



**JOSH MANDEL**  
STATE TREASURER OF OHIO

# Monthly Portfolio Review

May 2011



# JOSH MANDEL

## STATE TREASURER OF OHIO

## **Table of Contents**

### **I. Investment Philosophy**

### **II. Economic Outlook and Portfolio Strategy**

### **III. Summary of Portfolios**

- **Regular Account**
- **Buckeye Tobacco Funds**
- **Ohio Lottery DPTF Structured Account**
- **STAR Ohio**

### **VI. Transaction Activity**

### **V. Portfolio Holdings**



# JOSH MANDEL

## STATE TREASURER OF OHIO

## Investment Philosophy

### A. Investment Objectives

- *Preservation of Principal*
- *Maintenance of Liquidity*
- *Maximize Return*

### B. Standard of Prudence

**The standard of prudence to be applied to the investment of the State Portfolio shall be the industry standard "Prudent Investor Rule," which states:**

*"Investments shall be made with the judgment and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."*



# JOSH MANDEL

## STATE TREASURER OF OHIO

## Economic Outlook

### • Federal Reserve & Interest Rates

- The fed funds target rate (FTTR) remained flat at 0.00 – 0.25 %. The Fed maintains that economic conditions including low rates of resource utilization, subdued inflation trends, and stable inflation expectations are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
- The April 27<sup>th</sup> Federal Open Market Committee (FOMC) meeting minutes explaining the FOMC's view indicate that the economic recovery is proceeding at a slow, but steady, pace and overall conditions in the labor market are improving.
- The \$600B bond-buying program (QE2) will come to an end on June 30 and many analysts are now working to determine when the first interest rate hike will occur with Fed Funds futures predicting a second quarter of 2012 rate hike.

### • Inflation

#### *Producer Price Index*

- The producer price index (PPI) for May fell to 0.2% from 0.8% in April. Overall PPI was still fractionally higher than expected on still somewhat elevated energy and food prices. Core PPI was slightly lower than in April but in line with expectations at 0.02%.

#### *Consumer Price Index*

- The Consumer Price Index (CPI) fell to 0.2% in May (0.4% in April), mainly due to leveling out of energy prices, but was still slightly higher than expected. Core CPI climbed to 0.3% (0.2% in April) but continues to remain below the Fed's implicit 2% target.



# JOSH MANDEL

## STATE TREASURER OF OHIO

## Economic Outlook

### • Housing

- Across the country, housing starts were up 3.5% in May to an annual pace of 560,000, this was up 19,000 but still less than the 545,000 pace expected by economists.
- Mortgage applications, on average, rose approximately 3.3% in May while mortgage rates continued to fall. Building permits also rose 8.7%.
- Ohio home sales for May came in at 9,108 units in 2011 compared to 11,503 units in May 2010, representing a decrease of 20.8%. The month's average sale price was down 5.8% to \$121,613 from \$129,084 in May 2010.

### • Labor Market

- U.S. unemployment for May rose to 9.1% from 9.0% in April. While analysts expected an increase in the jobs number of 165k, only a disappointing 54k jobs were added in May.
- Average hourly earnings were up 0.3% in May compared to an increase of 0.1% in April. According to the Bureau of Labor Statistics, the number of unemployed persons at the end of May stood at 13.9 million.
- The Ohio unemployment rate for May was 8.6%, unchanged from April.
- The number of workers unemployed in Ohio in May was 508,000, down from 509,000 in April. The number of unemployed has decreased by 95,000 in the past 12 months from 603,000.
- The May unemployment rate for Ohio was down from 10.1 percent in May 2010.



# JOSH MANDEL

## STATE TREASURER OF OHIO

## Economic Outlook

### • Europe

- The European economic turmoil has been in the forefront for several weeks now and has fueled a tumultuous equity market and a sustained rally in bond prices.
- As the country of Greece nears the point of default, the government is scrambling for unanimous support of austerity measures that the European Union and the International Monetary Fund are requiring in order grant support.
- The uncertainty in Greece is overshadowing the underlying concern for other European nations such as Ireland, Italy and Portugal, which are thought to be next on the list of possible countries to default.

### • Japan

- The disaster in Japan in March caused a major disruption in Japanese economy while the nuclear issues and manufacturing delays were addressed.
- Manufacturing issues spilled into the U.S. economy with many large U.S. companies seeing supply shortages.
- Supply shortages have been managed and while some may persist well into the second half of the year, there is more clarity on the magnitude of those shortages and, therefore, the effects on U.S. GDP.



# JOSH MANDEL

## STATE TREASURER OF OHIO

## Portfolio Yields & Strategy

### • Summary

- The Case/Schiller Index, the primary market indicator of national home prices, has fallen even farther below pre-crisis levels (reported through Q1 2011), reinforcing the concern that the housing market is experiencing a "double-dip."
- The economy continues to see job growth and inflation still appears to be subdued but the continued trouble in the housing market, the debt concerns in Europe and in the U.S., and the fragile recovery still underway leaves the Fed feeling "cautiously optimistic" going into the second half of 2011.

### • Yields

- The current economic environment has continued to drive rates down even farther than before as investors pile into higher quality assets, such as treasuries.
- The concerning economic recovery continues to pressure the Fed to maintain low borrowing rates which will be reflected throughout the bond market.

### • Strategy

- With the expectation that interest rates will remain low for an extended period, we continue to cautiously balance safety, liquidity, and yield by investing primarily in shorter term securities.
- We continue to seek value to hedge against near term falling rates but continue to employ strategies laddering long term investments in order to be well positioned for a future rise in interest rates.



# JOSH MANDEL

## STATE TREASURER OF OHIO

### Summary of Portfolios

Portfolio	4/29/2011	5/31/2011	5/28/2010
<b>Regular Account - Market Value</b>	<b>\$6,859,641,237.32</b>	<b>\$6,974,789,896.29</b>	<b>\$5,599,815,807.58</b>
Sales and Motor Vehicle Fuel Tax revenues were offset by payments for Debt Service, School Foundations, Higher Education, Medicaid and State Payroll.			
<b>Total Monthly Inflows</b>	<b>\$4,988,499,521.79</b>	<b>\$5,115,642,725.84</b>	<b>\$4,673,559,671.98</b>
<b>Total Monthly Outflows</b>	<b>\$4,172,157,416.52</b>	<b>\$5,056,441,423.07</b>	<b>\$4,750,776,278.36</b>
<b>Realized Income - Month to date</b>	<b>\$1,474,202.88</b>	<b>\$2,887,738.08</b>	<b>\$2,936,840.48</b>
<b>Realized Income - Fiscal Year to date</b>	<b>\$15,039,609.62</b>	<b>\$17,927,347.70</b>	<b>\$53,655,246.65</b>
<b>Accruals</b>	<b>\$4,803,566.93</b>	<b>\$2,627,215.61</b>	<b>\$2,072,146.72</b>
<b>Buckeye Tobacco (School Facilities) - Market Value</b>	<b>\$540,777,361.73</b>	<b>\$464,871,127.77</b>	<b>\$1,510,572,858.30</b>
<b>Buckeye Tobacco (Board of Regents) - Market Value</b>	<b>\$498,292.14</b>	<b>\$498,644.90</b>	<b>\$221,371,141.48</b>
<b>Realized Income - Month to date</b>	<b>\$29,648.28</b>	<b>\$41,457.92</b>	<b>\$39,024.10</b>
<b>Realized Income - Fiscal Year to date</b>	<b>\$2,918,712.03</b>	<b>\$2,960,169.95</b>	<b>\$58,198,450.93</b>
<b>Ohio Lottery DPTF - Market Value</b>	<b>\$720,049,984.61</b>	<b>\$722,654,807.00</b>	<b>\$743,923,073.48</b>
Securities were purchased to fund two annuity winners; the May liability payment was \$12,634,205.38			
<b>STAR Ohio - Market Value</b>	<b>\$4,458,999,491.12</b>	<b>\$4,359,195,878.79</b>	<b>\$4,712,243,786.69</b>
Shareholder redemptions exceeded purchases during the month.			





# JOSH MANDEL

## STATE TREASURER OF OHIO

### Regular Account Asset Allocation

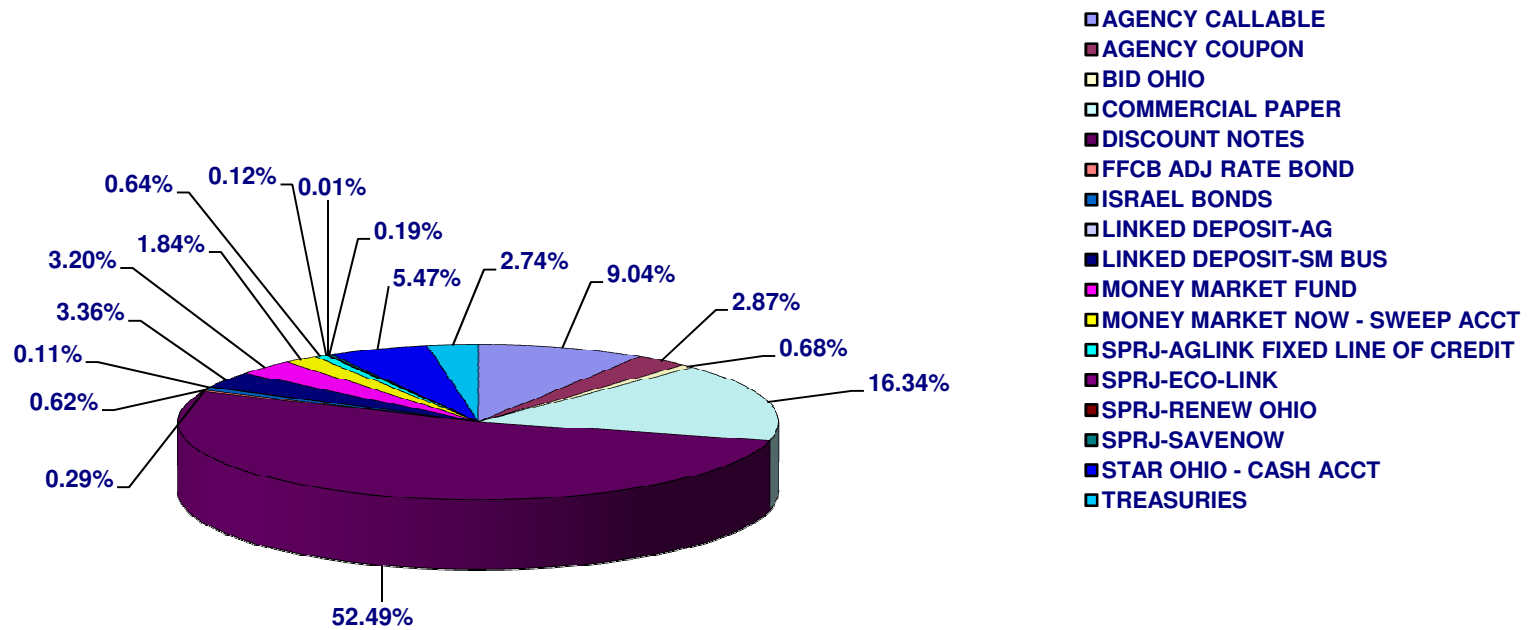
ASSET TYPE	PAR AMOUNT	BOOK VALUE	MKT VALUE	% BOOK	WT YLD	WT DTM
AGENCY CALLABLE	\$ 631,006,724.14	\$ 630,454,975.78	\$ 632,373,947.42	9.04	1.34	1139.41
AGENCY COUPON	\$ 200,000,000.00	\$ 199,850,092.50	\$ 200,043,600.00	2.87	0.32	320.33
BID OHIO	\$ 47,500,000.00	\$ 47,500,000.00	\$ 47,500,000.00	0.68	0.51	58.18
COMMERCIAL PAPER	\$ 1,140,000,000.00	\$ 1,139,902,025.01	\$ 1,139,902,025.01	16.34	0.12	10.47
DISCOUNT NOTES	\$ 3,661,517,000.00	\$ 3,660,460,792.78	\$ 3,661,232,509.11	52.49	0.09	47.06
FFCB ADJ RATE BOND	\$ 20,000,000.00	\$ 20,000,000.00	\$ 20,000,000.00	0.29	0.35	346.00
ISRAEL BONDS	\$ 43,000,000.00	\$ 43,000,000.00	\$ 42,998,914.00	0.62	2.23	1084.93
LINKED DEPOSIT-AG	\$ 7,544,162.31	\$ 7,544,162.31	\$ 7,544,162.31	0.11	0.03	317.00
LINKED DEPOSIT-SM BUS	\$ 234,245,099.97	\$ 234,245,099.97	\$ 234,245,099.97	3.36	0.15	404.57
MONEY MARKET FUND	\$ 223,383,526.42	\$ 223,383,526.42	\$ 223,383,526.42	3.20	0.19	1.00
MONEY MARKET NOW - SWEEP ACCT	\$ 128,077,483.94	\$ 128,077,483.94	\$ 128,077,483.94	1.84	0.10	1.00
SPRJ-AGLINK FIXED LINE OF CREDIT	\$ 44,502,072.00	\$ 44,502,072.00	\$ 44,502,072.00	0.64	0.03	317.00
SPRJ-ECO-LINK	\$ 8,458,642.80	\$ 8,458,642.80	\$ 8,458,642.80	0.12	0.15	500.28
SPRJ-RENEW OHIO	\$ 905,000.00	\$ 905,000.00	\$ 905,000.00	0.01	0.15	628.06
SPRJ-SAVENOW	\$ 13,590,000.00	\$ 13,590,000.00	\$ 13,590,000.00	0.19	0.10	121.93
STAR OHIO - CASH ACCT	\$ 381,473,113.31	\$ 381,473,113.31	\$ 381,473,113.31	5.47	0.05	1.00
TREASURIES	\$ 190,000,000.00	\$ 190,810,742.20	\$ 188,559,800.00	2.74	1.16	1614.00
	\$ 6,975,202,824.89	\$ 6,974,157,729.02	\$ 6,974,789,896.29	100.00	0.26	207.70



# JOSH MANDEL

## STATE TREASURER OF OHIO

### Regular Account Asset Allocation





# JOSH MANDEL

## STATE TREASURER OF OHIO

### Buckeye Tobacco Fund (SFC) Asset Allocation

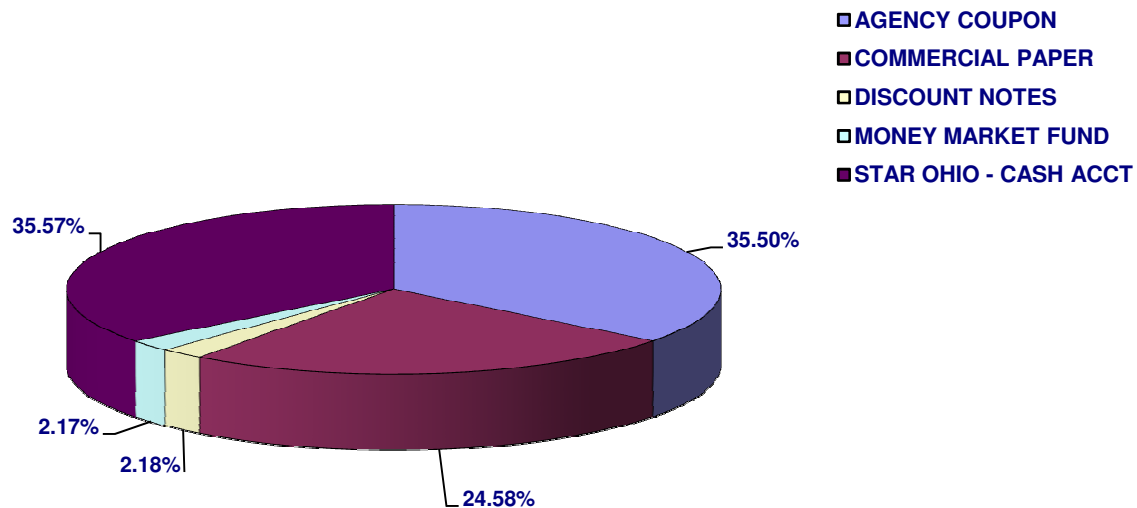
ASSET TYPE	PAR AMOUNT	BOOK VALUE	MKT VALUE	% BOOK	WT YLD	WT DTM
AGENCY COUPON	\$ 165,000,000.00	\$ 165,000,000.00	\$ 165,064,350.00	35.50	0.70	24.00
COMMERCIAL PAPER	\$ 114,253,000.00	\$ 114,246,969.65	\$ 114,246,969.65	24.58	0.13	11.50
DISCOUNT NOTES	\$ 10,155,000.00	\$ 10,152,941.27	\$ 10,154,985.89	2.18	0.11	3.97
MONEY MARKET FUND	\$ 10,076,852.73	\$ 10,076,852.73	\$ 10,076,852.73	2.17	0.01	1.00
STAR OHIO - CASH ACCT	\$ 165,327,969.50	\$ 165,327,969.50	\$ 165,327,969.50	35.57	0.05	1.00
	\$ 464,812,822.23	\$ 464,804,733.15	\$ 464,871,127.77	100.00	0.30	11.81



**JOSH MANDEL**  
STATE TREASURER OF OHIO

## Buckeye Tobacco Fund (SFC) Asset Allocation

**BTSFA - School Facilities Commission**





# JOSH MANDEL

STATE TREASURER OF OHIO

## Buckeye Tobacco Fund (BOR) Asset Allocation

ASSET TYPE	PAR AMOUNT	BOOK VALUE	MKT VALUE	% BOOK	WT YLD	WT DTM
STAR OHIO - CASH ACCT	\$ 498,644.90	\$ 498,644.90	\$ 498,644.90	100.00	0.05	1.00
	\$ 498,644.90	\$ 498,644.90	\$ 498,644.90	100.00	0.05	1.00

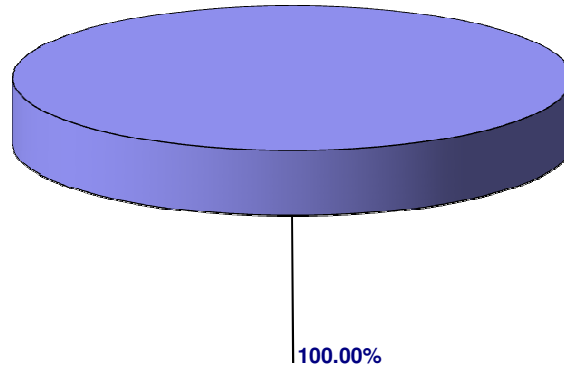


**JOSH MANDEL**  
STATE TREASURER OF OHIO

## Buckeye Tobacco Fund (BOR) Asset Allocation

**BTSFA - Board of Regents**

■ STAR OHIO - CASH ACCT





# JOSH MANDEL

## STATE TREASURER OF OHIO

### Ohio Lottery DPTF Asset Allocation

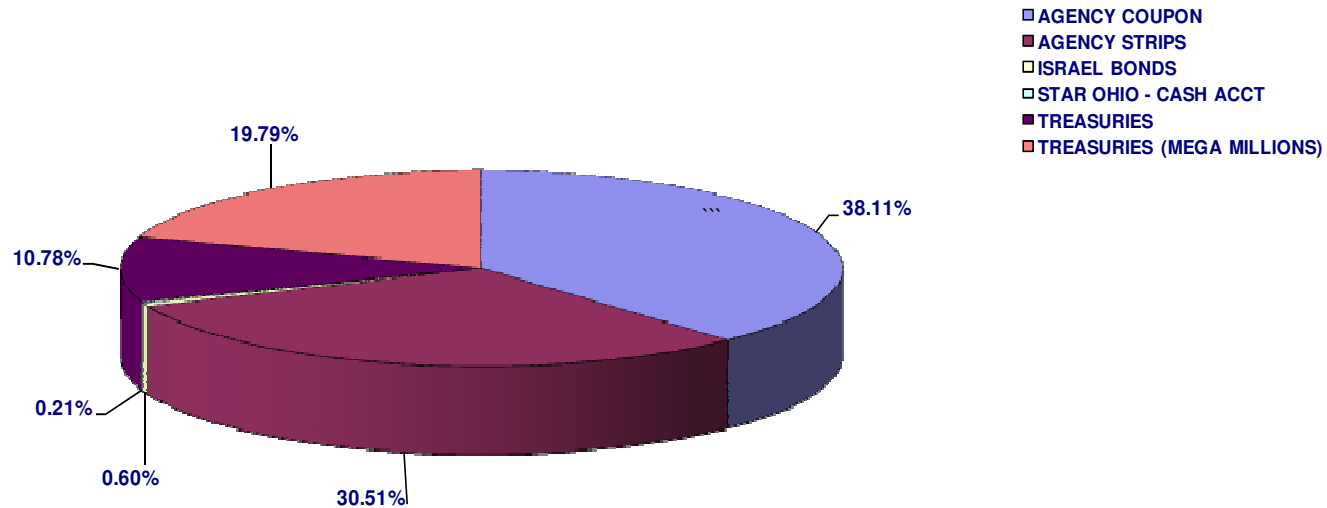
ASSET TYPE	PAR AMOUNT	BOOK VALUE	MKT VALUE	% BOOK	WT YLD	WT DTM
AGENCY COUPON	\$ 194,210,000.00	\$ 189,898,757.45	\$ 212,167,221.90	38.11	5.06	1256.99
AGENCY STRIPS	\$ 394,862,000.00	\$ 152,019,830.63	\$ 321,962,523.34	30.51	5.78	2375.45
ISRAEL BONDS	\$ 3,000,000.00	\$ 3,000,000.00	\$ 3,000,000.00	0.60	2.91	336.00
STAR OHIO - CASH ACCT	\$ 1,028,818.26	\$ 1,028,818.26	\$ 1,028,818.26	0.21	0.05	1.00
TREASURIES	\$ 84,776,000.00	\$ 53,730,276.40	\$ 62,571,621.00	10.78	3.58	3529.58
TREASURIES (MEGA MILLIONS)	\$ 179,084,000.00	\$ 98,610,756.82	\$ 121,924,622.50	19.79	4.15	4178.07
	\$ 856,960,818.26	\$ 498,288,439.56	\$ 722,654,807.00	100.00	4.92	2602.86



# JOSH MANDEL

STATE TREASURER OF OHIO

## Ohio Lottery DPTF Asset Allocation







# JOSH MANDEL

## STATE TREASURER OF OHIO

### STAR Ohio Asset Allocation

ASSET TYPE	PAR AMOUNT	BOOK VALUE	MKT VALUE	% BOOK	WT YLD	WT DTM
AGENCY CALLABLE	\$ 50,000,000.00	\$ 50,000,000.00	\$ 50,015,500.00	1.15	0.37	349.50
AGENCY COUPON	\$ 575,000,000.00	\$ 574,943,150.25	\$ 575,086,500.00	13.19	0.21	169.83
COMMERCIAL PAPER	\$ 1,033,294,000.00	\$ 1,033,215,629.13	\$ 1,033,215,629.13	23.71	0.12	12.64
DISCOUNT NOTES	\$ 2,320,355,000.00	\$ 2,319,435,309.15	\$ 2,320,134,225.00	53.22	0.10	49.39
INTEREST BEARING CHECKING ACCT	\$ 100,000,000.00	\$ 100,000,000.00	\$ 100,000,000.00	2.29	0.10	1.00
MONEY MARKET FUND	\$ 280,744,024.66	\$ 280,744,024.66	\$ 280,744,024.66	6.44	0.01	1.00
	<b>\$ 4,359,393,024.66</b>	<b>\$ 4,358,338,113.19</b>	<b>\$ 4,359,195,878.79</b>	<b>100.00</b>	<b>0.12</b>	<b>55.78</b>



# JOSH MANDEL

## STATE TREASURER OF OHIO

### STAR Ohio Asset Allocation

