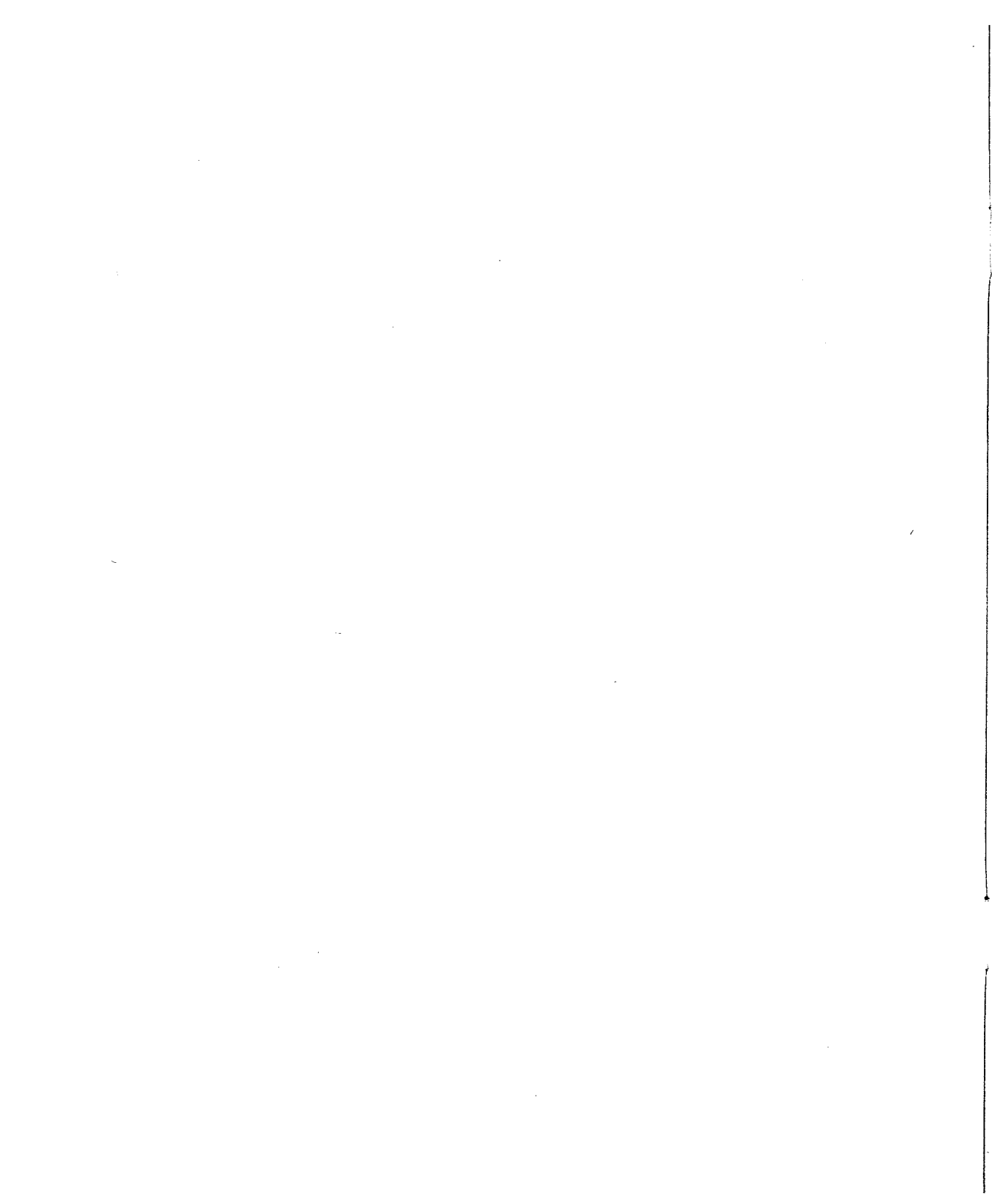


Investment Report 1977

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO



THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



President
CHARLES T. LEWIS
Cleveland



Vice President
BERTHE E. WEIST
Kettering



GEORGE J. MAZZARO
Cleveland Heights-
University Heights



WILLIAM J. BROWN
Attorney General



THOMAS E. FERGUSON
Auditor of State

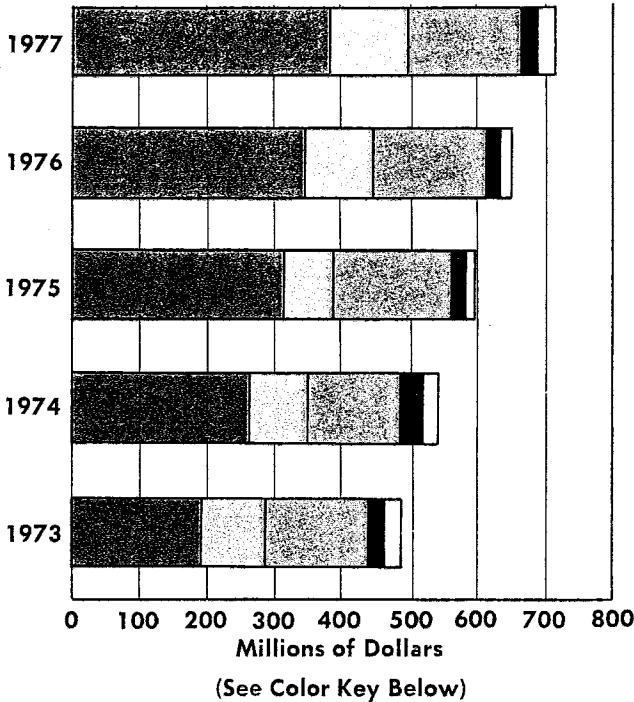
JAMES O. BRENNAN
Executive Director

R. JACK COOPER
Investment Officer

INVESTMENT COUNSELORS

Bankers Trust Company

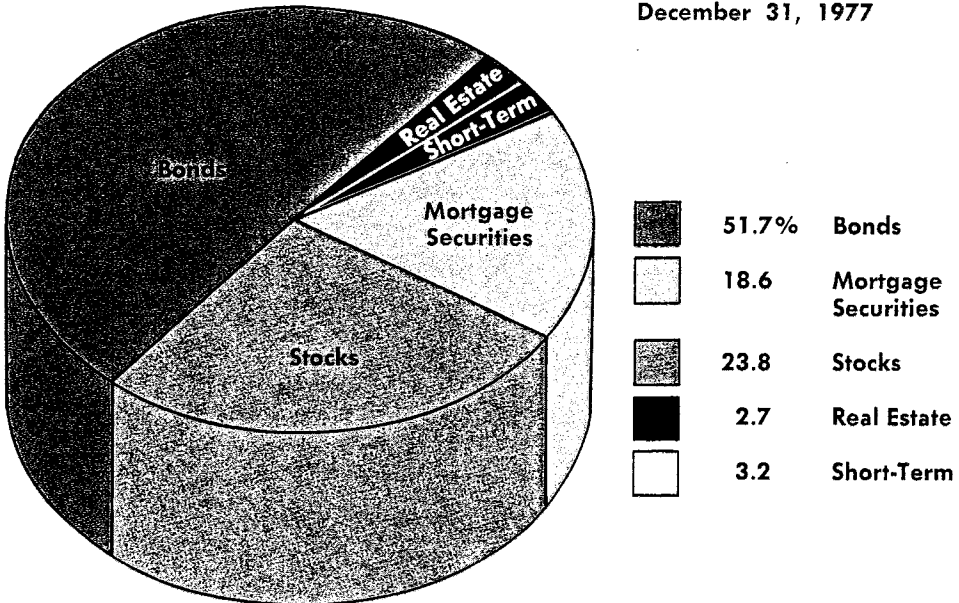
U. S. Trust Company



GROWTH OF ASSETS (Years Indicated)

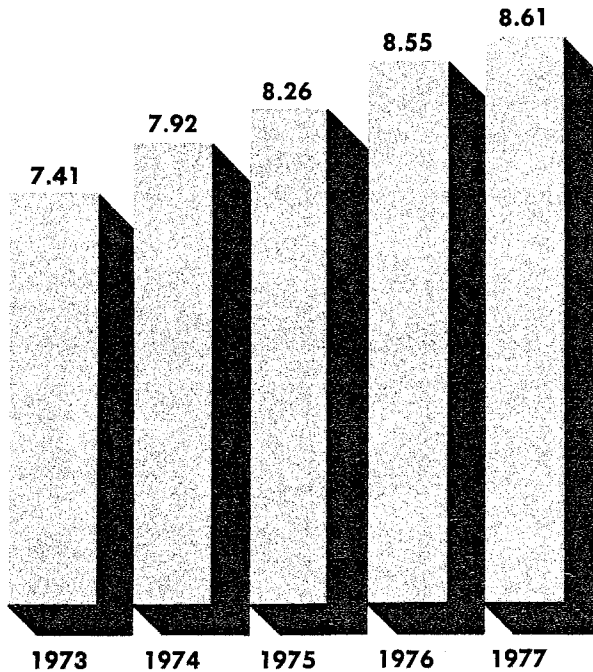
The portfolio has steadily increased from \$461.5 million in 1973 to \$708.9 million in 1977. The increase in 1977 alone was 11.2 percent

PORTFOLIO DISTRIBUTION December 31, 1977



BOND PORTFOLIO YIELDS

For Calendar Years as Indicated



The yield on the System's bond portfolio has increased steadily in recent years from 7.41 percent in 1973 to 8.61 percent in 1977 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 \$186.9 million in December, 1973 to \$366.1 million, or 51 percent of the total portfolio, in December, 1977.

FIVE-YEAR PORTFOLIO SUMMARY

DECEMBER 31, 1977

Investment Category	Book Value	Par Value	Percent of Portfolio
U.S. Government Obligations	\$ 12,951,345	\$ 13,000,000	1.8%
FHA Debentures	27,250	27,250	.1
International Bank for Reconstruction & Development			
Corporate Obligations	301,912,613	298,236,000	42.1
Canadian Obligations	55,643,211	54,800,000	7.7
G.N.M.A. Mortgage-Backed Securities	27,280,912	28,200,000	4.0
G.N.M.A. Modified Pass-Thru Mortgages	52,021,578	52,755,376	7.4
F.H.L.M.C. Guaranteed Mortgage Certificates	1,985,000	2,000,000	.3
F.H.L.M.C. Guaranteed Mortgage-Backed Participation Certificates	4,754,113	4,848,624	.7
F.H.A. & V.A. Mortgages	37,503,138	37,561,095	5.3
H.U.D. Guaranteed Mortgages	6,561,174	6,565,539	.9
Common Stocks	168,665,778	168,665,778	23.8
Real Estate	19,433,104	19,433,104	2.7
Short-Term Investments	22,782,153	22,850,000	3.2
Totals	<u>\$711,521,369</u>	<u>\$708,942,766</u>	<u>100.0%</u>

<u>Dec. 31, 1976</u>	<u>Dec. 31, 1975</u>	<u>Dec. 31, 1974</u>	<u>Dec. 31, 1973</u>
Par Value	Par Value	Par Value	Par Value
\$ 21,000,000			
1,026,650	\$ 1,722,050	\$ 1,060,050	\$ 1,181,750
	6,522,000	6,522,000	6,522,000
253,338,484	251,245,871	206,888,718	147,659,513
50,830,000	45,065,000	33,537,000	31,587,000
28,650,000	8,000,000		
14,063,908			
59,504,265	64,843,590	77,939,147	90,888,268
6,870,622	7,184,801	7,459,902	7,711,547
169,862,695	163,293,724	147,734,721	141,329,218
20,231,512	20,969,699	19,662,400	15,144,935
12,285,000	9,600,000	17,400,000	19,500,000
<u>\$637,663,136</u>	<u>\$578,446,735</u>	<u>\$518,203,938</u>	<u>\$461,524,231</u>

PORTFOLIO RATES OF RETURN
(Percent)

For Calendar Years as Indicated

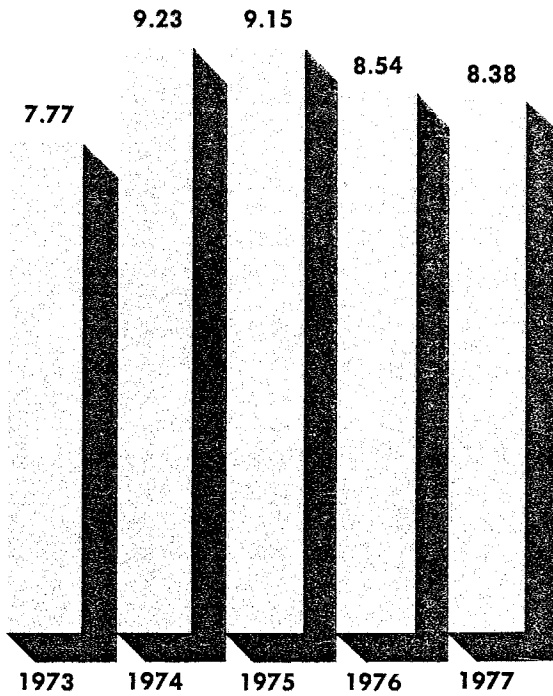
ASSET CATEGORY	1977	1976	1975	1974	1973	1972	1971
Bond Portfolio	8.61	8.55	8.26	7.92	7.41	7.25	7.19
Real Estate Mortgage Portfolio	7.60	6.89	6.20	5.94	5.86	5.89	5.82
Total Fixed-Income Investments	<u>8.34</u>	<u>8.12</u>	<u>7.85</u>	<u>7.41</u>	<u>6.87</u>	<u>6.66</u>	<u>6.50</u>
Equity Portfolio	(8.82)	15.85	26.70	(27.95)	(23.05)	11.07	19.89
New Invest. Return Rate (New Long-Term, Fixed-Income Investments)	8.38	8.54	9.15	9.23	7.77	7.44	7.61
Short-Term Investments	5.15	4.86	5.74	10.57	7.45	4.43	4.71

While interest rates remained moderately high, the bond portfolio continued to show significant improvement in yield during the year. This performance of the bond account and the high quality of the securities within it contribute importantly 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 when interest rates for all types of investments were considerably lower in general than at the present time. Substantial increases have been made

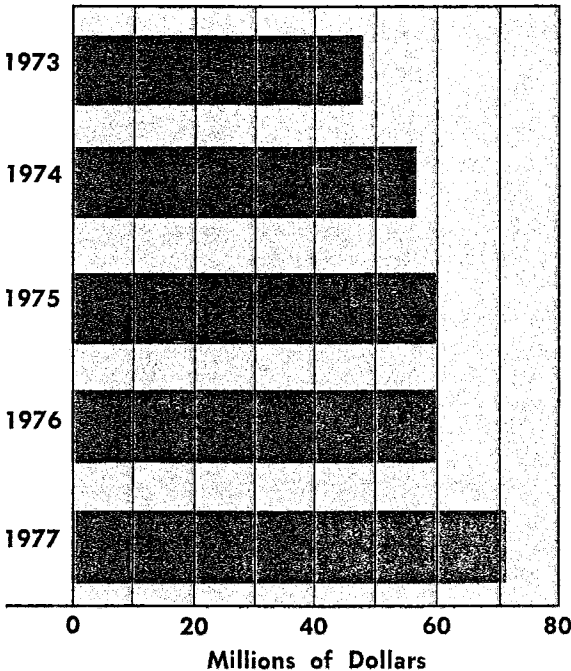
during the last two years in the mortgage loan portfolio yield. This has been accomplished by major new investments in high-yielding mortgage instruments backed by the Federal Home Loan Mortgage Corporation and by the Government National Mortgage Association.

The equity portfolio rates of return reflect the common stocks on a market-to-market basis, including realized and unrealized gains and losses and dividend income, as measured on a dollar-weighted basis by an independent performance measurement specialist.



NEW INVESTMENT RATE OF RETURN

The rate of return on new long-term, fixed-income investments fluctuates significantly with changes in the economy but has remained at moderately high levels in recent years.



AVAILABILITY OF FUNDS

New funds available for investment in 1977 were \$71 million compared to \$48 million available in 1973.

LIST OF INVESTMENTS

December 31, 1977

B O N D S

	Par Value		Par Value
FEDERAL OBLIGATIONS			
U.S. Treasury Bills & Notes	\$ 13,000,000	General Tel. Co. of Ohio.....	2,000,000
FEDERAL AGENCY		General Tel. Co. of Upstate, N.Y.	1,000,000
F.H.A. Debentures	\$ 27,250	Indiana Bell Tel. Co.	500,000
CORPORATE OBLIGATIONS		Michigan Bell Tel. Co.	1,500,000
Industrial		Mountain States Tel. & Tel. Co...	9,000,000
Armco Steel Corp.	\$ 2,975,000	New Jersey Bell Tel. Co.	5,000,000
Caterpillar Tractor Co.	2,000,000	New York Tel. Co.	9,250,000
Continental Can Co.	1,000,000	Northwestern Bell Tel. Co.	12,000,000
Continental Oil Co.	6,500,000	Ohio Bell Tel. Co.	2,000,000
Deere & Co.	4,000,000	Pacific Northwest Bell Tel. Co....	2,000,000
Dow Chemical Co.	6,808,000	Pacific Tel. & Tel. Co.	5,500,000
DuPont (E.I.) de Nemours & Co.	1,000,000	Southern Bell Tel. Co.	10,000,000
Firestone Tire & Rubber Co.	1,000,000	Southern New England Tel. Co...	2,000,000
Ford Motor Co.	3,000,000	Southwestern Bell Tel. Co.	15,000,000
Ingersoll Rand Co.	1,000,000		<u>\$ 90,740,000</u>
Inland Steel Co.	2,500,000	Power & Light	
Kraft, Inc.	1,000,000	Baltimore Gas & Electric Co.	\$ 1,250,000
Minnesota Mining & Mfg. Co.	4,000,000	Central Illinois Public Service Co.	2,000,000
Philip Morris, Inc.	3,000,000	Central Power & Light Co.	1,500,000
Phillips Petroleum Co.	8,000,000	Cincinnati Gas & Electric Co.	5,500,000
Standard Oil Co. of California	2,000,000	Columbia Gas System, Inc.	1,000,000
Texaco, Inc.	9,000,000	Commonwealth Edison Co.	3,250,000
Western Electric Co.	976,000	*Commonwealth Edison Co.	3,000,000
Weyerhaeuser Co.	917,000	Connecticut Light & Power Co. ..	1,700,000
Xerox Corp., Sub. Conv. Deb.	1,220,000	Duquesne Light Co.	4,000,000
	<u>\$ 61,896,000</u>	Duke Power Co.	4,500,000
Telephone		El Paso Electric Co.	2,500,000
Carolina Tel. & Tel. Co.	\$ 990,000	Florida Power & Light Co.	3,000,000
Chesapeake & Potomac Tel. Co. of Md.	3,000,000	Florida Power Corp.	10,000,000
Chesapeake & Potomac Tel. Co. of Va.	7,000,000	Houston Lighting & Power Co. ..	5,000,000
Cincinnati Bell, Inc.	3,000,000	Idaho Power Co.	5,000,000
		Illinois Power Co.	7,000,000
		Iowa Power & Light Co.	1,000,000
		Iowa Public Service Co.	2,500,000
		Kansas Gas & Electric Co.	1,500,000

*Private Placement

	Par Value
Kansas Power & Light Co.	3,000,000
Kentucky Utilities Co.	1,500,000
New England Power Co.	2,000,000
Northern Indiana Public Service Co.	4,100,000
Ohio Edison Co.	7,000,000
Oklahoma Gas & Electric Co.	4,600,000
Pacific Gas & Electric Co.	6,000,000
Pennsylvania Power & Light Co.	2,000,000
Philadelphia Electric Co.	14,000,000
Public Service Co. of Colorado ...	500,000
Public Service Co. of Oklahoma ..	1,000,000
Public Service Electric & Gas Co.	5,500,000
South Carolina Electric & Gas Co.	4,300,000
Southern California Edison Co...	6,300,000
Southwestern Public Service Co...	1,000,000
Texas Electric Service Co.	1,500,000
Union Electric Co.	4,000,000
Utah Power & Light Co.	2,100,000
Virginia Electric & Power Co.....	2,000,000
West Penn Power Co.	1,000,000
Wisconsin Electric Power Co.	2,000,000
Wisconsin Power & Light Co.	4,500,000
Wisconsin Public Service Co.	500,000
	<u>\$145,600,000</u>

CANADIAN OBLIGATIONS Province

Province of Ontario	\$ 17,500,000
Province of Saskatchewan	5,000,000
	<u>\$ 22,500,000</u>

Authority, Board, Commission

Alberta Gov. Tel. Comm.	\$ 2,300,000
British Columbia Hydro & Power Auth.	11,000,000
Manitoba Hydro-Electric Board..	19,000,000
	<u>\$ 32,300,000</u>
Total Bonds (Par)	<u>\$366,063,250</u>
Total Bonds (Market)	<u>\$368,145,338</u>

Par Value

SHORT-TERM INVESTMENTS

Ford Motor Credit Corp.	\$ 5,950,000
General Electric Credit Corp.....	8,600,000
General Mills	1,000,000
General Motors Acceptance Corp.	1,500,000
New England Power Co.	400,000
Pacific Tel. & Tel. Co.	2,200,000
Public Service Elec. & Gas Co....	700,000
Sears Roebuck Acceptance Corp.	2,500,000
Total Short-Term (Par)	<u>\$ 22,850,000</u>
Total Short-Term (Cost)	<u>\$ 22,782,152</u>
Total Short-Term (Market)	<u>\$ 22,806,834</u>

MORTGAGE SECURITIES GNMA Mortgage-Backed Securities

7.15%	\$ 9,000,000
7.50%	10,728,475
7.75%	4,000,000
8.00%	34,670,735
8.25%	2,814,376
8.50%	4,541,790
8.60%	7,200,000
8.625%	8,000,000
	<u>\$ 80,955,376</u>

FHLMC Mortgage-Backed Securities

8.00%	\$ 2,879,424
8.20%	2,000,000
8.25%	1,969,200
	<u>\$ 6,848,624</u>

FHA Insured Mortgages

4 ½%	\$ 23,894
5 %	384,000
5 ¼%	10,499,353
5 ½%	7,558,032
5 ¾%	1,837,299
6 %	1,867,338
6 ¾%	8,429,037
7 ½%	2,340,623
	<u>\$ 32,939,582</u>

	Par Value
VA Guaranteed Mortgages	
4½ %	\$ 22,693
5¼ %	2,063,794
5½ %	92,829
5¾ %	596,708
6 %	1,244,885
6¾ %	545,761
7½ %	55,843
	<u>\$ 4,621,513</u>

H.U.D. Guaranteed Mortgages

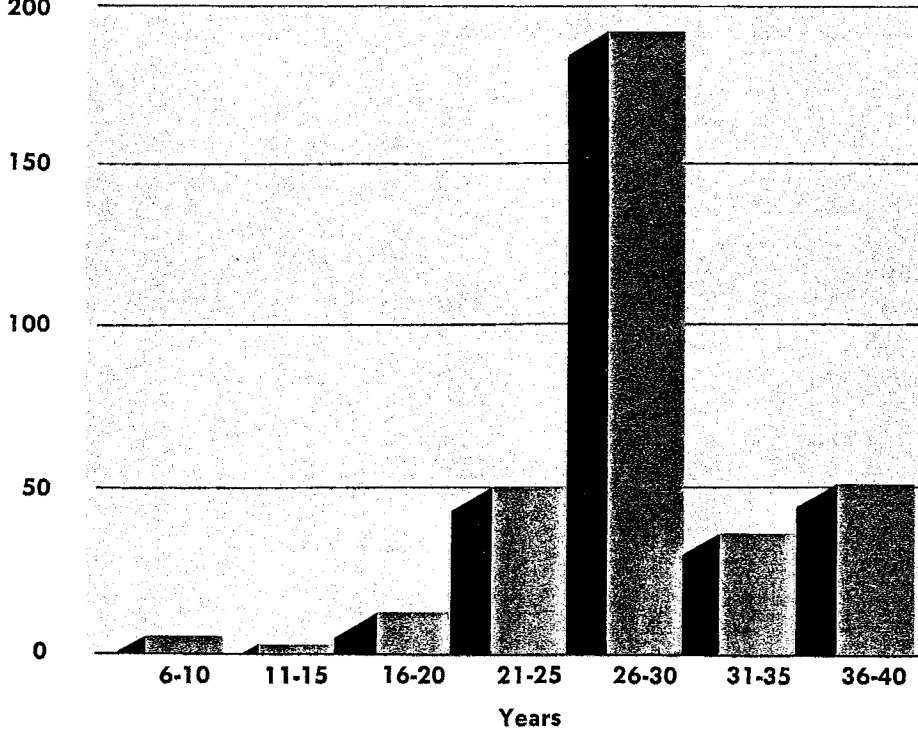
Various Rates	\$ 6,565,539
Total Mortgages (Par).....	<u>\$131,930,634</u>
Total Mortgages (Market)	<u>\$121,960,948</u>

	Book Value
PRODUCTIVE REAL ESTATE	
Land and Buildings	
88 East Broad Street Columbus, Ohio	\$ 6,290,078
Sheraton-Columbus Motor Hotel..	6,143,026
Prudential Property Investment Separate Account (PRISA)....	<u>7,000,000</u>
Total Real Estate (Book Value)	<u>\$ 19,433,104</u>
Total Real Estate (Market)	<u>\$ 23,756,143</u>

Millions
of Dollars
200

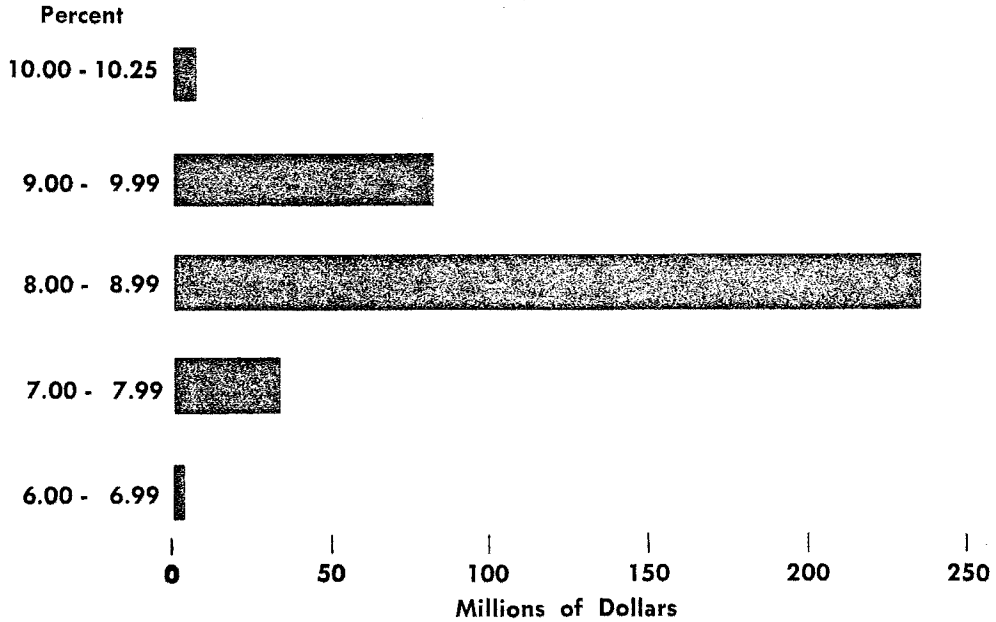
BOND PORTFOLIO BY MATURITY

December 31, 1977



BOND PORTFOLIO BY INTEREST RATES

December 31, 1977



RATINGS BY MOODY'S

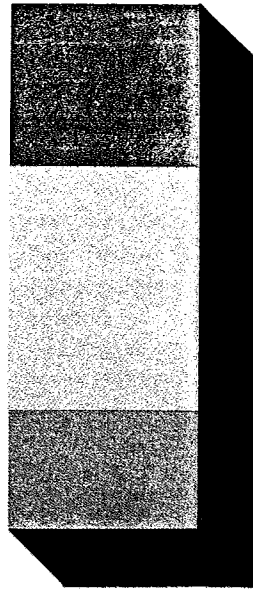
December 31, 1977

35.5% Aaa

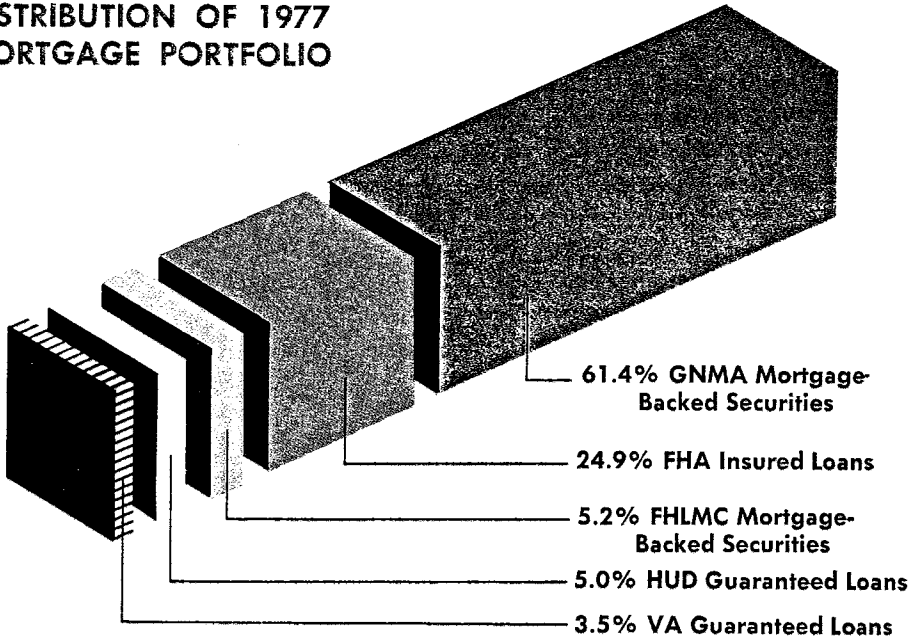
41.4% Aa

23.1% A

All of the bonds in the portfolio fall within the top three grades of the nine bond quality ratings established by Moody's Investors Service, Inc.



DISTRIBUTION OF 1977 MORTGAGE PORTFOLIO



COMMON STOCKS

Number of Shares		Cost	Market
23,000	Aetna Life & Casualty Co.	\$ 821,000	\$ 839,500
23,200	Affiliated Bankshares of Colorado, Inc.	995,280	522,000
41,820	Air Products & Chemicals, Inc.	1,508,066	1,071,637
14,000	AMAX, Inc.	704,022	507,500
15,000	American Broadcasting Co.	459,486	607,500
11,000	American Express Co.	683,232	397,375
25,000	American Home Products Corp.	980,360	696,875
41,562	American International Group, Inc.	2,241,735	1,735,213
87,200	American Telephone & Telegraph Co.	4,749,235	5,275,600
25,600	Anheuser Busch, Inc.	1,345,515	505,600
51,200	Arizona Bank	1,005,974	678,400
10,000	Atlantic Richfield Co.	477,552	511,250
39,500	Avon Products, Inc.	3,844,127	1,900,937
56,000	Bank America Corp.	1,486,910	1,274,000
38,663	Baxter Travenol Laboratories, Inc.	2,076,874	1,469,194
79,500	Black & Decker Manufacturing Co.	3,070,725	1,272,000
51,576	Brown Forman Distillers Corp. (Class B))	1,419,342	1,050,861
8,300	Burroughs Corp.	800,917	604,862
5,000	Campbell Soup Co.	193,250	168,750
25,000	CIT Financial Corp.	1,197,763	815,625
46,600	Coca-Cola Co.	2,745,154	1,735,850
56,400	Colgate Palmolive Co.	1,864,575	1,219,650
12,000	Continental Oil Co.	365,548	360,000
20,000	Cutler Hammer, Inc.	567,187	692,500
42,000	Deere & Co.	1,223,002	1,039,500
15,000	Delta Air Lines, Inc.	674,776	600,000
55,378.40	Disney, (Walt) Productions	3,364,979	2,215,136
6,000	Dun & Bradstreet Companies, Inc.	186,092	186,000
9,500	Du Pont EI de Nemours & Co.	1,539,814	1,143,562
34,100	Eastman Kodak Co.	4,694,160	1,747,625
86,000	Emerson Electric Co.	3,595,564	2,891,750
75,400	Exxon Corp.	3,470,726	3,619,200
32,000	Federated Dept. Stores, Inc.	1,595,617	1,268,000
12,000	First Bank Systems, Inc.	747,250	429,000
30,800	Fischback & Moore, Inc.	2,019,575	877,800

COMMON STOCKS

Number of Shares		Cost	Market
58,400	General Electric Co.	\$ 2,495,463	\$ 2,905,400
15,600	General Motors Corp.	1,124,770	978,900
7,000	Getty Oil Co.	1,356,215	1,214,500
38,400	Grainger (W.W.) Inc.	1,393,616	1,209,600
10,000	Halliburton Co.	477,441	653,750
20,000	Hercules, Inc.	689,475	315,000
7,000	Hewlett Packard Co.	796,814	512,750
50,000	Howard Johnson Co.	1,591,748	581,250
12,000	Ingersoll Rand Co.	1,007,834	688,500
22,000	International Business Machines Corp.	5,766,633	6,006,000
20,000	International Paper Co.	1,453,250	875,000
40,000	International Telephone & Telegraph Corp.	2,260,654	1,270,000
27,700	Johnson & Johnson	3,455,468	2,125,975
25,000	Joy Manufacturing Co.	978,583	800,000
20,000	Kimberly Clark Corp.	860,050	857,500
59,000	K Mart Corp.	2,548,788	1,615,125
48,000	Knight Ridder Newspapers, Inc.	2,523,360	1,848,000
18,000	Kraft, Inc.	889,675	805,500
40,000	Lilly, Eli & Co.	3,187,290	1,515,000
25,000	M.G.I.C. Investment Corp.	1,675,935	400,000
49,400	Maytag Co.	2,006,016	1,389,375
15,000	McDonalds Corp.	998,907	772,500
41,400	Merck & Co., Inc.	3,639,007	2,297,700
34,900	Minnesota Mining & Manufacturing Co.	2,922,270	1,688,288
30,000	Mobil Corp.	1,986,450	1,905,000
47,000	Monsanto Co.	3,046,580	2,708,375
20,000	Morgan (J.P.) Co.	1,326,784	860,000
30,000	Motorola, Inc.	1,921,845	1,098,750
45,000	NL Industries, Inc.	997,475	781,875
47,000	Northern States Power Co.	1,355,513	1,327,750
40,000	Northwest Airlines, Inc.	1,910,831	945,000
60,000	Ohio Edison Co.	1,225,675	1,170,000
31,300	Penney, (J.C.) Company, Inc.	2,506,141	1,111,150
12,000	Pfizer, Inc.	582,750	328,500
70,000	Phillips Petroleum Co.	2,289,126	2,143,750

COMMON STOCKS

Number of Shares		Cost	Market
15,000	Polaroid Corp.	\$ 1,942,607	\$ 393,750
31,000	Procter & Gamble Co.	3,298,166	2,662,125
17,000	Reynolds, (R.J.) Industries, Inc.	1,116,895	1,007,250
50,000	Robins (A.H.) Co., Inc.	1,516,819	506,250
25,000	St. Regis Paper Co.	1,143,445	768,750
58,800	Schering Plough Corp.	3,023,576	1,764,000
71,000	Sears Roebuck & Co.	3,376,277	1,988,000
20,500	Simplicity Pattern Co.	1,139,529	233,188
41,600	Southeast Banking Corp.	1,498,959	447,200
10,000	Southern Co.	179,650	177,500
40,000	Standard Oil Co. of California	1,688,784	1,550,000
24,000	Standard Oil Co. of Indiana	1,280,025	1,191,000
25,000	Standard Oil Co. of Ohio	1,989,295	1,771,875
19,500	Sun Company, Inc.	798,932	831,188
45,000	Texas Eastern Corp.	2,114,945	2,086,875
22,000	Texas Gas Transmission Corp.	1,015,445	935,000
10,000	Texas Instruments, Inc.	919,537	735,000
30,000	Texas Utilities Co.	613,575	660,000
37,000	Travelers Corp.	1,178,503	1,147,000
23,000	Union Camp Corp.	1,277,794	1,058,000
15,000	Union Carbide Corp.	1,114,663	616,875
75,000	United Telecommunications, Inc.	1,422,558	1,425,000
57,100	Upjohn Co.	3,572,455	2,019,913
4,900	U.S. Fidelity & Guaranty Co.	192,810	159,863
67,200	Weyerhaeuser Co.	2,873,180	1,856,400
47,400	Whirlpool Corp.	1,549,581	1,060,575
27,000	Xerox Corp.	2,863,957	1,262,250
	TOTAL COMMON STOCKS	<u>\$168,665,778</u>	<u>\$119,950,842</u>

**Quality
Rating****Percent
of Stocks****QUALITY OF STOCKS**

A+	37.7	Of the stocks owned by the System, the majority fall within the top four quality grades as rated by Standard and Poor's Corporation with respect to the relative stability and growth of earnings and dividends. The 9.8 percent in the non-rated category are banks and insurance companies which are not rated by Standard and Poor's as a matter of policy.
A	27.9	
A—	18.9	
B+	5.7	
B	—	
B—	—	
C	—	
D	—	
Not Rated	9.8	

Category**Percent****DIVERSIFICATION OF STOCKS**

Credit Sensitive	14.0	The System's stocks are diversified by industry to reduce risk and to enable the portfolio to participate in upswings in various sectors of the economy as they arise.
Growth Consumer	25.5	
Consumer Staple	6.6	
Consumer Cyclical	9.2	
Intermediate Goods and Services	29.0	
Capital Goods	15.7	

INVESTMENT ACTIVITY

For the year ended December 31, 1977

PRINCIPAL BALANCE AS OF DECEMBER 31, 1976 \$637,663,136

Increases in Par Value:

Federal & Related Obligations	\$ 31,000,000
Corporate Obligations	108,300,000
Canadian Obligations	38,000,000
F.H.L.M.C. Mortgage-Backed Securities	2,000,000
F.H.L.M.C. Pass-Thru Mortgages	4,848,624
G.N.M.A. Pass-Thru Mortgages	40,037,035
Common Stocks	22,149,773
Short-Term Investments (Net)	<u>10,565,000</u>
Total Increases	\$256,900,432

Decreases in Par Value:

Federal & Related Obligations	\$ 39,999,400
Corporate Obligations	63,402,484
Canadian Obligations	34,030,000
G.N.M.A. Mortgage-Backed Securities	450,000
G.N.M.A. Pass-Thru Mortgages	1,345,567
F.H.A. Mortgages	20,723,168
V.A. Mortgages	1,220,002
H.U.D. Guaranteed Mortgages	305,083
Common Stocks	23,346,690
Real Estate-Principal Amortization	<u>798,408</u>
Total Decreases	\$185,620,802

Net Increase to Portfolio

\$ 71,279,630

PRINCIPAL BALANCE AS OF DECEMBER 31, 1977

\$708,942,766

NOTE: Purchases of short-term investments in various amounts during the year provided the System with additional income of \$1,137,744.53. 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 complete 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 SERS RETIREMENT SYSTEM

88 EAST BROAD STREET, COLUMBUS, OHIO 43215 • TELEPHONE (614) 221-7012