

**THE SCHOOL EMPLOYEES RETIREMENT  
SYSTEM OF OHIO**

**INVESTMENT POLICY, GUIDELINES  
AND OBJECTIVES**

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## **STATEMENT OF INVESTMENT POLICY**

### A. Purpose.

The purpose of this Statement of Investment Policy is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System of Ohio. This statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Section 3309.15 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and proxy voting; and to promote effective communication between the Board and the Investment Staff and Investment Managers.

The contents of this Statement of Investment Policy and the associated Guidelines and Objectives are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the attitudes, expectations and objectives of the Board.

### B. Background.

The School Employees Retirement System of Ohio was established by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's school districts. This purpose is sustained by the member and employer contributions and returns realized from investment of those contributions.

The System is governed by a seven member board, including the Ohio Attorney General and State Auditor, with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement of Investment Policy incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

### C. Investment Philosophy.

#### 1. Risk Posture.

The Board realizes that its primary objective is to assure that the Plan meet its responsibilities for providing retirement and other benefits. Therefore, it shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize that primary objective.

## 2. Return.

The Board believes, however, that over the long-term there exists a relationship between the level of investment risk taken and rate of investment return realized. The Board feels that assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results.

## 3. Diversification.

The Board seeks diversification by asset class and by investment approach and individual investments within asset classes to reduce overall portfolio risk.

## 4. Liquidity Requirements.

The System anticipates positive cash flow over the near-term and intermediate-term. Liquidity, for the purpose of immediate and intermediate-term benefit payments, is therefore not a major consideration in the investment of funds for the foreseeable future.

## D. Investment Objectives.

In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. Therefore, it adopts the following general investment objectives:

### 1. Performance Objectives.

- a. Maximize Total Return on Assets: Recognizing that the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.
- b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions. This objective shall be attained by broad diversification of assets and careful review of risks.
- c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

## 2. Risk.

- a. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.
- b. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.

## 3. Other Objectives.

- a. Ohio Investments: Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

## E. Implementation Approach.

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in Section F, Investment Organization and Responsibilities.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers. Criteria to be used in the selection of such Investment Managers are also enumerated in Section F.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. This is described in Section G, Review and Evaluation. Finally, the Board has adopted Investment Guidelines and Objectives for each asset class and each investment management accountability unit within those asset classes. These guidelines also specify long-term target ratios for asset allocation, as well as permissible ranges related to those target allocations. These guidelines and objectives are regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

## F. Investment Organization and Responsibilities.

### 1. Responsibilities of the Retirement Board.

The Retirement Board recognizes its responsibility to ensure that the assets of the Plan are managed effectively and prudently, in full compliance with all applicable laws, and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain of its members to act as an Investment Committee or a Subcommittee from time to time, and may delegate certain decision-making or fact-finding responsibilities to that committee or subcommittee.

Specific responsibilities of the Retirement Board or its Investment Committee or Subcommittee are as follows:

- a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
- b. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.
- c. Appoint and discharge those with responsibility for managing the Plan's assets, including Investment Managers, consultants and any others involved.
- d. Establish a proxy policy; and review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.
- e. Request, receive and review reports from the Investment Staff and Investment Managers.

### 2. Responsibilities of the Investment Staff.

The Investment Staff, headed by the Executive Director and the Director of Investments, shall accept the following responsibilities. The Executive Director shall:

- a. Obtain necessary reports on the investment results of the Plan's assets on a timely basis as specified in Section G, Review and Evaluation.

- b. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Plan assets, and for meeting his responsibilities.
- c. Oversee the investment function.

The Director of Investments shall accept the following responsibilities:

- a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
- b. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board including the proxy policy, and monitor their compliance.
- c. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.
- d. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
- e. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan, in the asset allocation among managers, or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.
- f. Oversee the activities of the Investment Staff.

### 3. Responsibilities of the Investment Managers.

Each Investment Manager, including Investment Staff with respect to internally managed assets, shall accept the following responsibilities for the specified investment management accountability unit which it manages.

- a. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board. Vote proxies in accordance with the Retirement Board's policy and guidelines; and periodically prepare a report reflecting proxy voting activity.



- b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.
- c. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.
- d. Prepare reports for the Board or Investment Committee prior to any scheduled meetings but at least on a quarterly basis.
- e. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

#### 4. Criteria For Investment Managers.

In instances where the Retirement Board has determined it is desirable to employ the services of an outside Investment Manager, the following criteria shall be used in the selection of such firms:

- a. **Organizational Qualifications:** To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.
- b. **Investment Approach:** The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.
- c. **Personnel:** The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.
- d. **Performance:** The organization and/or its personnel shall have demonstrated the ability to achieve above average performance in implementing the investment approach for which it is being considered. Satisfactory client references shall also be available.

## G. Review and Evaluation.

The Board shall review and evaluate periodic reports on the investment results of the Plan's assets, as described below, obtained by the Executive Director. In addition, the Board shall review the periodic reports of each Investment Manager. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. Following is the intended frequency for the review and evaluation, although these may be altered by the Board as deemed necessary:

### 1. Quarterly.

Summary Investment Reports -- including highlights and commentary of investment performance, asset composition and holdings for each asset class and each investment management accountability unit. These reports shall identify any results which require the attention of the Board.

Investment Manager Reports -- prepared by the manager of each investment management accountability unit, reporting on the results of the most recent period.

### 2. Annually.

Detailed annual investment reports -- these reports will include the contents of the quarterly summary reports, as well as additional detail regarding the investment results for each investment management accountability unit.

Written and/or verbal reports presented by the manager of each investment management accountability unit. These shall be scheduled on a staggered basis throughout the year, as determined appropriate by the Board.

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## INVESTMENT GUIDELINES AND OBJECTIVES

### A. General.

#### 1. Asset Allocation.

In recognition of its primary objective to provide retirement and other benefits, the Retirement Board has determined its asset allocation policy to assure a prudently managed and well-diversified portfolio at all times. The long-term target asset allocation ratios set forth below are intended to accomplish those objectives.

In addition to the target ratios, the Board has established permissible ranges for the asset allocation for the next several years. These ranges provide the latitude necessary to exercise management discretion based on market conditions during these years. The responsibility for exercising that discretion rests with the Investment Staff, which prepares the Annual Plan and recommends intra-year modifications in that Plan. The permissible range specified below for cash equivalents is in addition to any cash equivalents permitted to be held by any individual investment manager.

The Investment Staff will monitor actual allocations on a monthly basis. When any allocation falls outside the permissible range, the Investment Staff will take steps to rebalance the allocation back to the Long Term Target ratio in a prudent and cost effective manner with due regard to transactions costs and available opportunities.

	<u>Long-Term Target Ratios*</u>	<u>Permissible Ranges*</u>
Domestic Equity	45%	42 - 48%
International Equity	13**	10 - 16
Emerging Markets	2**	0 - 4
Venture Capital	1	0 - 3
Total Equity	61%	58 - 64%
Fixed-Income	28	25 - 31
Cash Equivalents	1	0 - 3
Total Fixed	29%	26 - 32%
Real Estate	10	5 - 15

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\* Target ratios and permissible ranges are based on market value.

\*\* The Board has requested that the emerging markets allocation be built up gradually over a period of time. The temporary target allocations will be 0% from 3/6/97 to 6/30/97 and 0.5% from 7/1/97 forward. International equity will be used as a temporary substitute to emerging markets, with temporary targets of 15% from 3/6/97 to 6/30/97, and 14.5% from 7/1/97 forward. These temporary targets will be revised as needed.

A. General (cont'd).

2. Investment Performance.

a. Measurement Standard.

The basis for performance evaluation shall be the total return, including both income and (realized and unrealized) capital gains and losses, and after deducting manager fees.

b. Performance Objectives for Each Asset Class.

The long-term performance objective for each asset class shall be as follows:

Domestic Equity: To exceed the return on the Russell 3000 Index.

International Equity: To exceed the return on the Morgan Stanley Capital International Europe, Australia, Far East Index 50% hedged/50% unhedged.

Emerging Markets: To exceed the return on the Morgan Stanley Capital International Emerging Markets Free Index (unhedged).

Venture Capital: To exceed the return on the Standard & Poor 500 Composite Index plus 5% per annum.

Fixed-Income: To exceed the return on the Lehman Brothers Aggregate Bond Index.

Real Estate: To exceed the return on the NCREIF Property Index.

Cash Equivalents: To exceed the return on U.S. Treasury Bills.

c. Performance Objective for the Total Fund.

The performance objective for the total fund shall be determined as a weighted average of the performance objectives for each asset class. The Board has established the following weights for the purpose of calculating the performance objective for the total fund:

	<b>Weights for Total Fund Objective</b>	
	<u>Effective 4/1/97</u>	<u>Effective 7/1/97</u>
Domestic Equity	45%	45 %
International Equity	15	14.5
Emerging Markets	0	0.5
Fixed-Income	28	28
Real Estate	10	10
Venture Capital	1	1
Cash Equivalents	<u>1</u>	<u>1</u>
Total	100%	100 %

## B. Domestic Equity.

### 1. General.

#### a. Active and Passive Management.

The majority of domestic equity assets will be invested in passive (index fund) strategies, with the remainder invested in a mix of active investment strategies. The following is the policy allocation and the policy range for passive domestic equity strategies:

- ∃ Policy allocation to passive strategies: 60% of domestic equity.
- ∃ Policy range: 50%-70% of domestic equity.

#### b. Eligible Investments.

The following asset types are eligible for inclusion as domestic equity:

- ∃ Equity securities meeting the requirements of the Ohio Revised Code.
- ∃ Convertible Preferred Stock.\*
- ∃ Convertible Bonds.\*
- ∃ Covered Options.

#### c. Prohibited Investments.

The following assets shall not be included among the investments in the domestic equity portion of the fund:

- ∃ Warrants, unless purchased as part of a package with a permitted investment.
- ∃ Legend, Lettered or Restricted Stock, except to the extent these holdings represent a distribution from a venture capital pool.
- ∃ Margin Purchases or Short Sales.
- ∃ Derivatives unless specifically authorized in the manager account guidelines.

d. Other Guidelines

Investment Managers may invest only in those instruments specifically authorized in the manager account guidelines.

e. Performance Objectives.

- ∃ To exceed the return on the Russell 3000 Index.
- ∃ To exceed the average return on institutionally managed equity funds.

f. Cash Equitization

- Equitization of cash held by the active U.S. equity managers is permitted in order to keep the total allocation to U.S. equity at or near policy target weights and to limit the exposure to cash within the U.S. equity portfolio.
- This program will involve the use of U.S. equity futures contracts for exposure to the U.S. equity market.
- Active U.S. equity managers may allocate no more than 5% of their account to cash securities, therefore cash equitization should not exceed 5% of the assets allocated to active U.S. equity.
- See section 4 for details of the cash equitization program.

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\*Not included with equities for purpose of compliance with asset allocation provisions of this policy; convertible bonds not included with equities for purpose of compliance with statutory equity limitations.

## B. Domestic Equity (cont'd).

### 2. Actively Managed Funds.

#### a. Investment Approach.

These accounts will be invested in US equity securities (primarily common stock) which will be diversified by investment style, capitalization range, economic sector and other factors across the range of domestic equity investments permitted by the Ohio Revised Code. These accounts will be assembled as a group and will represent both large and small capitalization securities and "value" and "growth" investment styles, with no one style having dominance over the others. The objective of these funds is to obtain the highest total return consistent with a reasonable degree of risk. These funds will be actively managed by each of the investment advisors in order to achieve these objectives.

#### b. Eligible Investments.

- ∃ The investment advisors may invest in any US equity security (US domiciled) meeting the requirements of the Ohio Revised Code and OSERS Investment Policy, Guidelines and Objectives.
- ∃ The investment advisors may allocate no more than 5% of their account to cash securities.
- ∃ The investment advisors may hold no ADR's or foreign (non-US domiciled) securities.

#### c. Other Guidelines.

- ∃ The investment advisors may hold no derivative securities of any kind.
- ∃ These accounts may be in the form of separate accounts, commingled funds or institutional series mutual funds, at the discretion of the Director-Investments.
- ∃ The commingled funds or institutional series mutual funds guidelines will be those documented in the fund prospectus and declaration of trust which may be different from the guidelines for separate accounts.



d. Performance Objectives.

- ∃ To exceed the return of the appropriate US equity market benchmark after fees over rolling three year periods, as follows:

Brandywine	Russell 1000 Value Index plus 1.0%
Equinox	Russell 1000 Value Index plus 1.0%
MacKay Shields	Russell 1000 Value Index plus 1.0%
Geewax, Terker	Russell 1000 Growth Index plus 1.0%
Lincoln	Russell 1000 Growth Index plus 1.0%
Oak Associates	Russell 1000 Growth Index plus 1.0%
Gardner Lewis	Russell Mid-Cap Growth Index plus 1.25%
Aronson + Partners	50% of Russell 2500 Index
	50% of Russell 2000 Index } plus 1.50%
Lord, Abbett & Co.	Russell 2000 Value Index plus 1.50%
RJF Asset Management	Russell 2500 Growth Index plus 1.50%

- To exceed the average return on institutionally managed funds of similar investment approach over the same time horizon.

**INVESTMENT MANAGERS**

Aronson + Partners  
Brandywine Asset Management, Inc.  
Equinox Capital Management, Inc.  
Gardner Lewis Asset Management  
Geewax, Terker & Co., Inc.

Lincoln Capital Management Co.  
Lord, Abbett & Co.  
MacKay Shields Financial Corp.  
Oak Associates, Ltd.  
RJF Asset Management

## B. Domestic Equity (cont'd).

### 3. Index Fund.

#### a. Investment Approach.

This account shall be invested in one or more U.S. equity commingled trust funds designed, in aggregate, to match the performance of the Russell 3000 Index. The account shall be managed passively, with the objective of achieving risk and diversification characteristics similar to that of the Russell 3000 Index.

#### b. Eligible Investments.

- ⊘ The Manager may invest in one or more U.S. equity commingled trust funds.
- ⊘ The Manager shall remain fully invested at all times.
- ⊘ The Manager may use S&P 500 Index futures contracts (and other equity futures contracts) solely to facilitate trading and to temporarily invest excess cash in the commingled funds. The total market value invested in futures at any time shall be less than 5% of the total fund.
- ⊘ The Manager may engage in lending of commingled fund securities (with 60% of gross receipts to be credited to the account of OSERS).

#### c. Other Guidelines.

- ⊘ The Manager shall vote proxies for securities held in the commingled funds.
- ⊘ The Manager shall meet all requirements of the Ohio Revised Code.

#### d. Performance Objectives.

- ⊘ To match the return on the Russell 3000 Index.
- ⊘ To track the Russell 3000 Index return within 30 basis points (0.30%) above or below the Index in any given year.

## **INVESTMENT MANAGERS**

State Street Global Advisors

## B. Domestic Equity (cont'd).

### 4. Cash Equitization Program.

#### a. Investment Approach.

- The pooled cash of domestic active equity managers will be invested in a cash equitization program. This program will be administered by SERS Investment Accounting through purchase and sale of domestic index futures. These transactions will be implemented by Bank of New York.

#### b. Eligible Investments.

- Bank of New York may invest in S&P 500 and Russell 2000 futures only for purposes of this program.

#### c. Other Guidelines.

- SERS Investment Accounting personnel will determine daily cash balances. Investment Accounting will be responsible for notifying Bank of New York daily of the separate cash balances allocated to large cap and small cap active equity managers.
- Bank of New York traders will be responsible for buying or selling index futures to assure that the separate cash balances in large and small cap are exposed to the S&P500 and Russell 2000 markets respectively.
- Bank of New York will be responsible for notifying SERS Investment Accounting personnel of the amount of cash that must be exchanged to balance the daily trade. Bank of New York will be responsible for providing daily trade documentation and monthly reconciliation reports to SERS.
- SERS Investment Accounting will be responsible for daily trade reconciliation and monthly reconciliation and reporting of the program. Reports of monthly activity and balances will be included in the regular reports to the SERS Board Investment Committee.

- Collateral for this program will approximate 5% of the equitized balance. Collateral will be invested in U.S. Treasury bills held in the name of SERS and the underlying broker.
- The effectiveness of this program will be evaluated annually. Effectiveness will be measured by the performance of the small and large cap futures investments vs. the comparable indexes i.e. the S&P 500 and the Russell 2000. It is anticipated that the performance of each portion of the program (large cap and small cap) will closely match the corresponding index performance on an annual basis.

## C. International Equity.

### 1. General.

#### a. Active and Passive Management.

The majority of international equity assets will be invested in passive (index fund) strategies, with the remainder invested in a mix of active investment strategies. The following is the policy allocation and the policy range for passive international equity strategies:

- ⊘ Policy allocation to passive strategies: 60% of international equity.
- ⊘ Policy range: 50%-70% of international equity.

#### b. Eligible Investments.

The following asset types are eligible for inclusion as international equity:

- ⊘ Common Stock.
- ⊘ Convertible Preferred Stock.
- ⊘ Convertible Bonds.
- ⊘ Covered Options.
- ⊘ Corporate Notes and Bonds.\*

#### c. Prohibited Investments.

The following assets shall not be included among the investments in the international equity portion of the fund:

- ⊘ Warrants, unless purchased as part of a package with a permitted investment.
- ⊘ Legend, Lettered or Restricted Stock.
- ⊘ Margin Purchases or Short Sales.
- ⊘ Derivatives unless specifically authorized in the manager account guidelines.

#### d. Other Guidelines.

Investment managers may invest only in those instruments specifically authorized in the manager account guidelines.

#### e. Performance Objectives.

- ∃ To exceed the return on the MSCI EAFE Index 50% hedged/50% unhedged.
- ∃ To exceed the average return on institutionally managed international equity funds.

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\*International fixed-income instruments may be included in the allocation to international equity.

## C. International Equity (cont'd).

### 2. Actively Managed Funds.

#### a. Investment Approach.

These funds will invest in foreign equity securities (primarily common stock) which will be diversified by investment style, country, capitalization range, and economic sector across the range of foreign equity investments permitted by the Ohio Revised Code. These accounts will be assembled as a group and will represent both "value" and "growth" investment styles, with no one style having dominance over the others. The objective of these funds is to obtain the highest total return consistent with a reasonable degree of risk. These funds will be actively managed by each of the investment advisers in order to achieve these objectives.

#### b. Eligible Investments.

- The investment advisors may invest in any international (non-US domiciled) equity security meeting the requirements of the Ohio Revised Code and OSERS Investment Policy, Guidelines and Objectives.
- The investment advisors may allocate no more than 5% of their account to cash securities.
- The investment advisors may hold up to 15% of their accounts in securities of non-market benchmark countries.
- The investment advisors may hold no ADR's or US equity (US domiciled) securities.

#### c. Other Guidelines.

- The investment advisors may hold no derivative securities of any kind.
- The investment advisors may not engage in currency hedging in their accounts.
- These accounts may be in the form of separate accounts, commingled funds or institutional series mutual funds, at the discretion of the Director-Investments.

d. Performance Objective.

- c To exceed the return of the Morgan Stanley Europe, Australia and Far East (MSCI EAFE) Index (US\$) after fees by at least 1.0%, over rolling three year periods.
- c To exceed the average return on institutionally managed funds of similar investment approach over the same time horizon.

**INVESTMENT MANAGERS**

Sanford C. Bernstein & Co., Inc.  
Oechsle International Advisors



## C. International Equity (cont'd).

### 3. Index Fund.

#### a. Investment Approach.

This account shall be invested in one or more non-U.S. equity commingled trust funds and separate accounts (currency only) designed to match the performance of the MSCI EAFE Index 50% hedged/50% unhedged. The accounts shall be managed passively, with the objective of achieving risk and diversification characteristics similar to that of the MSCI EAFE Index.

#### b. Eligible Investments.

- ⊘ The Manager may invest in one or more non-U.S. equity commingled trust funds.
- ⊘ The Manager may invest in one or more non-U.S. equity separate accounts for currency hedging purposes only.
- ⊘ The Manager shall remain fully invested at all times.
- ⊘ The Manager may occasionally use futures contracts in the major non-U.S. equity markets to facilitate trading and to temporarily invest excess cash in the commingled funds. The total market value invested in futures at any time shall be less than 5% of the total fund.
- ⊘ The Manager may engage in lending of commingled fund securities (with 60% of gross receipts to be credited to the account of OSERS). All security lending collateral will be invested in U.S. dollar denominated assets.

#### c. Other Guidelines.

- ⊘ The Manager shall, to the best of its ability, vote proxies for securities in the commingled funds.
- ⊘ The Manager shall meet all requirements of the Ohio Revised Code.

#### d. Performance Objectives.

- ⊘ To match the return on the MSCI EAFE Index 50% hedged/50% unhedged.
- ⊘ To track the MSCI EAFE Index 50% hedged/50% unhedged return within 40 basis points (0.40%) above or below the Index in any given year.

## **INVESTMENT MANAGERS**

State Street Global Advisors

## D. Emerging Markets .

### 1. General.

#### a. Active and Passive Management.

The emerging markets assets will be invested in active strategies.

#### b. Eligible Investments.

The following asset types are eligible for inclusion as emerging markets equity:

- ⊘ Common Stock.
- ⊘ Convertible Preferred Stock.
- ⊘ Convertible Bonds.
- ⊘ Covered Options.

#### c. Prohibited Investments.

The following assets shall not be included among the investments in the emerging markets equity portion of the fund:

- ⊘ Warrants, unless purchased as part of a package with a permitted investment.
- ⊘ Legend, Lettered or Restricted Stock.
- ⊘ Margin Purchases or Short Sales.
- ⊘ Derivatives unless specifically authorized in the manager account guidelines.

#### d. Other Guidelines.

Investment managers may invest only in those instruments specifically authorized in the manager account guidelines.

#### e. Performance Objectives.

- ⊘ To exceed the return on the MSCI Emerging Markets Free Index.
- ⊘ To exceed the average return on institutionally managed emerging markets funds.

## D. Emerging Markets (cont'd).

### 2. Actively Managed Funds.

#### a. Investment Approach.

These funds will invest in foreign equity securities (primarily common stock) which will be diversified by investment approach, country, capitalization range, and economic sector across the range of foreign equity investments permitted by the Ohio Revised Code. These accounts will be assembled as a group with no one approach having dominance over the others. The objective of these funds is to obtain the highest total return consistent with a reasonable degree of risk. These funds will be actively managed by each of the investment advisers in order to achieve these objectives.

#### b. Eligible Investments.

- c The investment advisors may invest in any emerging markets equity security meeting the requirements of the Ohio Revised Code and OSERS Investment Policy, Guidelines and Objectives.
- c The investment advisors may allocate no more than 10% of their account to cash securities.
- c The investment advisors may hold up to 15% of their accounts in securities of non-market benchmark countries.
- c The investment advisors may hold no ADR's or US equity (US domiciled) securities.

#### c. Other Guidelines.

- c The investment advisors may hold no derivative securities of any kind.
- c The investment advisors may not engage in currency hedging in their accounts.
- c These accounts may be in the form of separate accounts, commingled funds or institutional series mutual funds, at the discretion of the Director-Investments.
- c The commingled funds or institutional series mutual funds guidelines will be those documented in the fund prospectus and declaration of trust which may be different from the guidelines for separate accounts.

d. Performance Objective.

- c To exceed the return of the MSCI Emerging Markets Free Index (US\$) after fees by at least 1.0%, over rolling three year periods.
- c To exceed the average return on institutionally managed funds of similar investment approach over the same time horizon.

**INVESTMENT MANAGERS**

Sanford C. Bernstein & Co., Inc.

## E. Domestic Fixed Income.

### 1. General.

#### a. Investment Approach.

The fixed income portfolio is designed to reduce the risk of the total fund through asset diversification. In addition, the fixed income portfolio will provide current income and a total return at least equal to its benchmark. These objectives will be achieved by one or more fixed income managers who will actively manage a separate fixed income portfolio for SERS.

#### b. Eligible Investments.

The following asset types are eligible for inclusion as fixed-income, as permitted by statute:

- ⊘ U.S. Government and Government Agency Bonds, Notes and Bills.
- ⊘ Corporate Notes and Bonds.
- ⊘ Mortgage-Backed Securities.
- ⊘ Residential Mortgages.
- ⊘ Asset Backed Securities.
- ⊘ U.S. dollar-denominated, non-U.S. domiciled issuer notes and bonds (known as Yankee bonds).

#### c. Prohibited Investments.

- ⊘ Securities rated below "BBB-".
- ⊘ Non-U.S. issuer notes and bonds, which are non-U.S. dollar denominated.
- ⊘ Derivatives unless specifically authorized in the manager account guidelines.

#### d. Performance Objectives.

- ⊘ To exceed the return on the Lehman Brothers Aggregate Bond Index.
- ⊘ To exceed the average return on institutionally managed fixed-income funds.

## E. Domestic Fixed Income (cont'd).

### 2. Actively Managed Funds.

#### a. Investment Approach.

These funds will invest in fixed-income securities which will be broadly diversified by sector, quality and maturity across the range of fixed-income investments permitted by the Ohio Revised Code. The objective of these funds is to obtain the highest total return consistent with a reasonable degree of risk. These funds will be actively managed, based on the Investment Manager's judgment, to attain the performance objective.

#### b. Eligible Investments.

- ⊘ The Investment Manager may invest in any fixed-income security meeting the requirements of the Ohio Revised Code and SERS' Policy, Guidelines and Objectives.
- ⊘ The Investment Manager may allocate no more than 10% of his fund to cash equivalent investments.

#### c. Other Guidelines.

- ⊘ The Investment Manager may hold up to 5% of his fund, measured as nominal fair market value, in listed U.S. treasury futures and option contracts.

#### d. Performance Objectives.

- ⊘ To exceed the return on the Lehman Brothers Aggregate Bond Index after fees by at least 50 basis points over rolling three year periods.
- ⊘ To exceed the average return on institutionally managed fixed-income funds.

## **INVESTMENT MANAGERS**

BlackRock Financial Management  
Dodge & Cox  
Johnson Investment Counsel, Inc.  
J.P. Morgan Investment Management Inc.  
Western Asset Management Co.

F. International Fixed Income.

1. General.

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## G. Real Estate.

### 1. General.

#### a. Investment Approach

The real estate account is designed to create a diversified portfolio of high-quality, substantially leased property assets (core) which will diversify the asset base and reduce the volatility of the Total Fund. The level of initial cash-on-cash yields will be more heavily weighted than the potential for long-term appreciation. The majority of the portfolio will consist of core assets.

#### b. Eligible Investments.

- ⊘ Private market direct and commingled investments including fee simple, joint ventures, co-investments, and commercial mortgages.
- ⊘ Public market investments include real estate securities and real estate investment trusts.

#### c. Prohibited Investments.

The following assets shall not be included among the investments in the real estate portion of the fund:

- ⊘ Special purposes property which would not have general utility, i.e., which are designed for a single use or a specific user.
- ⊘ Foreign real estate.
- ⊘ Oil and gas properties.

#### d. Other Guidelines.

- ⊘ Investment Managers may invest only in those instruments and property types specifically authorized in the manager account guidelines.
- ⊘ Investment Managers shall meet all requirements of the Ohio Revised Code.

#### e. Performance Objective.

- ⊘ To exceed the return on the NCREIF Property Index (NPI).



## G. Real Estate (cont'd).

### 2. Separate Accounts.

#### a. Investment Approach.

A separate account is a term applied to an allocation of capital provided to a manager to meet an investment objective set by and for OSERS. A separate account may consist of a single asset investment or a pool of either directly held assets or public market assets.

Separate accounts are not required to be diversified by geographical location or property type, they will be selected to complement and improve the structure of SERS' total real estate account. The Manager will provide for the asset management of each of the properties in the account and report to SERS on a regular basis.

#### b. Eligible Investments.

- ⊘ Fee simple.
- ⊘ Mortgages (fixed rate, participating, or convertible).
- ⊘ Commingled funds.
- ⊘ Public market assets.
- ⊘ Commercial mortgages.

#### c. Prohibited Investments.

- ⊘ Foreign real estate.
- ⊘ Oil and gas properties.

#### d. Other Guidelines.

- ⊘ Investment Managers may invest only in those instruments and property types specifically authorized in the manager's account guidelines.
- ⊘ Investment Managers shall meet all requirements of the Ohio Revised Code.

e. Performance Objectives.

- ∃ To exceed the return on the appropriate real estate market benchmark as follows:

CRA R.E. Sec.      NAREIT Equity Index

Invesco              NCREIF Property Warehouse Subindex

L&B SERBO        NCREIF Property Index (NPI)

LaSalle             NCREIF Property Index (NPI)

f. Current Investments.

<u>Manager</u>	<u>Asset(s)</u>
CRA Real Estate Securities, LP	Real Estate Investment Trusts
Invesco Realty Advisors	Industrial Separate Account
L&B Real Estate Counsel	L&B SERBO
LaSalle Advisors, Ltd. Monroeville Mall Mortgage	

## G. Real Estate (cont'd).

### 3. Commingled Funds.

#### a. Investment Approach.

Commingled Fund is a term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a bank common trust, group trust, partnership, corporation, insurance company separate account, private REIT, or other multiple ownership entity.

##### *Open-end Fund*

A commingled fund with no finite life, that allows continuous entry and exit of investors, and typically engages in ongoing investment purchase and sale activities.

##### *Closed-end Fund*

A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not re-invest the sales proceeds.

Commingled funds shall be selected which contribute to attaining the overall performance, risk, and diversification objectives of the real estate account. It is intended that the funds, in aggregate, will be broadly diversified geographically, by property type, by property size, and by transaction structure, in institutional quality real estate.

#### b. Eligible Investments.

Commingled funds shall be selected which invest in real estate investments meeting the requirements of the Ohio Revised Code.

#### c. Prohibited Investments.

- ⊘ Foreign real estate.
- ⊘ Oil and gas properties.

d. Other Guidelines.

- ⊘ Investment Managers may invest only in those instruments and property types specifically authorized in the manager's account guidelines.
- ⊘ Investment Managers shall meet all requirements of the Ohio Revised Code.

e. Performance Objectives.

- ⊘ To exceed the return on the NCREIF Property Index (NPI).

f. Current Investments.

<u>Manager</u>	<u>Asset(s)</u>
Allegis Realty Investors	Open-end Real Estate Fund
Allegis Realty Investors	Allegis Multi-Family Trust
CIGNA	Open-end Real Estate Fund
J.P. Morgan	Open-end Real Estate Fund
Koll/Bren Realty Advisors	K/B Opportunity Fund IV & V
Phoenix Realty Advisors	CASA Group L.L.C.
Sentinel	Open-end Real Estate Fund
Yarmouth	Capital Partners II L.P.

## H. Venture Capital.

### 1. General.

#### a. Eligible Investments.

This account may invest in companies through any equity security or other instruments meeting the requirements of the Ohio Revised Code.

#### b. Other Guidelines.

In recognition of the substantial management involved and required for venture capital investments, it is intended that the majority of the investments of this account will be through external manager/advisors, generally by the use of a pooled investment vehicle.

#### c. Performance Objective.

- ∃ To exceed the return on the Standard & Poor's 500 Composite Stock Index by 5%/year.

### 2. Pooled Funds.

#### a. Investment Approach.

This account will participate in venture capital investments, i.e., by investing in the equity securities or other instruments qualifying under Section 3309.15(D)(13)(a) of the Ohio Revised Code, of young, rapidly growing companies. These investments will normally contain higher risk than the other types of equity investments made by the fund.

#### b. Eligible Investments.

Pooled funds shall be selected which invest in venture capital investments meeting the requirements of the Ohio Revised Code.

#### c. Performance Objective.

- ∃ To exceed the return on the Standard & Poor's 500 Composite Stock Index by 5%/year.

## **INVESTMENT MANAGERS**

Alpha Capital Fund  
Blue Chip Capital Fund II, L.P.  
Brantley Venture Partners  
Cardinal Development Fund

CID Equity Capital  
Morgenthaler Venture Partners  
Primus Capital Fund

## I. Cash Equivalents.

### 1. General.

#### a. Investment Approach.

This account will invest in fixed-income investments having a maturity of less than 12 months.

#### b. Eligible Investments.

- ∃ U.S. Government and Government Agency Bonds, Notes and Bills.
- ∃ Commercial Paper.
- ∃ Bankers Acceptances.
- ∃ Repurchase Agreements.
- ∃ Negotiable Certificates of Deposit.

#### c. Performance Objectives.

- ∃ To exceed the return on U.S. Treasury Bills.
- ∃ To exceed the average return on institutionally managed cash equivalent commingled funds.