



OPERS

Invests

**Ohio's Largest
Retirement System
Supports a Strong State
Economy by Investing
in Ohio's Financial and
Private Industries**

OPERS is good for Ohio.



Ohio Public Employees Retirement System

Updated May 2012



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NEW INVESTMENT PLAN INCLUDES 'FLOATING' POLICY TARGET

The Ohio Public Employees Retirement System's Investment Plan is a comprehensive one that provides diversity to manage risk and encourage long-term perspective. The plan's investment strategy is developed to provide more than two-thirds of revenues to help pay for retiree benefits. It also has allowed for investments of more than \$1 billion in Ohio businesses.

During 2012, OPERS investment staff is working to implement the new Investment Plan, incorporating new asset allocation targets that include a small shift away from equities as well as the introduction of a floating, or dynamic, policy target.

The 2012 OPERS Annual Investment Plan outlines the main asset classes and key management characteristics of the OPERS Defined Benefit, Health Care and Defined Contribution funds. In addition to asset allocation, the Plan includes target percentages for return benchmarks, investment strategy and the use of active and passive management.

The Plan incorporates the strategic asset allocation targets approved by the board in 2009, 2011 and 2012.

Highlights of the changes include:

- For the DB fund, the main asset class policy targets are 45 percent for public equities, 27 percent for fixed income and 28 percent for alternatives.
- The Defined Benefit Fund's Public Equity allocation decreases by 5 percent. The Hedge Fund sub-asset class increases by 3 percent, and the Fixed Income asset class increases by 2 percent.
- The Health Care Fund's Public Equity allocation decreases by 5 percent. The Hedge Fund sub-asset class increases by 3 percent, and the Fixed Income asset class increases by 2 percent.

Asset Class	DB Plan		HC Plan	
	12/31/2011	12/31/2012 Target	12/31/2011	12/31/2012 Target
Public Equity	53.7%	46.0%	56.0%	50.2%
Fixed Income	25.0%	27.0%	34.0%	36.0%
Alternatives	21.3%	27.0%	10.0%	13.8%
Total	100.0%	100.0%	100.0%	100.0%

Background

The Ohio Public Employees Retirement System (“OPERS” or “System”) is a public pension fund that was established in the 1930s by the Ohio General Assembly to provide pension benefits to Ohio’s public-sector workers. OPERS was created before Social Security and our members were restricted from participating in Social Security at that time. For over 76 years, the Board of Trustees (OPERS Board) has ensured that millions of members receive secure retirement benefits during their retirement years. As of December 2011, the System had assets of \$73.2 billion, which are invested pursuant to the OPERS Board’s Investment Plan. The System has over 954,000 members and retirees.

Investment Activity by Public Pension Funds

One of the primary fiduciary responsibilities of Boards of Trustees for public pension funds is to achieve a competitive return for its members. To fulfill this mission, OPERS seeks the best rate of return with the least amount of risk in order to preserve and grow the assets they manage. This is why the OPERS Board reviews its Investment Plan on an annual basis. The Board also conducts an asset allocation review to ensure that the investment allocations are targeted to achieve the returns necessary to support the System.

Global financial services firm Morgan Stanley estimates that pension funds worldwide hold over \$20 trillion in assets, the largest for any category of investor ahead of mutual funds, insurance companies, currency reserves, sovereign wealth funds, hedge funds or private equity.¹ According to the Census Bureau, the assets for the 100 largest public pension funds in the United States equal \$2.8 trillion.² Pension funds are a significant source of long-term capital because they are expected to pay benefits to its beneficiaries over a long period of time. They are able to invest for the longer-term, often in less-liquid asset classes, such as venture and growth capital, real estate and private equity investments, which tend to create jobs and encourage economic efficiencies.

OPERS’ financial strength and stability result from following a strategic, comprehensive Investment Plan to allocate into a diversified pool of investment asset-classes. The System’s investment portfolio – consisting of U.S. equities, non-U.S. equities, fixed income, real estate, private equity, other alternatives and cash/short-term investments – is designed to meet funding objectives, while managing an acceptable level of risk through varying economic conditions. Investment policies provide the freedom to implement strategies effectively, but still provide appropriate guidelines and constraints to ensure that fiduciary standards are met and best practices are maintained. With guidance from the OPERS Board and the advice of professional experts, OPERS strategically invests its assets in responsible, methodical ways that are focused on the long term.

OPERS is committed to investing close to home. The positive impact of its investments on Ohio’s economy has resulted in the creation or retention of thousands of jobs.

Investment Activity by Public Pension Funds *(continued)*

OPERS makes many valuable investment-related contributions to Ohio's economy. These include establishing a regional investment program, called the Ohio Midwest Fund, holding shares in Ohio-headquartered public companies and companies with ties to Ohio, investing in the real estate asset class, entrusting a portion of its assets to Ohio-qualified public markets managers, venture capital, private equity and a recently completed program focused on emerging Ohio-qualified and minority-owned investment firms. As a result of these initiatives, OPERS invests more than \$1 billion with companies based in Ohio.

How Public Pension Funds Revitalize Regional, State and Local Communities

Across the country, public pension funds make a significant contribution to a state's economy in a variety of ways. The retirement benefit payments, made on a monthly basis, provide billions of dollars for public-sector retirees to pay their utility bills, buy groceries and household goods. They also are used to pay for health care costs, including prescription drugs, co-pays and non-covered expenses.

Because public pension plans are such a large source of investment funds, they also drive economic activity, job creation and growth by supporting a state's financial institutions and private industries.

Public pension funds are increasingly investing billions of dollars in U.S. markets. Some of America's largest public pension funds are participating in the urban revitalization movement by allocating a portion of their money to inner city projects. These Systems are not only generating risk-adjusted rates of return, but also making a significant impact on communities by helping to create revitalized neighborhoods, increase employment and income growth.

Like some public pension funds in other states, OPERS is committed to investing close to home. The positive impact of its investments on Ohio's economy has resulted in the creation or retention of thousands of jobs.

The Ohio-Midwest Fund

The Ohio-Midwest Fund is an OPERS program that invests in high-quality, venture capital and private-equity funds in the region. This fund-of-funds initiative was created to provide returns for OPERS members, but also to encourage business growth within Ohio and the surrounding region. The first two funds, established in 2005 and 2007, were for \$50 million each. In 2011, the OPERS Chief Investment Officer approved a plan for an additional \$100 million fund to be managed by Permal Capital Management of Boston. Since its inception, the Ohio-Midwest Fund has helped support more than 2,800 jobs and generated more than \$160 million of investments in Ohio and Midwestern companies.

This investment program has helped to grow and sustain some of Ohio's up-and-coming companies through the recession, which began in 2008.

The Ohio-Midwest Fund (continued)

After obtaining funding from the Ohio-Midwest Fund, Strength Capital Partners LLC, a Detroit-area private equity firm, opened a Cincinnati office to do more business in the Ohio market and bought a majority stake in the Urbana-based Rothschild Berry Farm to help the profitable specialty-food maker build its value, a September 2006 *Columbus Business First* article reported.³ Baiju Shah, president of Bio-Enterprise Corp., which assists health care companies in northeast Ohio, noted in a November 2010 *Crain's Cleveland Business* article that OPERS' commitment of another \$100 million to the Ohio-Midwest Fund was a sign of continuing progress for the region's improving health care sector.⁴

Using a fund-of-funds approach allows pension funds like OPERS to diversify its investments. A fund can invest in a number of different funds under the umbrella of one fund. Second, it is another way for OPERS to put capital to work. A fund-of-funds approach can also minimize some of the transaction costs associated with investing in small-growth companies. As a result, a large institutional investor like OPERS maximizes the benefits of diversification.

OPERS, through the Ohio-Midwest Fund, is a partner with the State of Ohio. The number of major in-state research universities and the diversity of businesses all provide a strong foundation for successful investing. Funds

selected for this investment program represent a unique, diversified mix of venture capital, growth capital and funds with proven records of strong performance in various industries, ranging from the life sciences, biosciences and advanced materials to supply-chain management, manufacturing and information technology. Each fund emphasizes opportunities for investment, allowing new capital for local entrepreneurs and start-up businesses.

Without large, strong pension funds, businesses would see increased costs of capital, which would slow growth.

Managers participating in the Ohio-Midwest Fund also have a history of sharing their knowledge of generating returns and encouraging business growth within Ohio and the region. For example, to facilitate awareness and understanding of the funding climate for bioscience companies, Ohio-Midwest Fund managers teamed with BioOhio, an organization designed to build and accelerate bioscience industry, research and education in Ohio, to share their knowledge of investment trends and forecasts in a July 2009 discussion titled "Innovation to Investment: An Ohio Bioscience Perspective."

Shearer's Foods, Inc. of Brewster, Ohio is one of the companies that has received funds from the Ohio-Midwest Fund. The company is majority-owned by Mistral Equity Partners that is focused on the retail and consumer-based media sectors in which the Ohio-Midwest Fund invests. Founded in 1974, Shearer's is a leading producer and distributor of high-quality branded, contract pack and private-label seasoned snack foods, such as potato chips, pretzels, pork rinds, salsa con queso, tortilla chips and whole grain brown rice crisps. In 2010, the company acquired Snack Alliance, Inc. and its Canadian affiliate, one of the fastest-growing snack producers in North America. This provided Shearer's with an important opportunity to pursue its commitment to perfection in products, customer support, merchandising and corporate culture.

OPERS Invests

The Ohio-Midwest Fund (continued)

Permal Ohio Midwest Partners (POMP) is a \$102 million private equity fund that works with OPERS on the Ohio-Midwest Fund. In 2011, the Fund committed \$38.5 million to five private equity managers and two co-investments with their sponsors. For example:

- POMP made investments in Arboretum Ventures, a health care-focused venture capital firm with offices in Ann Arbor, Michigan and Cleveland, Ohio.
- Edison Ventures, a technology-focused, late-stage venture capital firm based in Lawrenceville, New Jersey, with offices in Cleveland, Ohio; New York, New York; McLean, Virginia and Needham, Massachusetts.
- In October 2011, Edison Ventures invested \$6.5 million in CallCopy, a leading provider of contact center solutions to maximize operational performance, reduce liability, achieve regulatory compliance and increase customer satisfaction. Based in Columbus, CallCopy provides innovative call recording, performance management and analytics software products that provide business intelligence to customers at contact centers, trading desks, financial institutions and health care providers worldwide. Proceeds from the company's first institutional round supported sales expansion, product development and founder liquidity.
- POMP has also co-invested with Blue Point Capital in its investment of Elyria, Ohio-based Alco Manufacturing Corporation, a manager of precision machined steel components. Alco manufactures hydraulic hose fittings, air conditioning and refrigeration couplings, tube fittings, adapters, quick disconnect couplings and other fluid power components. While it is focused on hydraulic fluid-power components, Alco also has the machine capability and technical knowledge to produce other metal-based, precision-machined components for industrial customers.
- Together with Lineage Capital, POMP invested in the acquisition of Cincinnati-based LifeSafer, a manufacturer, distributor and servicer of alcohol ignition interlock products. An originator of the ignition interlock industry in 1991, LifeSafer has made significant contributions to the advancement of interlock devices. Over 10 years of research led LifeSafer to develop a proprietary fuel-cell sensor technology so precise that it is superior to commonly used evidential law enforcement equipment.

OPERS' Ohio Economic Impact <i>(as of March 23, 2012)</i>	
OPERS' 2010 pension and health care payments to Ohio participants (90% live in Ohio)	\$ 5.5 Billion
Assets under management with Ohio-qualified investment managers	\$ 8.1 Billion
Fees paid to in-state custodian and to Ohio-qualified investment managers	\$ 15.6 Million
Market value of publicly traded equity securities of Ohio companies owned by OPERS	\$ 801.5 Million
Utilizes in-state domestic custodian	\$ 53.1 Billion

**Public Markets
Managers**

OPERS supports the State by entrusting \$8.14 billion in assets to investment managers that are either based in Ohio or have major operations in the State. For example, OPERS works with two Cincinnati-headquartered investment managers: Fort Washington Investment Advisors manages \$509.7 million of the OPERS investment portfolio, while Opus Capital Management handles \$102.0 million. Other Ohio-qualified managers with a significant presence in the state include BlackRock Financial, which manages nearly \$4.7 billion, and JP Morgan Chase, which manages a \$1.7 billion account.

OPERS has been selecting more Ohio-qualified and minority-owned managers. In March 2011, the OPERS Board approved the Ohio-Qualified and Minority-Owned Emerging Manager Program to increase the use of local and minority investment managers when the managers offer quality, services and risk/reward comparable to other investment managers. The Program is designed for managers with less than \$750 million in total assets under management. In November 2011, OPERS announced that ten investment firms meeting these criteria had been selected to oversee \$400 million of the OPERS pension fund. Three of the managers are Ohio-based; four are owned by women; two are minority-owned; and another is both based in Ohio and owned by a woman. The managers selected for this program include: Affinity Investment Advisors; Credo Capital Management; Dean Investment Associates; Elessar Investment Management Company; First Fiduciary Investment Counsel; Hahn Capital Management; Nicholas Investment Partners; Redwood Investments; Strategic Global Advisors; and Winslow Asset Management.

OPERS is also a valuable customer to Ohio's financial industry. The domestic custodian of OPERS funds, Fifth Third Bank, has significant ties to Ohio and is headquartered in Cincinnati. While internal investment professionals oversee about \$49 billion of OPERS' investment funds, about 40 percent of those funds are managed by external managers. In the 12-month period that ended June 30, 2011, the System:

- Paid \$22.5 million in fees to Ohio-qualified managers;
- Paid \$3.9 million in commissions to Ohio-qualified brokers;
- Traded \$25.9 billion in fixed-income assets with Ohio-qualified brokers;
- Worked with Ohio banks as custodians of more than \$48 billion in assets on behalf of the fund; and
- Owned nearly \$1 billion in the publicly traded securities of Ohio companies.

Real Estate Commitments

Through year-end 2011, OPERS allocated \$551 million to Ohio-focused real estate investments. This total included \$26 million invested in two existing apartment communities plus an additional \$525 million allocated for new investments. This \$525 million allocation includes \$125 million to Fillmore Capital Partners, \$150 million to Heitman and \$125 million to RockBridge Capital.

By year-end 2011, OPERS closed on six deals through its Grow Ohio program with Heitman and Fillmore to develop one apartment community, one retail center, a student housing project and three warehouse assets, for a total of \$119 million. These projects created an estimated 350 construction-related jobs. OPERS also committed \$35 million to a Central Ohio-based real estate operator for additional property acquisitions at distressed prices. RockBridge Capital, an Ohio-based firm that finances and owns hotel across the country, closed three hotel acquisitions for OPERS by the end of 2011 and invested a total of \$86 million.

Share Ownership

Public pension funds hold significant equity in publicly traded corporations representing a variety of industries. As a long-term investor in U.S. and non-U.S. equity markets, OPERS manages these assets in a prudent, timely and cost-effective manner that is within its investment objectives and legal authority. As a fiduciary, OPERS exercises its

shareowner rights in the economic interests of the System's participants and beneficiaries. The System's corporate governance program protects and adds value to OPERS by effectively voting its proxies and responsibly participating in corporate governance activities that promote corporate integrity, financial accountability, leadership and long-term strategic goals of growth and profitability.

To enhance the long-term value of OPERS investments, its corporate governance program supports and promotes:

- Activities that ensure management and boards of directors are acting in the best interest of shareowners and in ways that protect OPERS' assets;
- Corporate accountability, financial transparency and responsibility; and
- Governmental policies and regulations that are in the best interest of OPERS, shareowners and institutional investors.

Top 10 Ohio Holdings <i>(for the year ended Dec. 31, 2011)</i>	
Largest Firms Headquartered in Ohio	Market Value
Procter & Gamble Co.	\$243,606,374
FirstEnergy Corp.	\$48,396,952
Eaton Corp.	\$37,432,404
Fifth Third Bancorp	\$35,209,278
Health Care REIT, Inc.	\$33,174,797
Limited Brands, Inc.	\$25,005,500
Cardinal Health, Inc.	\$24,393,371
Macy's, Inc.	\$24,376,993
American Electric Power Co.	\$23,946,993
J.M. Smucker Co.	\$22,063,091

Casting proxy votes, supporting and preparing shareholder resolutions, and participating in corporate governance organizations are some of the corporate governance strategies that are employed to assist in achieving long-term investment goals.

OPERS owns publicly traded equity securities of Ohio-headquartered companies; the 2011 market value of those securities is \$798 million. Top holdings include companies such as Procter & Gamble, Fifth Third Bancorp, Cardinal Health and FirstEnergy Corp., among many others.

CINCINNATI-BASED EXTERNAL EQUITY MANAGER OVERSEES SMALL-CAP PORTFOLIO FOR OPERS

Cincinnati-based Opus Capital Management is overseeing a \$100 million small-cap portfolio for OPERS as part of the fund’s external manager program.



Len Haussler

Len Haussler and his wife, Jakki, started the investment firm in 1998 with \$12 million in assets under management. Since then, it has grown to manage \$1.75 billion for public plans, corporate pension plans, foundations and endowments.

Opus Capital has expertise in a small-cap value equity model that, during a typical year, holds the stocks of 55 to 75 companies. It turns over 40 percent to 60 percent of the shares annually. Typically, the investment firm only considers companies with a market capitalization ranging from \$250 million to \$2.5 billion. Companies are moved off the list once they approach \$5 billion in market cap.

The Opus Capital small-cap value portfolio has earned an average return of 8.8 percent for the past decade, compared to 5.6 percent for the Russell 2000, according to Haussler.



Jakki Haussler

The investment firm is overseeing a separately managed account for OPERS that is not commingled with other clients’ money.

Opus Capital is one of 25 external equity managers OPERS employs. OPERS also recently committed \$400 million to 10 Ohio-qualified and minority-owned emerging managers, many of which are headquartered in Ohio. In total, OPERS invests more than \$1 billion with Ohio-based companies.

OPERS’ current target for small-cap and mid-cap equities is 7 percent of the \$70.4 billion fund. External managers oversee \$1.1 billion of the \$1.6 billion that OPERS currently has allocated to small-cap equities.

Conclusion

Public pension funds are a significant source of stable, long-term and patient capital in the U.S. and non-U.S. markets. They play an important role in providing liquidity for initial public offerings, the placements of equity and debt securities, and large securities trades. Without large, strong pension funds, businesses would see increased costs of capital, which would slow growth. The Ohio Public Employees Retirement System continues to make valuable contributions to Ohio’s economy through its investment program, providing funds for investment purposes and holding shares in companies with ties to Ohio and Ohio-headquartered public companies.

1 “Sovereign-Wealth Funds: Asset-Backed Insecurity,” *The Economist*, January 17, 2008.
 2 “State, Local Pension Funds Continue to Recover,” *Washington Post*, September 29, 2011.
 3 “Private Equity Firm Brings Strength to Ohio in Bid for Buyout Ventures,” *Columbus Business First*, September 25, 2006.
 4 Soder, Chuck. “VC Funds Still Flowing to Startups.” *Crain’s Cleveland Business*, November 8, 2010.

OPERS Board of Trustees

The 11-member OPERS Board of Trustees is responsible for the administration and management of OPERS. Seven of the 11 members are elected by the groups that they represent (i.e., college and university non-teaching employees, state, county, municipal, and miscellaneous employees, and retirees); the Director of the Department of Administrative Services for the State of Ohio is a statutory member, and three members are investment experts appointed by the Governor, the Treasurer of State, and jointly by the Speaker of the Ohio House of Representatives and the President of the Ohio Senate.

For a current listing of OPERS Board members, please visit www.opers.org

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277 East Town Street • Columbus, Ohio 43215
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