF ASSETS (Years Indicated)

The portfolio has steadily increased from \$414.3 million in 1972 to \$637.7 million in 1976. The increase in 1976 alone was 10.2 percent



### PORTFOLIO DISTRIBUTION

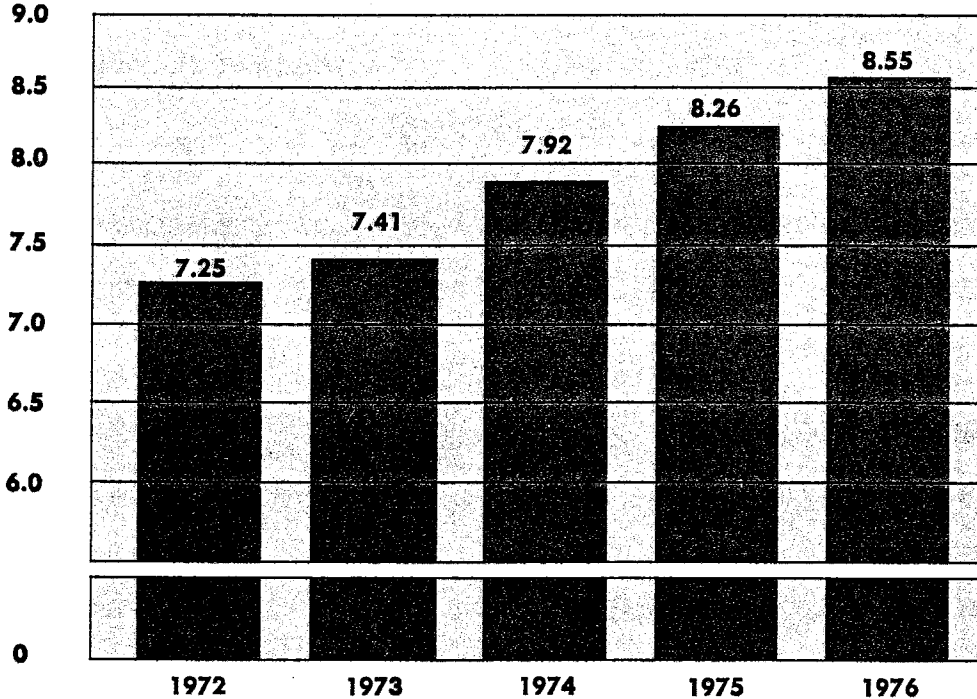
December 31, 1976



# BOND PORTFOLIO YIELDS

For Calendar Years as Indicated

Percent



The yield on the System's bond portfolio has increased steadily in recent years from 7.25 percent in 1972 to 8.55 percent in 1976 with the purchase of high-quality, marketable bonds. This increasing yield compares very favorably with that of other large institutional bond portfolios on a nationwide basis. The bond portfolio forms the major segment of the System's total portfolio and grew from \$145.6 million in December, 1972 to \$326.2 million, or 51 percent of the total portfolio, in December, 1976.

# FIVE-YEAR PORTFOLIO SUMMARY

DECEMBER 31, 1976

Investment Category	Book Value	Par Value	Percent of Portfolio
U. S. Government Obligations	\$ 20,297,109	\$ 21,000,000	3.3
FHA Debentures	1,026,650	1,026,650	.2
International Bank for Reconstruction & Development			
Ohio Municipal Obligations			
Corporate Obligations	254,543,103	253,338,484	39.7
Canadian Obligations	50,716,297	50,830,000	8.0
G.N.M.A. Mortgage-Backed Securities	27,693,100	28,650,000	4.5
G.N.M.A. Modified Pass-Thru Mortgages	13,865,930	14,063,908	2.2
F.H.A. & V.A. Mortgages	59,306,411	59,504,265	9.3
H.U.D. Guaranteed Mortgages	6,864,799	6,870,622	1.1
Common Stocks	169,862,695	169,862,695	26.6
Real Estate	20,231,512	20,231,512	3.2
Short-Term Investments	12,170,000	12,285,000	1.9
Totals	<u>\$636,577,606</u>	<u>\$637,663,136</u>	<u>100.0%</u>

<u>Dec. 31, 1975</u>	<u>DEC. 31, 1974</u>	<u>DEC. 31, 1973</u>	<u>DEC. 31, 1972</u>
<u>Par Value</u>	<u>Par Value</u>	<u>Par Value</u>	<u>Par Value</u>
\$ 1,722,050	\$ 1,060,050	\$ 1,181,750	\$ 1,085,200
6,522,000	6,522,000	6,522,000	6,522,000
			2,274,000
251,245,871	206,888,718	147,659,513	105,139,595
45,065,000	33,537,000	31,587,000	30,610,000
8,000,000			
64,843,590	77,939,147	90,888,268	100,575,375
7,184,801	7,459,902	7,711,547	11,850,647
163,293,724	147,734,721	141,329,218	125,585,528
20,969,699	19,662,400	15,144,935	15,585,456
9,600,000	17,400,000	19,500,000	15,100,000
<u>\$578,446,735</u>	<u>\$518,203,938</u>	<u>\$461,524,231</u>	<u>\$414,277,801</u>

## PORTFOLIO RATES OF RETURN

For Calendar Years as Indicated

ASSET CATEGORY	1976	1975	1974	1973	1972	1971
Bond Portfolio	8.55%	8.26%	7.92%	7.41%	7.25%	7.19%
Real Estate Mortgage Port.	6.89	6.20	5.94	5.86	5.89	5.82
Total Fixed-Income Investments	8.12%	7.85%	7.41%	6.87%	6.66%	6.50%
Equity Portfolio	15.85%	26.70%	(27.95%)	(23.05%)	11.07%	19.89%
New Invest. Return Rate (New Long-Term, Fixed-Income Investments)	8.54	9.15	9.23	7.77	7.44	7.61
Short-Term Investments	4.86	5.74	10.57	7.45	4.43	4.71

The bond portfolio continues to show significant improvement in yield and reflects the purchase of high quality, marketable, long-term bonds for the portfolio. This quality and this rate of return contribute significantly to the performance of the total portfolio.

The yields on mortgage loans reflect the System's purchase of insured or guaranteed mortgage loans in previous years. Interest rates for all types of investments in those years were considerably lower in general than at the present time.

The equity portfolio rates of return reflect the common stock on a market-to-market basis, including realized and unrealized gains and losses and dividend income, as measured by the Becker Securities Corp. on a dollar-weighted basis.

As the rate of inflation moderated, interest rates declined and the economy continued to improve in 1976, the stock market continued its recovery from the depressed levels of 1973 and 1974. This enabled the System to improve its investment performance with a high quality equity portfolio in 1976.



# LIST OF INVESTMENTS

December 31, 1976

## BONDS

	Par Value		Par Value
<b>FEDERAL OBLIGATIONS</b>			
U. S. Treasury Bills .....	\$ 21,000,000		
<b>FEDERAL AGENCY</b>			
F.H.A. Debentures .....	\$ 1,026,650		
<b>CORPORATE OBLIGATIONS</b>			
<b>Industrial</b>			
American Can Co. ....	\$ 500,000		
American Cyanamid Co. ....	500,000		
Armco Steel Corp. ....	500,000		
Atlantic Richfield Co. ....	2,000,000		
Caterpillar Tractor Co. ....	2,000,000		
Cities Service Co. ....	1,500,000		
Continental Can Co. ....	1,000,000		
Continental Oil Co. ....	7,000,000		
Deere (John) & Co. ....	4,000,000		
Dow Chemical Co. ....	9,924,000		
DuPont (E. I.) de Nemours & Co. ....	1,000,000		
Firestone Tire & Rubber Co. ....	1,000,000		
Ford Motor Co. ....	3,000,000		
McGraw Edison Co. ....	1,000,000		
Minnesota Mining & Mfg. Co. ....	4,000,000		
Otterbein College .....	245,000		
			<u>\$ 67,389,000</u>
		<b>Public Utilities</b>	
		Philip Morris, Inc. ....	3,500,000
		Phillips Petroleum Co. ....	8,000,000
		Sperry Rand Corp. ....	500,000
		Standard Oil Co. of California ..	2,000,000
		Standard Oil Co. of Indiana .....	1,100,000
		Texaco, Inc. ....	9,000,000
		Texas Oil & Gas Corp. ....	900,000
		Western Electric Co. ....	1,000,000
		Weyerhaeuser Co. ....	1,000,000
		Xerox Corp., Sub. Conv. Deb. ....	1,220,000

\*Private Placement

	Par Value		Par Value
*Commonwealth Edison Co. ....	3,000,000	Ohio Bell Tel. Co. ....	3,000,000
Connecticut Light & Power Co. ....	1,500,000	Oklahoma Gas & Electric Co. ....	500,000
Duke Power Co. ....	500,000	Pacific Gas & Electric Co. ....	6,000,000
Duquesne Light Co. ....	3,000,000	Pacific Northwest Bell Tel. Co. ....	2,000,000
Florida Power Corp. ....	2,000,000	Pacific Tel. & Tel. Co. ....	8,000,000
Florida Power & Light Co. ....	3,600,000	Pennsylvania Power & Light Co.	1,000,000
Gen. Tel. Co. of California ....	300,000	Philadelphia Electric Co. ....	4,500,000
Gen. Tel. Co. of Florida ....	1,000,000	Potomac Electric Power Co. ....	2,500,000
Gen. Tel. Co. of Indiana ....	300,000	Public Service Electric & Gas Co.	1,000,000
Gen. Tel. Co. of Ohio ....	2,000,000	Public Service Co. of Colorado ....	500,000
Gen. Tel. Co. of Upstate N. Y.	1,000,000	Public Service Co. of Indiana ....	500,000
Houston Lighting & Power Co. ....	5,000,000	Rochester Gas & Electric Corp. ..	500,000
Idaho Power Co. ....	5,000,000	South Central Bell Tel. Co. ....	7,000,000
Illinois Bell Tel. Co. ....	1,500,000	Southern Bell Tel. & Tel. Co. ....	13,000,000
Illinois Power Co. ....	2,500,000	Southern California Edison Co. ..	2,800,000
Indiana Bell Tel. Co. ....	500,000	Southern New England Tel. Co.	2,000,000
Iowa Public Service Co. ....	500,000	Southwestern Bell Tel. Co. ....	13,000,000
Kansas Gas & Electric Co. ....	1,500,000	Texas Electric Service Co. ....	1,000,000
Kentucky Utilities Co. ....	1,500,000	Utah Power & Light Co. ....	1,000,000
Lone Star Gas Co. ....	2,000,000	West Penn Power Co. ....	1,000,000
Massachusetts Electric Co. ....	500,000	Wisconsin Electric Power Co.	2,000,000
Michigan Bell Tel. Co. ....	1,500,000	Wisconsin Power & Light Co. ....	4,500,000
Montana Dakota Utilities Co. ....	1,000,000	Wisconsin Public Service Co. ....	500,000
Mountain States Tel. & Tel. Co.	9,000,000	Wisconsin Telephone Co. ....	400,000
National Fuel Gas Co. ....	800,000		<u>\$184,940,000</u>
New England Power Co. ....	2,000,000		
New England Tel. & Tel. Co. ....	1,000,000		
New Jersey Bell Tel. Co. ....	7,000,000		
New York Tel. Co. ....	9,250,000		
Northern Indiana Public Service Co. ....	2,500,000		
Northwestern Bell Tel. Co. ....	11,000,000		

#### Railroad Conditional Sales Agreements

*C.I.T. Corp., C.S.A. ....	\$ 376,150
*New York Central RR, C.S.A. ....	300,000
*Pennsylvania RR, C.S.A. ....	333,334
	<u>\$ 1,009,484</u>

Par Value

Par Value

**CANADIAN OBLIGATIONS**

**Province**

Alberta Gov. Tel. Comm. ....	\$ 2,300,000
British Columbia Hydro & Power Auth. ....	4,700,000
Hydro Quebec .....	15,500,000
Manitoba Hydro-Electric Board	9,000,000
*Newfoundland & Labrador Power Comm. ....	1,305,000
Province of New Brunswick .....	2,000,000
Province of Ontario .....	8,400,000
Province of Quebec .....	3,600,000
*Province of Quebec .....	500,000
	<u>\$ 47,305,000</u>

**Municipal Unit**

*Lakeshore Reg. School Board ....	\$ 1,560,000
Montreal Public Works .....	1,965,000
	<u>3,525,000</u>
Total Bonds (Par) .....	<u>\$326,195,134</u>
Total Bonds (Market) .....	<u>\$338,632,047</u>

**SHORT-TERM INVESTMENTS**

U. S. Treasury Bills .....	\$ 6,285,000
U. S. Treasury Notes .....	1,000,000
General Motors Acceptance Corp.	5,000,000
	<u>\$ 12,285,000</u>
Total Short-Term (Cost) .....	<u>\$ 12,170,000</u>
Total Short-Term (Market) .....	<u>\$ 12,175,058</u>

**MORTGAGE SECURITIES**

**GNMA Mortgage-Backed Securities**

7.15 % .....	\$ 9,000,000
7.50 % .....	5,927,739
7.75 % .....	4,000,000
8.25 % .....	3,178,922
8.50 % .....	4,957,247
8.60 % .....	7,650,000
8.625 % .....	8,000,000
	<u>\$ 42,713,908</u>

**FHA Insured Mortgages**

4½ % .....	\$ 226,534
5 % .....	527,030
5¼ % .....	24,144,625
5½ % .....	8,286,880
5¾ % .....	3,063,720
6 % .....	4,571,795
6¾ % .....	9,769,948
7½ % .....	3,072,705
	<u>\$ 53,663,237</u>

**VA Guaranteed Mortgages**

4½ % .....	\$ 25,676
5¼ % .....	2,477,767
5½ % .....	119,402
5¾ % .....	686,026
6 % .....	1,492,395
6¾ % .....	918,133
7½ % .....	121,629
	<u>\$ 5,841,028</u>

Par Value

Book  
Value

**H.U.D. Guaranteed Mortgages**

Various Rates .....	\$ 6,870,622
Total Mortgages (Par) .....	<u>\$109,088,795</u>
Total Mortgages (Market) .....	<u>\$101,168,815</u>

**PRODUCTIVE REAL ESTATE**

**Land and Buildings**

88 East Broad Street Columbus, Ohio .....	\$ 6,423,807
Sheraton-Columbus Motor Hotel	6,808,205
Prudential Property Investment Separate Account (PRISA) ....	<u>7,000,000</u>

Total Real Estate  
(Book Value) .....\$ 20,231,512

Total Real Estate  
(Market) .....\$ 25,876,083

## COMMON STOCKS

Number of Shares		Cost	Market
23,200	Affiliated Bankshares of Colorado, Inc. ....	\$ 995,280	\$ 382,800
68,828	Air Products & Chemicals, Inc. ....	2,457,458	2,434,790
40,000	American Broadcasting Company, Inc. ....	1,225,236	1,580,000
11,000	American Express Company .....	683,232	446,875
40,100	American Home Products Corp. ....	1,488,865	1,283,200
33,250	American International Group, Inc. ....	2,241,750	1,579,375
87,200	American Telephone & Telegraph Company ...	4,749,235	5,537,200
25,600	Anheuser Busch, Inc. ....	1,345,515	585,600
42,402	Arizona Bank .....	1,005,979	678,432
30,000	Atlantic Richfield Company .....	1,432,553	1,732,500
34,500	Avon Products, Inc. ....	3,591,202	1,707,750
56,000	Bank America Corp. ....	1,486,910	1,694,000
38,663	Baxter Laboratories, Inc. ....	2,076,874	1,565,851
52,000	Bearings, Incorporated .....	1,390,965	1,644,500
79,500	Black & Decker Manufacturing Company .....	3,070,725	1,599,937
51,576	Brown Forman Distillers Corp. (Class B) .....	1,419,342	734,958
8,300	Burroughs Corporation .....	800,917	760,488
25,000	C.I.T. Financial Corporation .....	1,197,763	1,015,625
23,300	Coca-Cola Company .....	2,745,154	1,840,700
56,400	Colgate Palmolive Company .....	1,864,575	1,551,000
47,400	Continental Oil Company .....	1,444,132	1,777,500
15,000	Delta Airlines, Inc. ....	674,776	577,500
54,560.13	Disney, (Walt) Productions .....	3,364,984	2,584,786
8,000	DuPont (E. I.) de Nemours & Company .....	1,354,339	1,081,000
34,100	Eastman Kodak Company .....	4,694,160	2,932,600
4,000	Economics Laboratory, Inc. ....	180,688	99,500
96,000	Emerson Electric Company .....	3,969,211	3,312,000
72,400	Exxon Corporation .....	3,316,826	3,882,450
32,000	Federated Department Stores, Inc. ....	1,595,618	1,568,000
12,000	First Bank Systems, Inc. ....	747,250	531,000
30,800	Fischbach & Moore, Inc. ....	2,019,575	924,000
15,000	Ford Motor Company .....	825,839	922,500
36,400	General Electric Company .....	1,356,366	2,024,750
15,600	General Motors Corporation .....	1,124,770	1,220,700
5,000	Getty Oil Company .....	955,975	981,250

## COMMON STOCKS

Number of Shares		Cost	Market
38,400	Grainger (W. W.) Inc. ....	1,393,616	1,152,000
60,600	Halliburton Company .....	3,157,340	3,946,575
20,000	Hercules, Incorporated .....	689,475	560,000
7,000	Hewlett Packard Company .....	796,814	610,750
40,000	Holiday Inns, Incorporated .....	1,095,846	525,000
50,000	Howard Johnson Company .....	1,591,748	625,000
12,000	Ingersoll Rand Company .....	1,007,834	916,500
27,225	International Business Machines Corp. ....	7,384,203	7,602,581
20,000	International Paper Company .....	1,453,250	1,377,500
40,000	International Tel. & Tel. Corporation .....	2,260,654	1,355,000
27,700	Johnson & Johnson .....	3,455,468	2,160,600
11,600	Johnson Products Company, Inc. ....	392,660	100,050
25,000	Joy Manufacturing Company .....	978,582	1,168,750
48,000	Knight Ridder Newspapers, Inc. ....	2,523,360	1,842,000
59,000	Kresge (S. S.) Company .....	2,548,788	2,404,250
18,000	Lance, Incorporated .....	641,000	400,500
40,000	Lilly, Eli & Company .....	3,187,290	1,905,000
20,000	Marathon Oil Company .....	648,470	1,127,500
49,400	Maytag Company .....	2,006,016	1,753,700
15,000	McDonalds Corporation .....	998,907	800,625
37,400	Merck & Company, Inc. ....	3,420,462	2,547,875
25,000	MGIC Investment Corporation .....	1,675,935	531,250
34,900	Minnesota Mining & Manufacturing Co. ....	2,922,270	1,976,213
30,000	Mobil Oil Company .....	1,986,450	1,950,000
20,000	Monsanto Company .....	1,083,085	1,762,500
15,000	Morgan (J. P.) Company .....	1,045,947	843,750
30,000	Motorola, Incorporated .....	1,921,845	1,710,000
27,600	Nashua Corporation .....	1,486,535	496,800
47,000	Northern States Power Company .....	1,355,513	1,386,500
40,000	Northwest Airlines, Inc. ....	1,910,831	1,190,000
60,000	Ohio Edison Company .....	1,225,675	1,252,500
21,300	Ohio Sealy Mattress Mfg. Company .....	201,059	173,062
31,300	Penney, (J. C.) Company, Inc. ....	2,506,141	1,647,163
11,000	Pepsi Company, Incorporated .....	730,544	875,875
12,000	Pfizer, Incorporated .....	582,750	352,500

## COMMON STOCKS

Number of Shares		Cost	Market
31,000	Phillips Petroleum Company .....	2,059,501	2,049,875
15,000	Polaroid Company .....	1,942,607	581,250
31,000	Proctor & Gamble Company .....	3,298,166	2,902,375
24,000	Public Service Company of Indiana, Inc. ....	587,250	756,000
35,000	Robins, (A. H.) Company, Inc. ....	1,321,156	420,000
25,000	St. Regis Paper Company .....	1,143,445	965,625
26,800	Schering Plough Corporation .....	1,915,123	1,199,300
30,500	Sears, Roebuck & Company .....	3,088,987	2,104,500
20,500	Simplicity Pattern Company .....	1,139,529	320,313
41,600	Southeast Banking Corporation .....	1,498,959	462,800
40,000	Standard Oil Company of California .....	1,688,784	1,640,000
24,000	Standard Oil Company of Indiana .....	1,280,025	1,431,000
25,700	Standard Oil Company of Ohio .....	2,044,994	1,966,050
26,400	Stauffer Chemical Company .....	991,736	1,313,400
40,000	Texas Eastern Corporation .....	1,913,820	1,635,000
10,000	Texas Instruments, Incorporated .....	919,537	1,026,250
30,000	Texas Utilities Company .....	613,575	652,500
69,600	U. S. Tobacco Company .....	1,306,984	1,783,500
12,000	Union Camp Corporation .....	612,094	799,500
15,000	Union Carbide Corporation .....	1,114,662	928,125
75,000	United Telecommunications, Inc. ....	1,422,558	1,490,625
57,100	Upjohn Company .....	3,572,455	2,198,350
67,200	Weyerhaeuser Company .....	2,873,180	3,124,800
47,400	Whirlpool Corporation .....	1,549,581	1,297,575
10,000	Williams Companies .....	312,980	256,250
20,000	Xerox Corporation .....	2,490,605	1,165,000
	Total Common Stocks .....	<u>\$169,862,695</u>	<u>\$140,274,949</u>

## INVESTMENT ACTIVITY

For the year ended December 31, 1976

PRINCIPAL BALANCE AS OF DECEMBER 31, 1975

\$578,446,735

### Increases in Par Value:

Federal & Related Obligations	\$ 28,000,000
Corporate Obligations	66,000,000
Canadian Obligations	16,500,000
G.N.M.A. Mortgage-Backed Securities	21,000,000
G.N.M.A. Pass-Thru Mortgages	14,242,031
Common Stocks	24,486,129
Short-Term Investments (Net)	2,685,000
Total Increases	<u>\$172,913,160</u>

### Decreases in Par Value:

Federal & Related Obligations	\$ 7,695,400
International Bank Obligations	6,522,000
Corporate Obligations	63,907,387
Canadian Obligations	10,735,000
G.N.M.A. Mortgage-Backed Securities	350,000
G.N.M.A. Pass-Thru Mortgages	178,123
F.H.A. Mortgages	4,581,464
V.A. Mortgages	757,861
H.U.D. Mortgage Loans	314,179
Common Stocks	17,917,158
Real Estate-Principal Amortization	738,187
Total Decreases	<u>\$113,696,759</u>

Net Increases to Portfolio

\$ 59,216,401

PRINCIPAL BALANCE AS OF DECEMBER 31, 1976

\$637,663,136

NOTE: Purchases of short-term investments in various amounts during the year provided the System with additional income of \$848,013.84. These short-term investments enabled the System to have a maximum of funds invested throughout the year.



## INVESTMENT POLICY

The Retirement Board's investment philosophy is contained in the Investment Policy Statement below, which is provided for the use of the System's investment staff and counselors.

### OBJECTIVE

The objective of the Retirement Board's investment policy is to provide the maximum long-term benefits to members of the System by maximizing the total rate of return within prudent parameters of risk for a retirement fund of this type. In line with this objective, due consideration is given by professional staff and portfolio advisers to the actuarial requirements of the System and changes thereto. Safety of principal is the primary consideration and is maintained by the purchase of quality investments, but investment income is also an important element commanding major consideration in the appraisal of various investment alternatives. The Board's policy provides for the utilization of all suitable and prudent avenues of investment authorized under the Ohio Revised Code to maintain a high-quality, diversified portfolio of investments in conservatively financed companies the prospects of which are continually reviewed and assessed in the varying economic climate. While the Board generally invests with the long-term in mind, the changing economic and investment conditions dictate that short-term factors also be considered in the timing of purchases or sales of any investment. Flexibility and market timing are important elements in the Board's policy, and consistency of performance with respect to the total portfolio is emphasized.

### DIVERSIFICATION

Diversification of the portfolio is in respect to types of assets, types of industries, companies within industries, quality of the investments, maturities, geographical areas, etc., and is an important element in the limitation of risk. All such diversification parameters are considered within the context of the requirements of the Ohio Revised Code and of the economic climate at varying times to assure the maintenance of a diversified portfolio responsive to changing economic conditions. Diversification by asset types requires that the Board consider investments in the fixed-income area, mainly bonds and mortgages of various types, and equity investments, including high-quality stocks and productive real estate.

### FIXED-INCOME INVESTMENTS

The Board's fixed-income investments are made up of both bonds and mortgages of various types carefully selected on the basis of

rate of return, maturity, quality, marketability and overall suitability to the Board's portfolio. The fixed-income portfolio is intended to provide the steady, high-level, current income for use in making benefit payments to members of the System. While such fixed-income assets do fluctuate in market value, they are legal contracts having definitely defined characteristics and maturity values which provide a great degree of stability to the investment return of the portfolio.

**Bonds** — The Board's policy provides for bonds to represent an important part of the total portfolio, varying somewhat depending upon economic conditions, interest rates and relative attractiveness of other avenues of investment. The Board requires that its bond portfolio be of high quality and chosen with respect to maturity ranges, coupon levels, refunding characteristics and marketability. Diversification is further provided by inclusion of industrial, utility, telephone, governmental and governmental agency bonds of various types. Active management of bonds is encouraged to continually improve the System's portfolio in terms of quality, marketability, income, refunding protection, etc.

**Mortgages** — The Board's high-quality, diversified mortgage portfolio varies in size dependent upon mortgage interest rates, rates available on other types of investments, and the quality of loans available. The Ohio Revised Code provides for inclusion of mortgages on single-family and multi-family units on an insured or guaranteed basis. Opportunities to purchase conventional commercial and industrial loans of a credit-type nature are considered and provided for by the Board's policy. Preference is given to those investments which can be made within the State of Ohio in order that the expenses of making the investment, administering the loan, and inspection of the property can be minimized. Since a mortgage portfolio is more expensive to administer than other fixed-income investments, the Board considers mortgage investments in those situations where the mortgage investment provides at least one-half of one percentage point per annum better yield than a comparable investment in the bond market. The mortgage portfolio, like the bond portfolio, is intended to provide a high-quality income stream, less subject to fluctuations during changing economic conditions than some other types of investments, for the payment of benefits.

### EQUITY INVESTMENTS

Since fixed-income investments, such as bonds and mortgages, provide only for a current income stream and make no provision for

a hedge with respect to inflation, the Ohio Revised Code and the Board's policy provide that such a long-term inflation hedge be obtained by the use of equity investments in stocks and productive real estate. The Board's policy provides for flexibility in changing economic conditions and allows maximization of total return from judicious use of a combination of both fixed-income and equity investments.

**Productive Real Estate** — The Board's investment policy provides for the ownership of productive real estate, on an unleveraged basis, of high quality, and offering a good current return as well as substantial prospects for market value appreciation over time. Where they are obtainable, and in addition to the appreciation potential of the property itself, incremental increases in lease rentals are provided as a further method of offsetting monetary inflation in the economy. Selection of well-qualified managers and prime tenants is inherent in the Board's real estate investment policy.

**Common Stocks** — The Board's investment in common stocks is an important and flexible element in providing for a long-term inflation hedge. The Board's policy emphasizes the total return concept, dividend yield and market appreciation, and provides for investment in selected stocks of conservatively financed companies, as evidenced by debt to equity ratios, internal cash flow, etc. Such companies are usually leaders in their particular industry, have proven management, and are capable of substantial flexibility in pricing and competition with respect to their products. Such quality stocks are selected on the basis of value, considering the magnitude, stability and growth of dividends, or on the basis of growth of profits and dividends in excess of the growth rate for the economy.

Over a long period of time, it is anticipated that the stock portfolio will achieve a total return, including income and market appreciation, greater than that available from the fixed-income portions of the portfolio and that such return will compare favorably with recognized, representative market indexes and the results obtained by other funds of comparable size and character. Consideration is given to

the fact that portfolios perform differently in up and down cycles of the market and that combining re-structuring of the portfolio with respect to anticipated short-term movements in the market involves considerable risk and expense. Therefore, these performance goals of investment policy apply only to the long term.

Realized losses are minimized by careful selection of companies, attention to market timing and diversification of risk. The Board's policy provides that, generally, losses may be taken in circumstances where the fundamental outlook for the industry or the company, or the financial condition of the company, is deteriorating or in the case of a generally declining market. All sales of stocks at losses are brought to the attention of Board members in advance.

### SHORT-TERM INVESTMENTS

The Board's investment policy provides for the use of short-term investments in accordance with the Ohio Revised Code in order to maximize earnings of the System and to allow for flexibility in respect to market timing of other long-term investments. Such short-term investments are selected within prescribed quality limitations and include the use of U. S. Government securities, banker's acceptances, certificates of deposit and prime commercial paper bearing a quality rating of P-1 or P-2 by Moody's Investors Service, Inc.

### IMPLEMENTATION

In order to implement its investment policy, the Board employs the services of two investment counselors in addition to its own staff. Investment guidelines are formulated annually and reviewed at least quarterly with the investment counselors and staff to provide portfolio guidelines appropriate to current economic conditions. Monthly reports are made to the Board by staff with respect to implementation of investment policy, and performance of equity investments is measured quarterly by an independent performance measurement specialist.



SCHOOL EMPLOYEES  RETIREMENT SYSTEM

88 EAST BROAD STREET, COLUMBUS, OHIO 43215 • TELEPHONE 614/221-5853

