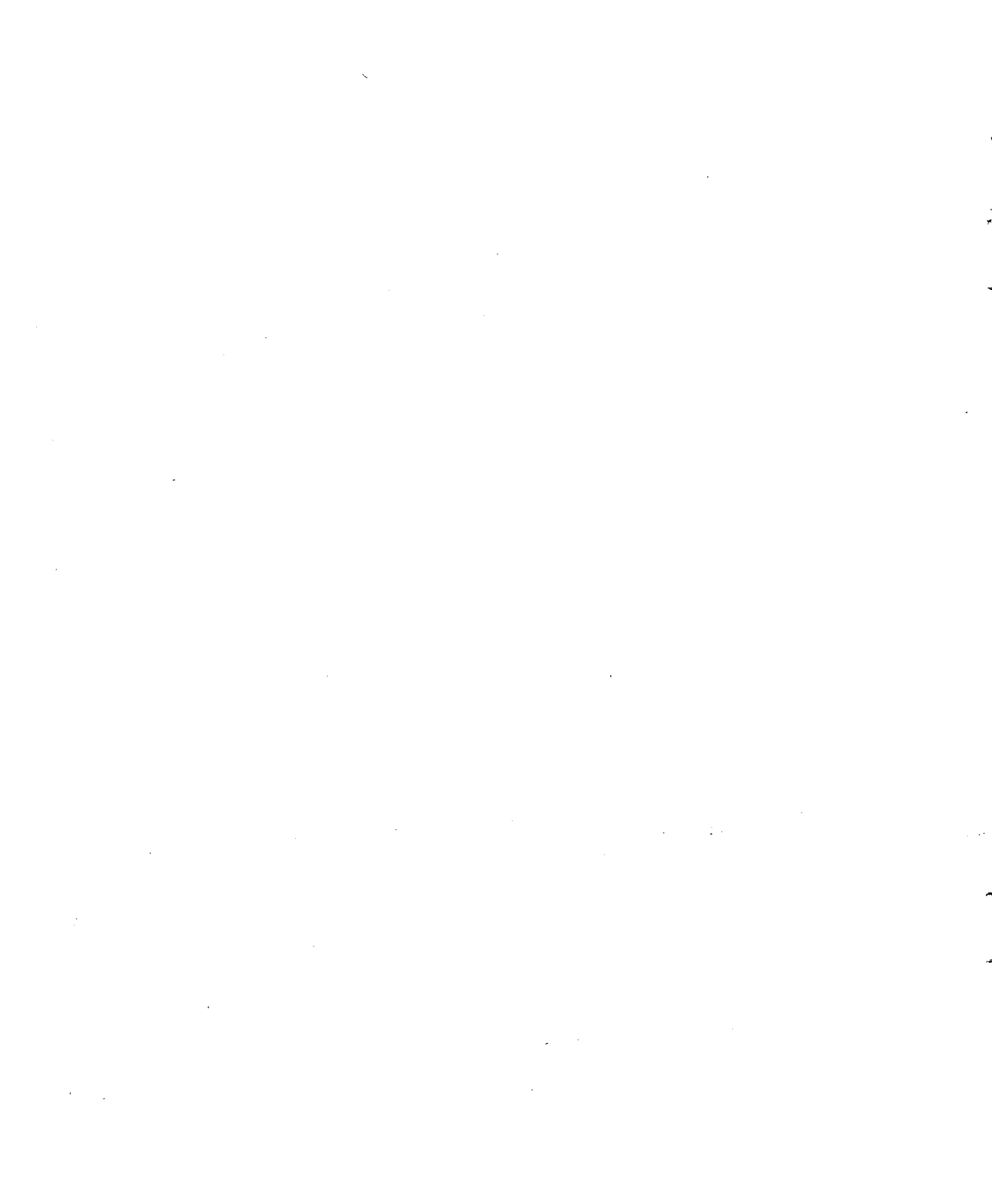


Investment Report 1979

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO



THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



President
BERTHE E. WEIST
Kettering



Vice President
GEORGE J. MAZZARO
Cleveland



MARY E. KASUNIC
Wickliffe



WILLIAM J. BROWN
Attorney General



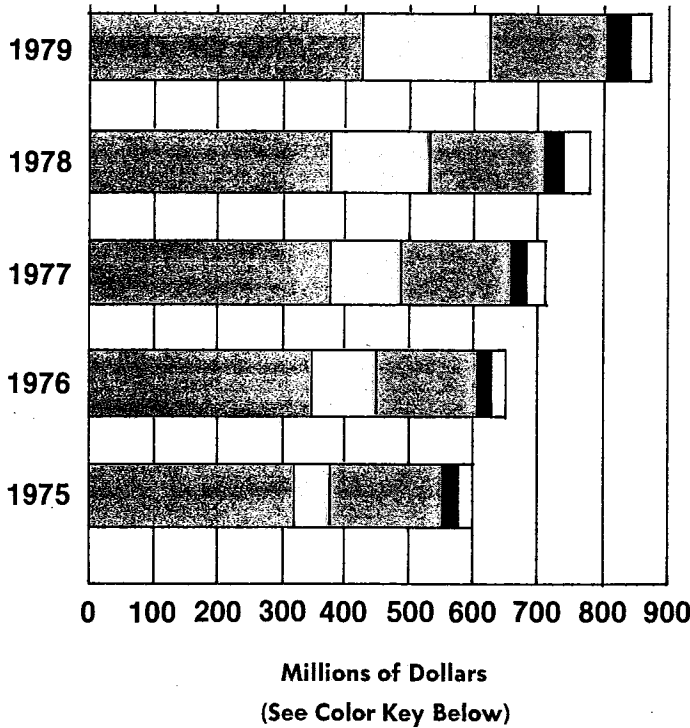
THOMAS E. FERGUSON
Auditor of State

THOMAS R. ANDERSON, Executive Director
R. JACK COOPER, Investment Officer
PAUL KUBINSKY, Ass't. Investment Officer

BANKERS TRUST CO., Investment Counselor

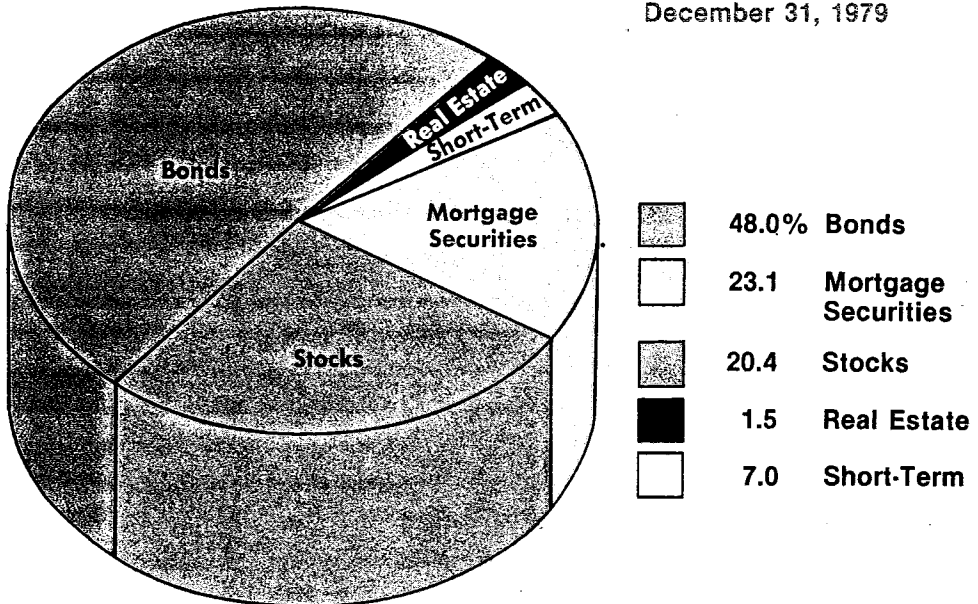
ROBERT COWMAN, Ass't. Portfolio Manager
(Fixed-Income)

WILLIAM FOX, Equity Analyst
LOU CANLAS, Mortgage Specialist
SAUNDRA HOLLAND, Stock Portfolio Secretary
DEBBIE LACHOWSKY, Bond Portfolio Secretary
DEYETTA NUTTER, Mortgage Secretary



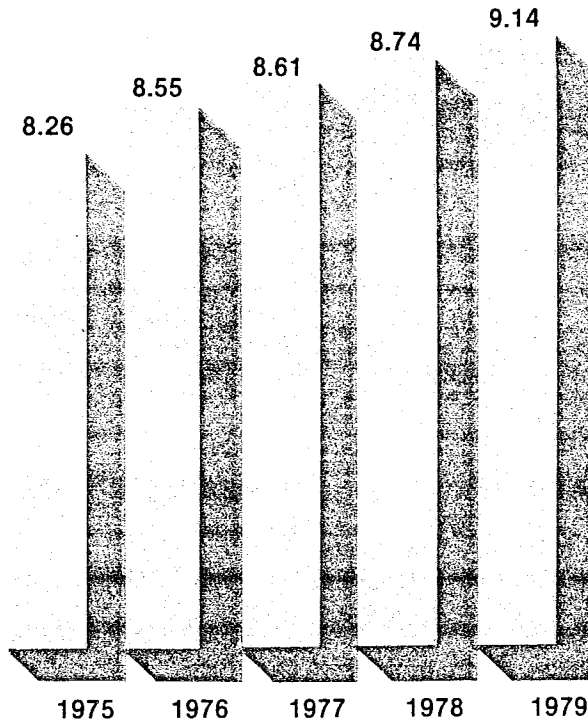
PORTFOLIO DISTRIBUTION

December 31, 1979



BOND PORTFOLIO YIELDS

For Calendar Years as Indicated



The yield on the System's bond portfolio has increased steadily in recent years from 8.26 percent in 1975 to 9.14 percent in 1979 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 \$304.6 million in December, 1975 to \$419.5 million, or 48.0 percent of the total portfolio, in December, 1979.

FIVE-YEAR PORTFOLIO SUMMARY

Investment Category	DECEMBER 31, 1979		
	Book Value	Par Value	Percent of Portfolio
U.S. Government Obligations			
FHA Debentures			
International Bank for Reconstruction & Development			
Corporate Obligations	\$356,643,426	\$356,670,000	40.8%
Canadian Obligations	62,648,114	62,800,000	7.2
G.N.M.A. Mortgage-Backed Securities			
G.N.M.A. Modified Pass-Thru Mortgages	96,160,749	98,406,209	11.2
F.H.L.M.C. Guaranteed Mortgage Certificates			
F.H.L.M.C. Guaranteed Mortgage-Backed Participation Certificates	91,315,912	92,904,140	10.6
F.H.A. & V.A. Mortgages	4,905,886	4,905,888	0.6
H.U.D. Guaranteed Mortgages	5,841,678	5,843,124	0.7
Common Stocks	178,801,201	178,801,201	20.4
Real Estate	12,859,721	12,859,721	1.5
Short-Term Investments	60,430,252	61,075,000	7.0
Totals	<u>\$869,606,939</u>	<u>\$874,265,283</u>	<u>100.0%</u>

<u>Dec. 31, 1978</u>	<u>Dec. 31, 1977</u>	<u>Dec. 31, 1976</u>	<u>Dec. 31, 1975</u>
<u>Par Value</u>	<u>Par Value</u>	<u>Par Value</u>	<u>Par Value</u>
	\$ 13,000,000	\$ 21,000,000	
	27,250	1,026,650	\$ 1,722,050
			6,522,000
\$329,920,000	298,236,000	253,338,484	251,245,871
60,300,000	54,800,000	50,830,000	45,065,000
	28,200,000	28,650,000	8,000,000
66,358,165	52,755,376	14,063,908	
	2,000,000		
63,687,339	4,848,624		
20,128,960	37,561,095	59,504,265	64,843,590
6,208,824	6,565,539	6,870,622	7,184,801
169,035,620	168,665,778	169,862,695	163,293,724
13,089,571	19,433,104	20,231,512	20,969,699
59,300,000	22,850,000	12,285,000	9,600,000
<u>\$788,028,479</u>	<u>\$708,942,766</u>	<u>\$637,663,136</u>	<u>\$578,446,735</u>

PORTFOLIO RATES OF RETURN

(Percent)

For Calendar Years as Indicated

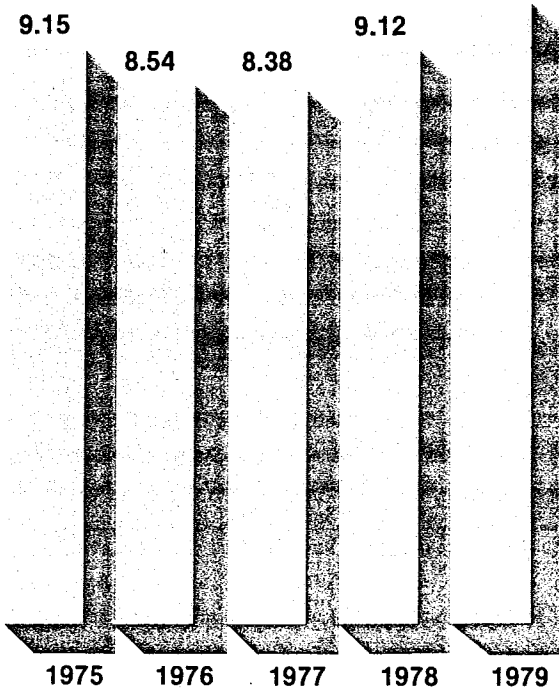
ASSET CATEGORY	1979	1978	1977	1976	1975
Bond Portfolio	9.14	8.74	8.61	8.55	8.26
Real Estate Mortgage Portfolio	9.26	8.52	7.60	6.89	6.20
Total Fixed-Income Investments	<u>9.18</u>	<u>8.68</u>	<u>8.34</u>	<u>8.12</u>	<u>7.85</u>
Equity Portfolio	17.96	9.13	(8.82)	15.85	26.70
New Invest. Return Rate (New Long-Term, Fixed- Income Investments)	9.88	9.12	8.38	8.54	9.15
Short-Term Investments	10.76	7.55	5.15	4.86	5.74

While interest rates rose in late 1979, the bond portfolio continued to show significant improvement in yield for 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 three years

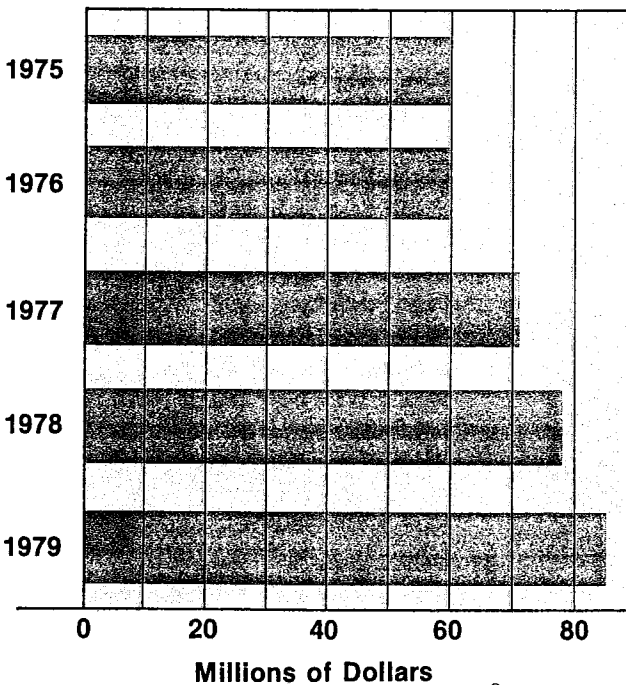
in the mortgage loan portfolio yield. This has been accomplished by major new investments in high-yielding mortgage instruments backed by the Federal Home Loan Mortgage Corporation and by the Government National Mortgage Association.

The equity portfolio includes real estate and common stocks. The performance of the stocks is reflected 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 1979 were \$86 million compared to \$60 million available in 1975.

LIST OF INVESTMENTS

December 31, 1979

B O N D S

	Par Value		Par Value
CORPORATE OBLIGATIONS			
Industrial			
Cities Service Co.....	\$ 6,500,000	Mountain States Tel. & Tel. Co.	17,500,000
Conoco Inc.	13,500,000	New York Tel. Co.	8,500,000
Dana Corp.....	11,000,000	Northwestern Bell Tel. Co.....	13,000,000
John Deere & Co.	4,000,000	Ohio Bell Tel. Co.	5,250,000
Diamond Shamrock Corp.....	8,600,000	Pacific Northwest Bell Tel. Co.....	2,000,000
DuPont (E.I.) de Nemours Co.....	1,000,000	Pacific Tel. & Tel. Co.	9,500,000
Ford Motor Co.	3,000,000	South Central Bell Tel. Co.....	17,000,000
General Mills, Inc.	8,500,000	Southern Bell Tel. & Tel. Co.....	6,000,000
McDonalds Corp.	6,400,000	Southern New England Tel. Co.	2,000,000
Minnesota Mining & Mfg. Co.	4,000,000	Southwestern Bell Tel. Co.....	20,500,000
J.C. Penney Co.....	2,000,000		<u>\$125,750,000</u>
Philip Morris, Inc.....	13,250,000		
Phillips Petroleum Co.....	8,000,000	Power & Light	
Standard Brands, Inc.	2,500,000	Baltimore Gas & Electric Co.....	\$ 2,250,000
Standard Oil Co. of Indiana	5,750,000	Central Illinois Public Service Co.....	2,000,000
Union Oil Co. of California	3,000,000	Central Power & Light Co.....	1,500,000
Xerox Corp., Sub. Conv. Deb.	1,220,000	Cincinnati Gas & Electric Co.	3,000,000
	<u>\$102,220,000</u>	Connecticut Light & Power Co.....	1,700,000
		Duke Power Co.	4,000,000
		Duquesne Light Co.....	3,500,000
		El Paso Electric Co.....	2,500,000
		Florida Power Corp.	8,000,000
		Florida Power & Light Co.....	3,000,000
		Gulf State Utilities Co.	3,000,000
		Houston Lighting & Power Co.	5,000,000
		Idaho Power Co.....	2,000,000
		Illinois Power Co.	1,500,000
		Indianapolis Power & Light Co.	2,650,000
		Iowa Power & Light Co.	1,000,000
		Iowa Public Service Co.....	2,500,000
		Kansas Power & Light Co.....	3,000,000
		Kansas Gas & Electric Co.	2,500,000
		Kentucky Utilities Co.....	1,500,000
		Metropolitan Edison Co.	3,000,000
		New England Power Co.....	3,000,000
Telephone			
Bell Tel. Co. of Pennsylvania	\$ 3,500,000		
Chesapeake & Potomac Tel. Co. of Maryland	2,000,000		
Chesapeake & Potomac Tel. Co. of Virginia.....	7,000,000		
Chesapeake & Potomac Tel. Co. of West Virginia	1,000,000		
Cincinnati Bell, Inc.	3,000,000		
General Tel. Co. of Florida.....	500,000		
General Tel. Co. of Ohio	2,000,000		
General Tel. Co. of the Southwest.....	1,000,000		
General Tel. Co. of Upstate New York, Inc.....	1,000,000		
Michigan Bell Tel. Co.	3,500,000		

	Par Value
Northern Indiana Public Service Co.	500,000
Ohio Edison Co.	6,500,000
Oklahoma Gas & Electric Co.	4,100,000
Pacific Gas & Electric Co.	6,000,000
Pennsylvania Power & Light Co.	2,500,000
Philadelphia Electric Co.	14,000,000
Public Service Electric & Gas Co.	9,100,000
Public Service Co. of Colorado.	500,000
Public Service Co. of Oklahoma.	1,000,000
South Carolina Electric & Gas Co.	4,300,000
Southern California Edison Co.	5,500,000
Southwestern Public Service Co.	1,500,000
Union Electric Co.	3,500,000
Utah Power & Light Co.	2,100,000
West Penn Power Co.	1,000,000
Wisconsin Power & Light Co.	4,500,000
	<u>\$128,700,000</u>

CANADIAN OBLIGATIONS

Province

Province of Ontario	\$ 15,300,000
Province of Saskatchewan	10,000,000
	<u>\$ 25,300,000</u>

Authority, Board, Commission

Alberta Gov. Tel. Comm.	\$ 2,300,000
British Columbia Hydro & Power Auth.	8,500,000
Manitoba Hydro-Electric Board	26,700,000
	<u>\$ 37,500,000</u>
Total Bonds (Par)	<u>\$419,470,000</u>
Total Bonds (Market)	<u>\$342,010,041</u>

SHORT-TERM INVESTMENTS

Certificate of Deposit

BancOhio National Bank	\$ 4,000,000
	<u>\$ 4,000,000</u>

Commercial Paper

Abbott Labs.	\$ 2,000,000
Arkansas Louisiana Gas Co.	1,000,000
Carolina Tel. & Tel. Co.	1,700,000
Columbia Gas System, Inc.	3,875,000
Crown Zellerbach Corp.	2,300,000
Diamond International Corp.	1,000,000
Ford Motor Credit Corp.	4,100,000
General Electric Credit Corp.	3,600,000
General Tel. Co. of Florida	1,500,000
General Tel. Co. of Indiana.	500,000
General Tel. Co. of the Northwest	4,000,000
General Tel. Co. of the Southeast	1,000,000
General Tel. Co. of Wisconsin	1,000,000
General Motors Acceptance Corp.	7,500,000
Inland Steel Co.	1,000,000
New York Tel. Co.	3,100,000
Northern Illinois Gas Co.	3,000,000
Northwestern Bell Tel. Co.	1,500,000
J.C. Penney Financial Corp	1,100,000
Philip Morris, Inc.	600,000
Public Service Co. of Colorado.	1,000,000
Public Service Co. of New Mexico.	1,800,000
Sears Roebuck Acceptance Corp.	5,400,000
Utah Power & Light Co.	2,600,000
Wisconsin Tel. Co.	900,000
	<u>\$ 57,075,000</u>
Total Short-Term (Par)	<u>\$ 61,075,000</u>
Total Short-Term (Cost)	<u>\$ 60,430,252</u>
Total Short-Term (Market)	<u>\$ 60,628,124</u>

Par Value

Par Value

MORTGAGE SECURITIES

GNMA Mortgage-Backed Securities

7.50%	\$ 8,768,248
8.00%	33,262,417
8.25%	7,130,322
8.50%	1,400,721
9.00%	21,972,775
9.50%	24,610,673
10.00%	1,261,053
	<u>\$ 98,406,209</u>

VA Guaranteed Mortgages

4.50%	\$ 12,244
5.25%	245,503
5.50%	13,885
5.75%	49,881
6.00%	80,917
6.75%	17,936
7.50%	14,575
	<u>\$ 434,941</u>

FHLMC Mortgage-Backed Securities

8.25%	\$ 3,189,742
8.75%	12,344,469
9.00%	11,930,665
9.25%	27,506,482
9.50%	2,850,381
10.00%	30,238,085
10.25%	4,844,316
	<u>\$ 92,904,140</u>

H.U.D. Guaranteed Mortgages

Various Rates	\$ 5,843,124
Total Mortgages (Par)	<u>\$202,059,361</u>
Total Mortgages (Market)	<u>\$170,744,942</u>

Book Value

FHA Insured Mortgages

4.50%	\$ 409
5.00%	19,249
5.25%	4,129,173
5.50%	45,729
5.75%	53,107
6.00%	63,351
6.75%	159,929
	<u>\$ 4,470,947</u>

PRODUCTIVE REAL ESTATE

Land and Buildings

88 East Broad Street, Columbus, OH.	\$ 5,859,721
Prudential Property Investment	
Separate Account (PRISA)	<u>7,000,000</u>
Total Real Estate	
(Book Value)	<u>\$ 12,859,721</u>
Total Real Estate	
(Market)	<u>\$ 21,554,016</u>

BOND PORTFOLIO BY MATURITY
December 31, 1979

Millions
of Dollars
250

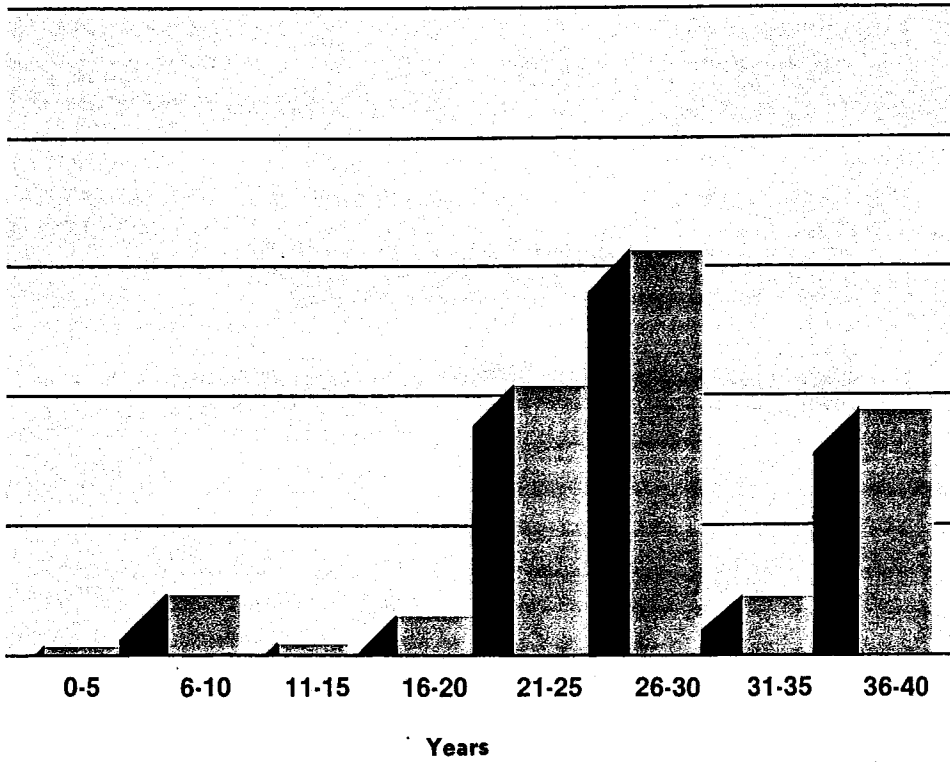
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150

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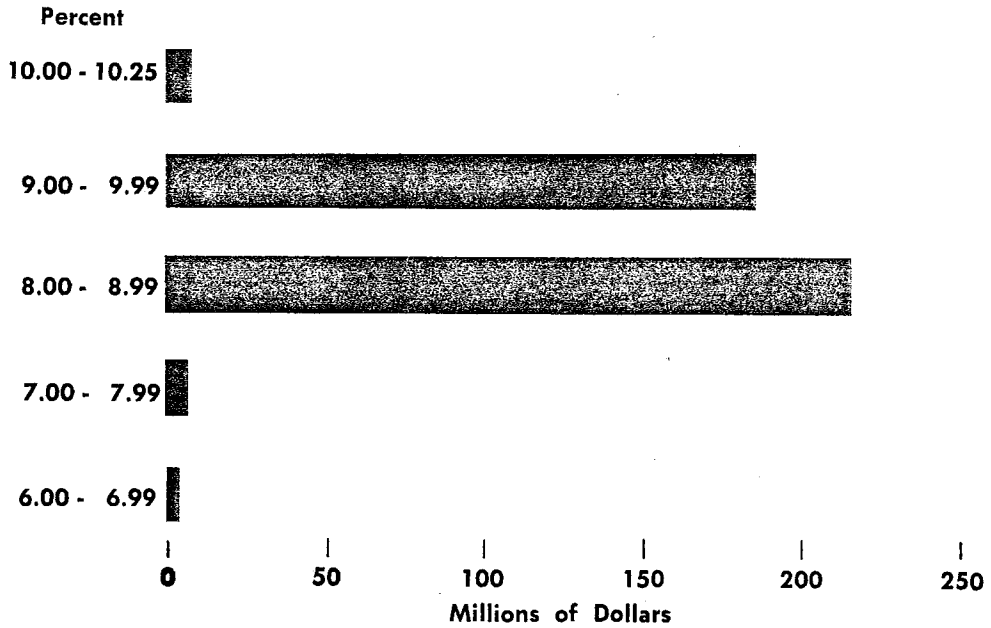
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BOND PORTFOLIO BY INTEREST RATES

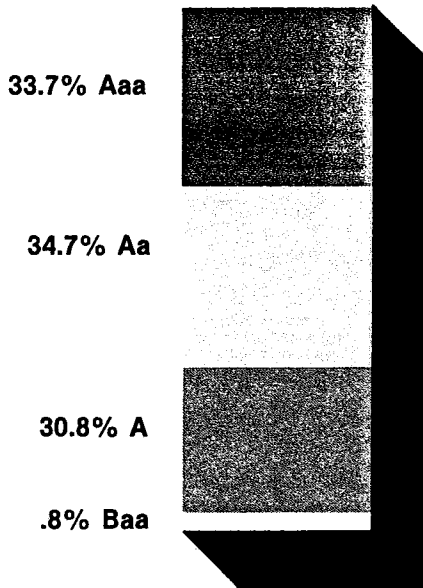
December 31, 1979



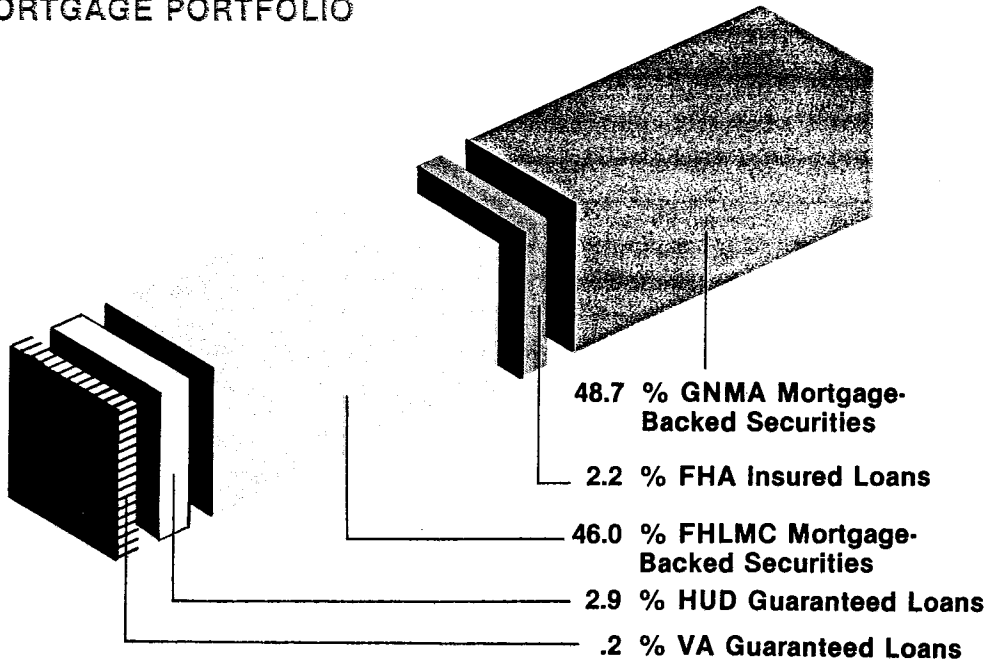
BOND PORTFOLIO QUALITY RATINGS BY MOODY'S

December 31, 1979

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



DISTRIBUTION OF 1979 MORTGAGE PORTFOLIO



COMMON STOCKS

Number of Shares		Cost	Market
23,200	Affiliated Bank Shares of Colorado, Inc.	\$ 995,280	\$ 585,800
21,820	Air Products & Chemicals, Inc.	786,866	801,885
33,500	Amax, Inc.	1,070,127	1,528,437
50,000	American Express Co.	1,977,735	1,493,750
40,000	American Home Products Corp.	1,384,335	1,090,000
15,000	American Stores Co.	410,325	399,375
95,000	American Telephone & Telegraph Co.	5,229,279	4,951,875
25,600	Anheuser Busch, Inc.	1,345,515	576,000
67,712	Arizona Bank.	1,005,974	1,235,744
50,000	Avon Products, Inc.	4,364,047	1,968,750
29,500	Black & Decker Manufacturing Co.	1,139,355	678,500
35,000	Bristol Myers Co.	1,184,530	1,295,000
10,000	Caterpillar Tractor Co.	550,350	540,000
15,234	C.I.T. Financial Corp.	661,106	795,271
14,000	Cities Service Co.	749,973	1,169,000
55,000	Coca Cola Co.	3,045,757	1,904,375
56,400	Colgate Palmolive Co.	1,864,575	817,800
12,000	Conoco, Inc.	357,060	567,000
15,000	Dart Industries, Inc.	692,530	588,750
20,000	Deere & Co.	575,642	787,500
30,378	Disney, Walt Productions.	1,845,915	1,367,010
20,000	Dow Chemical Co.	546,513	642,500
54,000	DuPont (E.I.) de Nemours & Co.	2,551,921	2,180,250
45,000	Eastman Kodak Co.	5,291,623	2,171,250
76,000	Emerson Electric Co.	3,177,464	2,669,500
70,000	Esmark, Inc.	1,878,137	1,986,250
75,400	Exxon Corp.	3,470,726	4,156,425
32,000	Federated Department Stores, Inc.	1,595,618	876,000
25,000	First Bank Systems, Inc.	1,286,625	987,500
45,000	Fischback & Moore, Inc.	2,386,250	1,186,875
45,000	General Electric Co.	2,248,140	2,283,750
50,000	General Foods Corp.	1,747,925	1,681,250
20,600	General Motors Corp.	1,421,445	1,032,575
44,000	Getty Oil Co.	1,984,935	3,245,000
38,400	Grainger, W.W., Inc.	1,393,616	1,435,200
15,000	Halliburton Co.	1,165,412	1,275,000

COMMON STOCKS

Number of Shares		Cost	Market
30,000	Heinz, H. J. Co.....	\$ 1,130,423	\$ 1,215,000
40,000	Hercules, Inc.	1,001,562	825,000
30,000	Honeywell, Inc.....	1,648,950	2,497,500
50,000	Howard Johnson Co.	1,591,748	1,237,500
20,000	Ingersoll Rand Co.	1,411,347	1,032,500
104,000	International Business Machines Corp.	6,805,510	6,721,000
45,000	International Paper Co.....	2,508,775	1,665,000
70,000	International Telephone & Telegraph Corp.	3,202,284	1,793,750
32,700	Johnson & Johnson.....	3,811,043	2,591,475
60,000	Kimberly Clark Corp.	2,698,571	2,460,000
80,000	K-Mart Corp.....	3,134,208	1,900,000
46,000	Knight-Ridder Newspapers, Inc.....	1,210,760	1,196,000
40,000	Kraft, Inc.	1,880,847	1,910,000
40,000	Lilly, Eli & Co.	3,187,290	2,390,000
25,000	MGIC Investment Corp.	1,675,935	684,375
35,000	McDonald's Corp.....	1,979,687	1,522,500
41,400	Merck & Co., Inc.	3,639,007	3,001,500
55,000	Minnesota Mining & Manufacturing Co.	4,003,355	2,770,625
60,000	Mobil Oil Corp.	1,986,450	3,315,000
57,000	Monsanto Co.....	3,551,327	3,398,625
40,000	Morgan, J.P. & Co., Inc.	2,289,474	1,850,000
40,000	Motorola, Inc.	2,410,708	2,045,000
65,000	NL Industries, Inc.....	1,571,100	2,242,500
47,000	Northern States Power Co.	1,355,513	1,051,625
45,000	Northwest Airlines, Inc.	2,041,431	1,243,125
60,000	Ohio Edison Co.	1,225,675	795,000
41,300	Penney, J.C. Co.....	2,840,741	1,078,962
30,000	Pfizer, Inc.	1,135,013	1,177,500
25,000	Philip Morris, Inc.....	883,975	900,000
20,000	Polaroid Corp.....	1,604,845	562,500
31,000	Procter & Gamble Co.	3,298,166	2,301,750
80,000	Reynolds, R. J. Industries, Inc.	2,448,920	2,740,000
60,000	Robins, A. H. Co., Inc.....	1,606,169	532,500
35,000	St. Regis Paper Co.	1,449,120	1,058,750
35,000	Santa Fe International Corp.....	1,198,425	1,211,875
80,000	Schering Plough Corp.....	3,646,557	2,430,000

COMMON STOCKS

Number of Shares		Cost	Market
71,000	Sears Roebuck & Co.	\$ 3,376,277	\$ 1,278,000
40,000	Simplicity Pattern Co., Inc.	1,321,699	395,000
45,000	Southeast Banking Corp.	1,550,799	646,875
55,000	Standard Oil Co. of California	2,370,759	3,100,625
30,000	Standard Oil Co. of Ohio	1,193,545	2,651,250
40,000	Sun Company, Inc.	1,627,772	2,795,000
30,000	Sundstrand Corp.	949,837	1,140,000
25,000	Texas Eastern Corp.	1,174,945	1,662,500
44,000	Texas Gas Transmission Corp.	1,015,445	1,204,500
10,000	Texas Instruments, Inc.	919,537	880,000
80,000	Texas Utilities Co.	1,563,200	1,420,000
41,000	Trane Co.	819,320	773,875
35,000	Union Camp Corp.	1,871,759	1,470,000
35,000	Union Carbide Corp.	1,927,013	1,470,000
40,000	U.S. Fidelity & Guaranty Co.	1,285,745	1,540,000
82,200	Weyerhaeuser Co.	3,253,455	2,609,850
70,000	Whirlpool Corp.	2,027,365	1,312,500
46,000	Xerox Corp.	4,105,192	2,857,750
	TOTAL COMMON STOCKS	<u>\$178,801,201</u>	<u>\$149,507,309</u>

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

A+	33.7
A	30.3
A—	15.7
B+	11.3
B	_____
B—	_____
C	_____
D	_____
Not Rated	9.0

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 9.0 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.

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

Credit Sensitive	16.8
Growth Consumer	21.6
Consumer Staple	9.6
Consumer Cyclical	9.2
Intermediate Goods and Services	26.2
Capital Goods	16.6

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.

INVESTMENT ACTIVITY

For the year ended December 31, 1979

PRINCIPAL BALANCE AS OF DECEMBER 31, 1978		\$788,028,479
Increases in Par Value:		
Corporate Obligations	\$ 94,750,000	
Canadian Obligations	12,200,000	
F.H.L.M.C. Mortgage-Backed Securities	42,773,453	
G.N.M.A. Mortgage-Backed Securities	37,714,663	
Common Stocks	28,025,018	
Short-Term Investments (Net)	1,775,000	
Total Increases	\$217,238,134	
Decreases in Par Value:		
Corporate Obligations	\$ 68,000,000	
Canadian Obligations	9,700,000	
F.H.L.M.C. Mortgage-Backed Securities	13,556,652	
G.N.M.A. Mortgage-Backed Securities	5,666,619	
F.H.A. Mortgages	13,163,720	
V.A. Mortgages	2,059,352	
H.U.D. Guaranteed Mortgages	365,700	
Common Stocks	18,259,437	
Real Estate	229,850	
Total Decreases	\$131,001,330	
Net Increase to Portfolio		<u>\$ 86,236,804</u>
PRINCIPAL BALANCE AS OF DECEMBER 31, 1979		<u>\$874,265,283</u>

NOTE: Purchases of short-term investments in various amounts during the year provided the System with additional income of \$6,515,879.75. 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.

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 one or more investment counselors in addition to its own staff. Investment guidelines are formulated annually and reviewed at least quarterly with the investment counselor 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 internally and by such performance measurement specialists as the Board may retain.



SCHOOL EMPLOYEES SERS RETIREMENT SYSTEM

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