



JOSH MANDEL
STATE TREASURER OF OHIO

Current Investment Outlook & STAR Ohio

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State of Ohio

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Agenda

1. Investment Philosophy
2. Statements on the Economic Environment
 - Global Factors
 - U.S. Factors
 - Ohio Factors
3. Investment Strategy
4. STAR Ohio
5. Closing Comments
6. Questions



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State of Ohio

Investment Philosophy

Investment Objectives

- Preservation of Principal
- Maintenance of Liquidity
- Maximize Return

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.”



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Economic Environment

- The current economic situation is being driven by many factors on a global, national and local level
- There is a level of fragility that has remained prevalent since the end of 2008
- Economic data has led some to believe that the U.S. is on the cusp of another recession as employment data, GDP estimates and general consumer confidence have not positively supported conviction
- While conditions have showed sporadic signs of improvement, U.S. monetary policy and other forms of U.S. Government intervention are not the only factors pushing or pulling on the market and the overall economy



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Global Factors





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Global Factors

- **Europe**

- **European Central Bank (ECB)**

- The European economy has not progressed as expected, as recently as the summer, with several nations still fiscally challenged and overall growth still at low levels
- After two quarter-point rate hikes and a challenging road ahead for the eurozone economies, it is thought that the ECB may need to cut rates in the near-term

- **European Financial Stability Facility (EFSF)**

- The EFSF is comprised of the 16 member EU nations
- The member nations have agreed to issue specific pieces of debt in order to guarantee up to €400B of loans to troubled nations (i.e. secure leverage)
- There is speculation of expansion of the EFSF to possibly buy distressed euro area debt and/or aid distressed banks à la TARP (though now probable since approval was received from 11 of 17 euro countries, including a reluctant Germany)



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Global Factors

- **Europe**

- **Greece**

- Greece has avoided default but remains in a precarious situation as it carefully attempts to develop fiscal changes that the “troika,” (European Union and International Monetary Fund officials), will approve in order to grant further support
- Various parties are calling for private bondholders to share in some of the “haircuts” that may come with the second round of bailout funds
- The global markets continue to hang on Greek developments and uncertainty still tends to drive daily market movements

- **Spain**

- Spain continues to struggle with 21% unemployment and a substantial deficit as it struggles to pay off long-term debt and growth remains anemic



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Global Factors

- **Europe**

- **Italy**

- S&P cut Italy's unsolicited ratings to A/A-1 from A+/A-1+ and kept its outlook of "negative"
- The rating downgrade was due to weakening economic growth and a "fragile" Italian government
- S&P expressed concern over the possible government struggle to reduce the euro-region's second largest debt burden

- **Germany**

- Although Germany remains the richest eurozone economy, recent rising inflation coupled with the struggles of other eurozone nations leave the ECB torn regarding the appropriate direction of interest rates



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U.S. Economic Factors

➤ Employment

➤ Inflation

➤ GDP

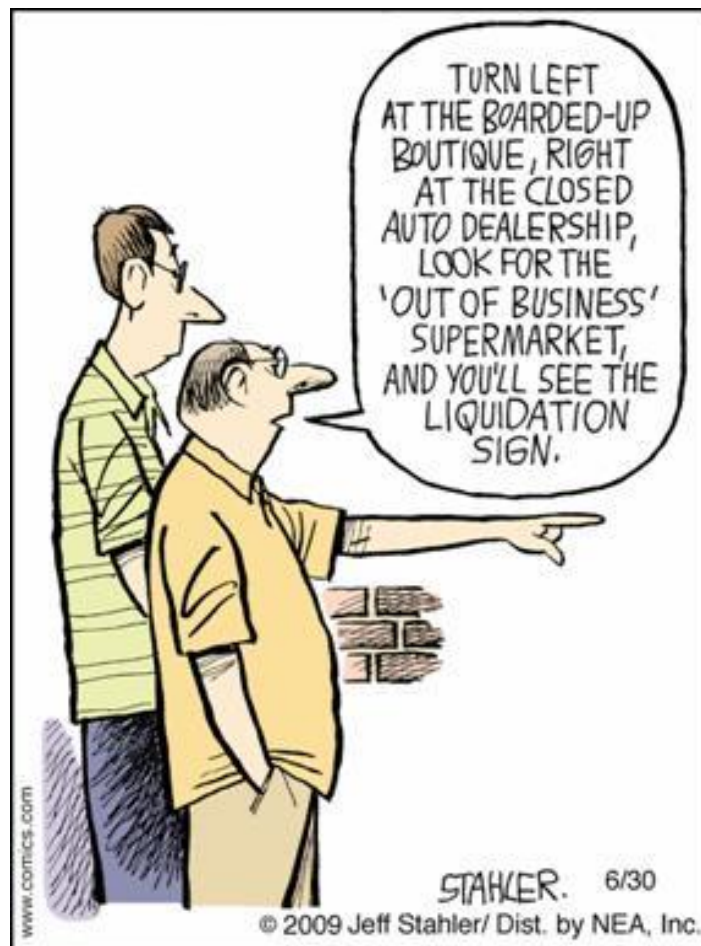
➤ Housing

➤ Fed Policy



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U.S. Economic Factors

- **Employment**

- August unemployment report came in much lower than expected.
 - No jobs were gained and the unemployment rate remained at 9.1% in August, up from the most recent low of 8.8% in March of 2011
 - Weekly jobless claims continue to trend close to 400,000 showing little to no sign of relief for the jobless in the U.S.

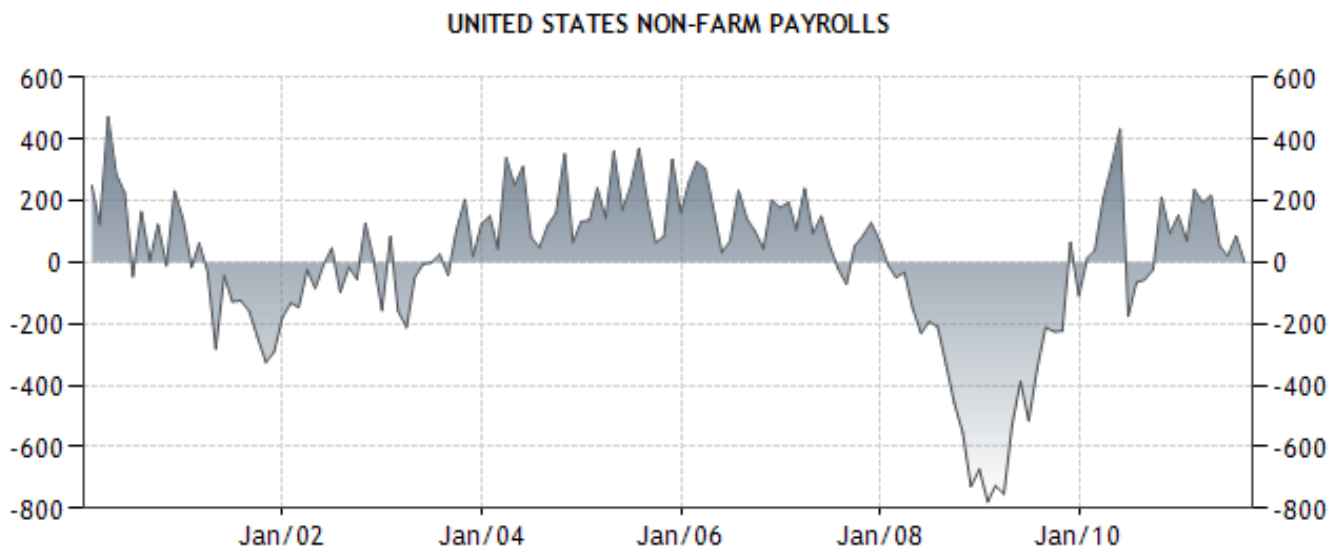
- **Inflation**

- Inflation has moderated as commodities prices have seen steady declines
- Long-term inflation expectations remain subdued although recent accelerations in core CPI remains a concern
- With an annual rate of approximately 2.0% in August, the Fed maintains that an inflation target of 1.5% and 2.0% is consistent with price stability



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U.S. Economic Factors



source: TradingEconomics.com; Bureau of Labor Statistics



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U.S. Economic Factors

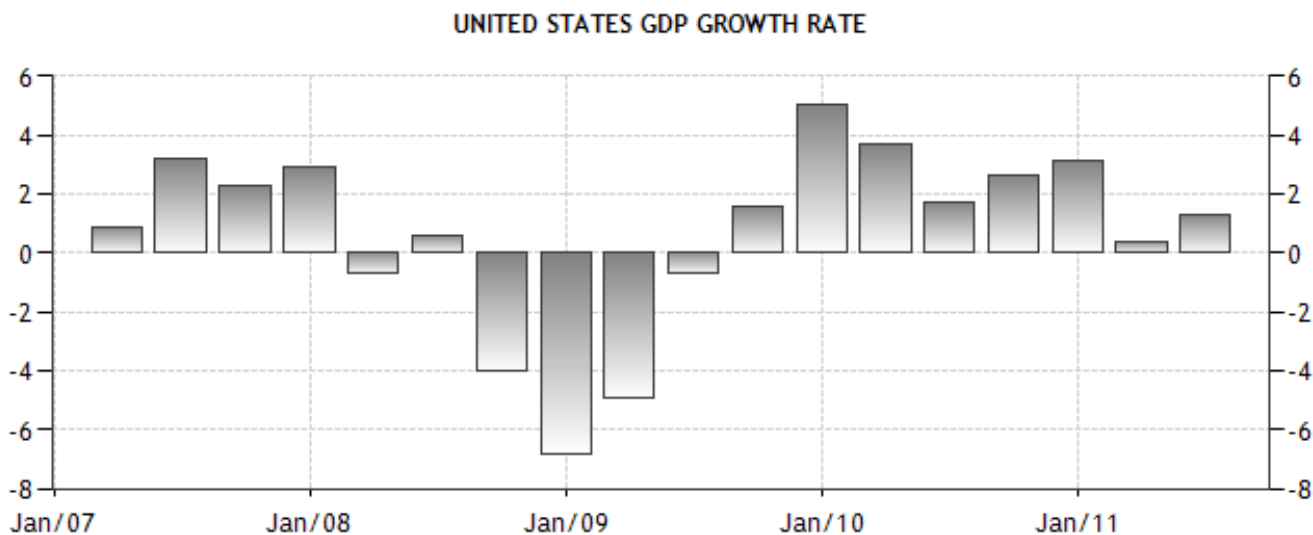
- **GDP**

- Real GDP rose to 1.3% in the second quarter of 2011, up from a revised 0.4% in the first quarter of 2011, helped by exports and spending on services
- There is concern as to whether the level of exports will continue due to the troubles abroad and the lack of hiring. Additionally, consumer confidence does not bode well for the “significant downside risks” that face the U.S. economy
- At the end of June, the Fed lowered it’s 2011 GDP forecast to 2.7% to 2.9%
- Economists are predicting second half growth of roughly 1.5% to 2.0%



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U.S. Economic Factors



source: TradingEconomics.com; Bureau of Economic Analysis



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U.S. Economic Factors





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U.S. Economic Factors

- **Housing**

- Housing remains one of the weakest factors in the U.S. economic recovery
- Data recently released shows that 28.4% of mortgages are “underwater”
- The lending environment is such that there is little ability to take advantage of the record-low mortgage rates
- With so many people attached to their housing debt, moving for better job opportunities, especially if you are unemployed, becomes increasingly difficult
- The housing situation continues to be a substantial drag on the economy and until an effective solution to forgive, restructure or modify housing debt can be devised, unemployment and other struggles are expected to persist



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U.S. Economic Factors

- **Federal Reserve Policy**

- The fed funds target rate (FTTR) remains at 0.00 – 0.25 %
- The Fed anticipates that economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium-run are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013
- The Fed feels that “significant downside risks” still remain in the economic outlook and continues to closely monitor the need for additional accommodation
- The FOMC announced plans for “Operation Twist” in which it will lengthen the duration of its balance sheet by purchasing Treasuries with remaining maturities of 6 to 30 years while selling an equal amount of Treasuries with remaining maturities of 3 years or less

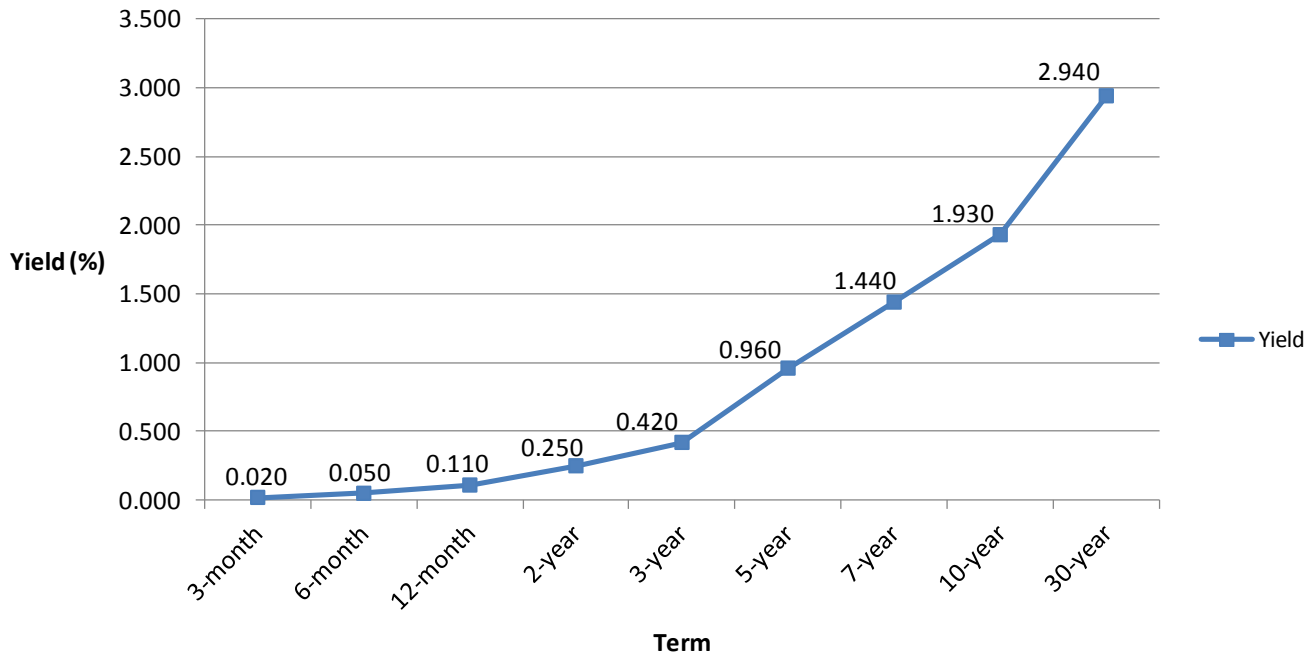


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U.S. Economic Factors

U.S. Treasury Yield Curve

(as of 9/30/11)





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Ohio Economic Factors

- **Jobs**

- The Ohio unemployment rate for August was 9.1% compared to 9.0% in July.
 - The rate is in line with the national unemployment rate
- Unemployment in Ohio has decreased steadily for the past 12 months and is down from 9.9% in August 2010
- The number of workers unemployed in Ohio in August was up 536,000 from 529,000 in July. The number of unemployed has decreased by 47,000 in the past 12 months from 583,000
- The unemployment numbers suggest a lack of sustainability in the economic recovery, similar to what has been seen on a national level



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Ohio Economic Factors

- **Housing**

- Housing has been the biggest laggard on a national level during the recovery and that trend also appears prevalent in Ohio
- The latest Ohio home sales released were for August, coming in at 10,094 units in 2011 compared to 8,288 units in August 2010, representing an increase of 22%
- August's average sale price was down 1.6% to \$138,304 from \$140,617 in August 2010
- Although a new home may be much cheaper in the current conditions, it is difficult for many to get out of their current homes in a positive cash position



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Ohio Economic Factors

- **2012 Fiscal Year Budget**

- \$55 Billion balanced budget was approved by the Ohio Legislature and signed by the Governor in June. Effective July 1, 2011 – June 30, 2013
 - This budget allows for privatizing the Ohio Lottery, the Ohio Turnpike and half a dozen state prisons to raise additional revenue
- Year-to-date, State tax revenues are 11.3% (\$284.0 million) higher than for the same period a year ago
- Tax revenue under current law is forecast to increase 3.5% (\$606.3 million) in FY 2012 and 5.5% (\$985.2 million) in FY 2013



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Investment Outlook

- **Global**

- Issues in the Eurozone will continue to have an affect on the global economy
- As the problems in Europe continue, U.S. treasuries remain the popular investment despite the sovereign downgrade by S&P- “flight to quality”
- Recent developments regarding the EFSF have inspired hope that all 17 eurozone economies are on board and ready to support any struggling counterparts

- **U.S.**

- The U.S. and Global economies continue to recover at a pace that is slower than anticipated, leading the Fed to maintain current interest levels for the foreseeable future
- Investment in nonresidential structures is weak and housing remains depressed while commodity prices have cooled off, keeping inflation concerns at bay



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Investment Outlook

- **Yields**

- Due to the current economic environment Eurozone issues, bond yields remain at historically low levels
- The slow economic recovery continues to pressure the Fed to maintain low borrowing rates through at least 2013 which is reflected throughout the bond market
- With few traditional tools left to use, “Operation Twist” is the Fed’s attempt to lower long-term rates, spur borrowing and to create a more accommodative environment

- **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 employ strategies laddering long-term investments in order to be well-positioned for a rise in interest rates



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- History
- Participants
- Portfolio
- Ratings
- Market Conditions and Performance
- How to Invest
- Questions



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- **Established in 1985**
 - Investment Alternative for Ohio Public Fund Managers
- **\$4 Billion Pool**
- **Rated AAAM by Standard & Poor's**
 - Since 1995
 - Affirmed in August 2011



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Who Can Invest?





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Pooled investments

Equal buying power

Equal lower expenses

Equal greater yields

Public fund managers

Dollars in, dollars out

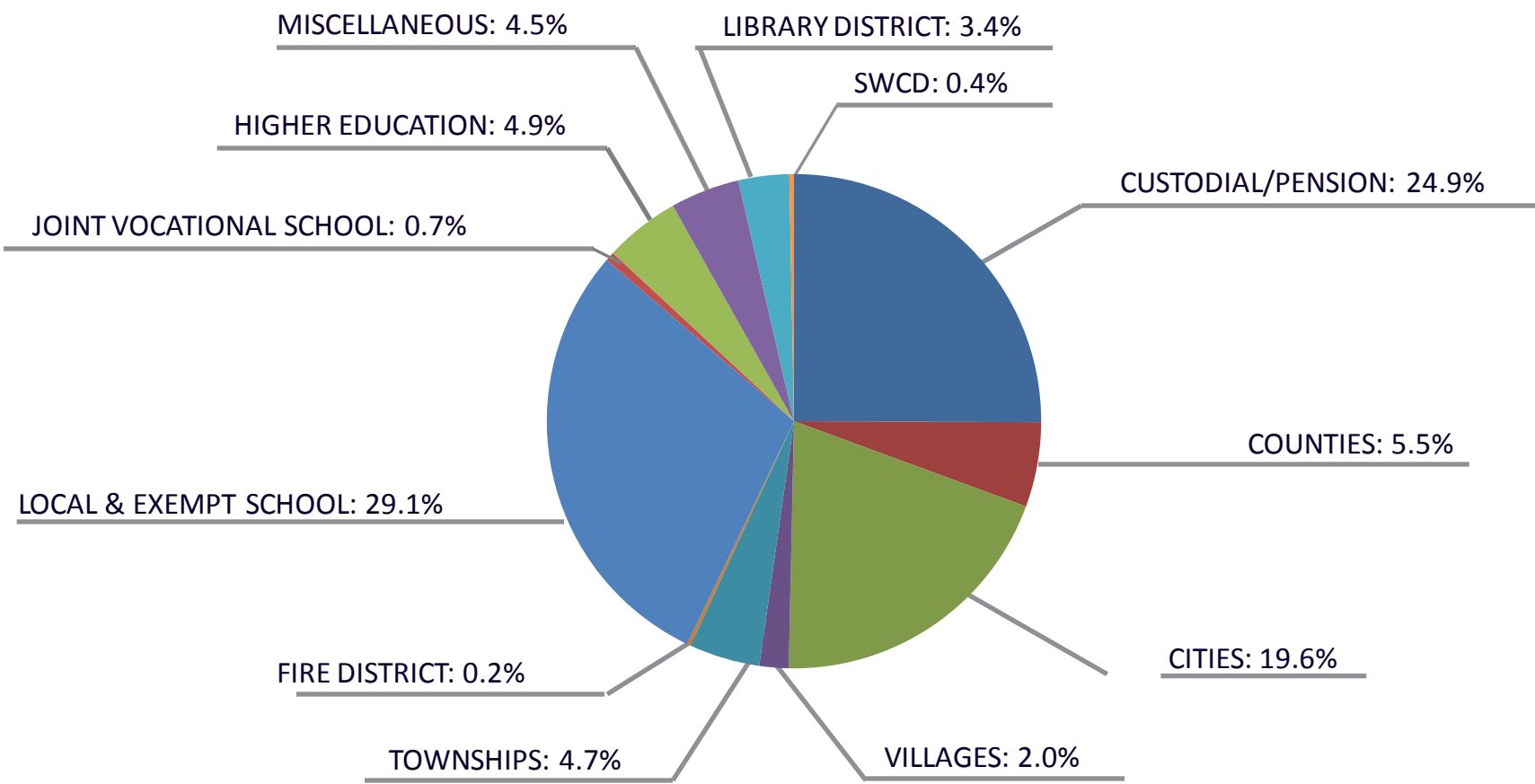
Ease of use

Confidence in safety



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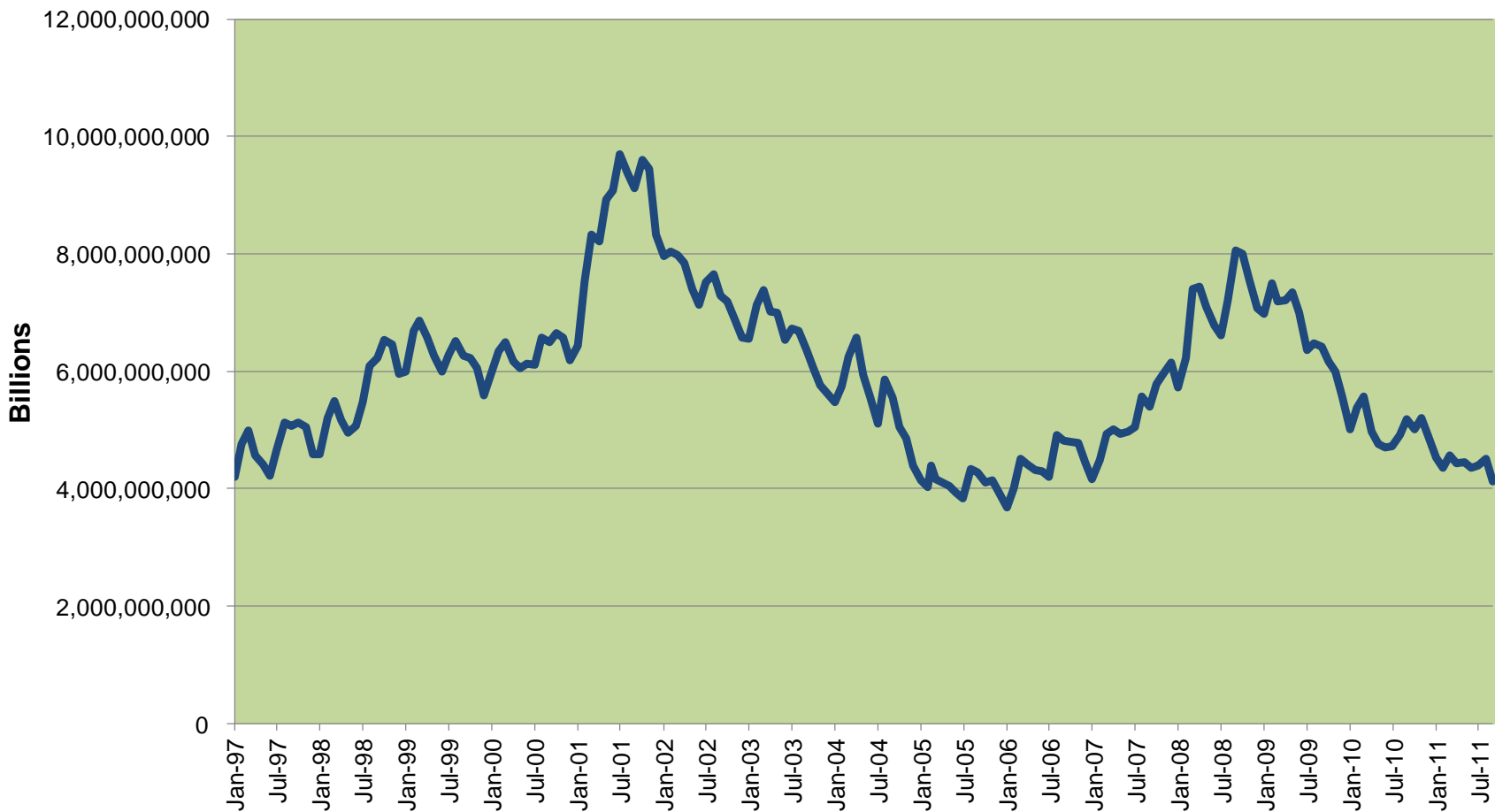
Current Participants





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History of Average Monthly Net Assets





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Investment Objective

- Preservation of Capital
- Daily Liquidity
- Competitive Return in Today's Current Market



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Summary of Allowable Investments

- U.S. Treasury Bills, Bonds and Notes
- Federal Government Agencies
- Commercial Paper
- Certificates of Deposits & Bankers Acceptance
- No Load Money Market Funds
- Repurchase Agreements



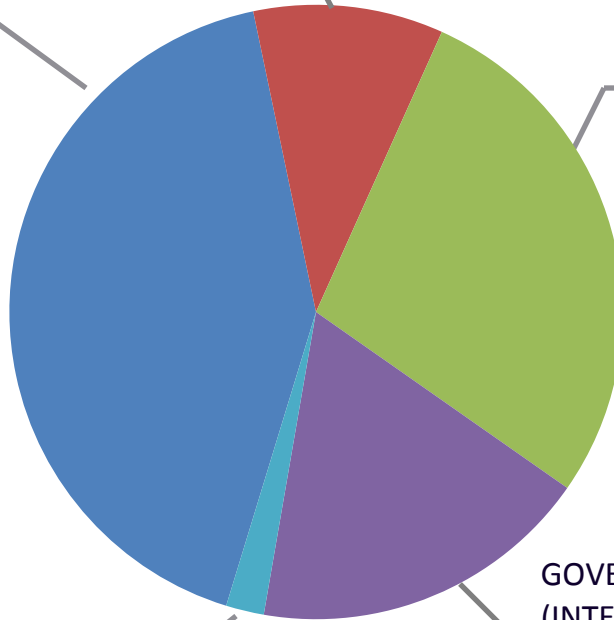
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Current STAR Ohio Portfolio

MONEY MARKET FUNDS: 10%

GOVERNMENT SPONSORED ENTERPRISES
(DISCOUNTED NOTES): 42%

COMMERCIAL PAPER: 28%



BANK DEPOSIT: 2%

GOVERNMENT SPONSORED ENTERPRISES
(INTEREST BEARING NOTES): 18%



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Current Portfolio

(As of 9/29/11)

- Current Yield: .04%
- Average Life: 56 Days
- Overnight Liquid: 23%
- Portfolio Holdings Rated:
 - AAA or A-1+: 93%
 - A-1: 7%

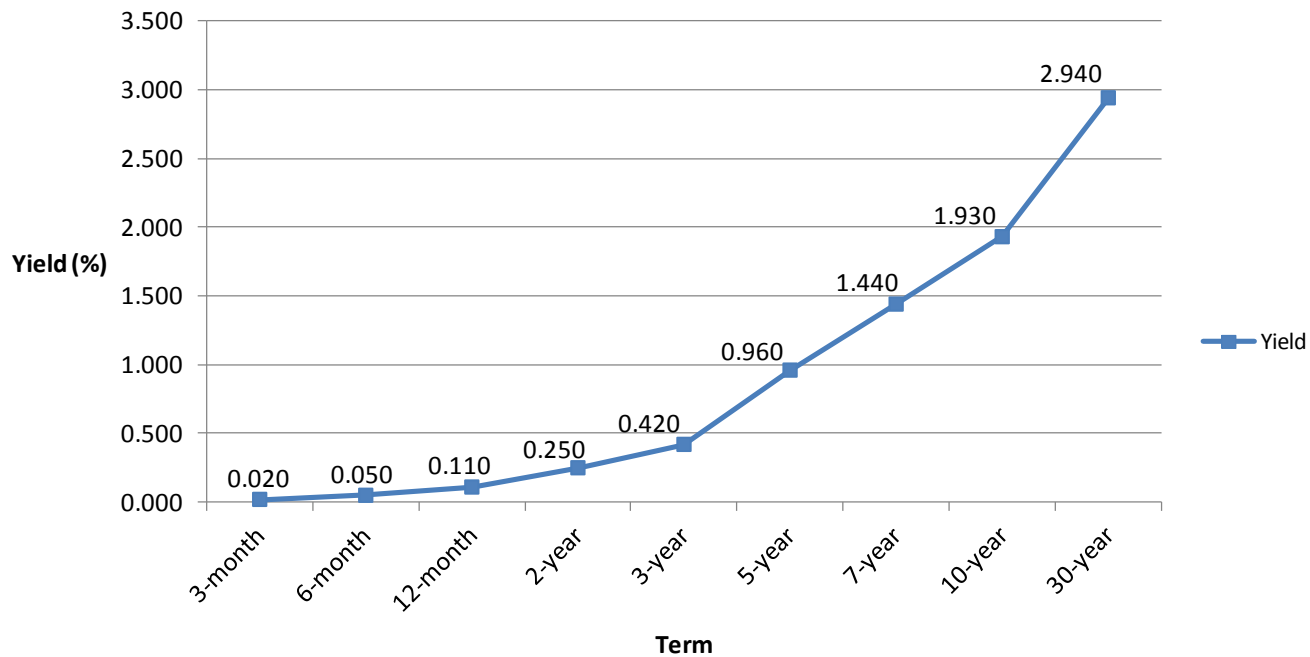


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U.S. Economic Factors

U.S. Treasury Yield Curve

(as of 9/30/11)

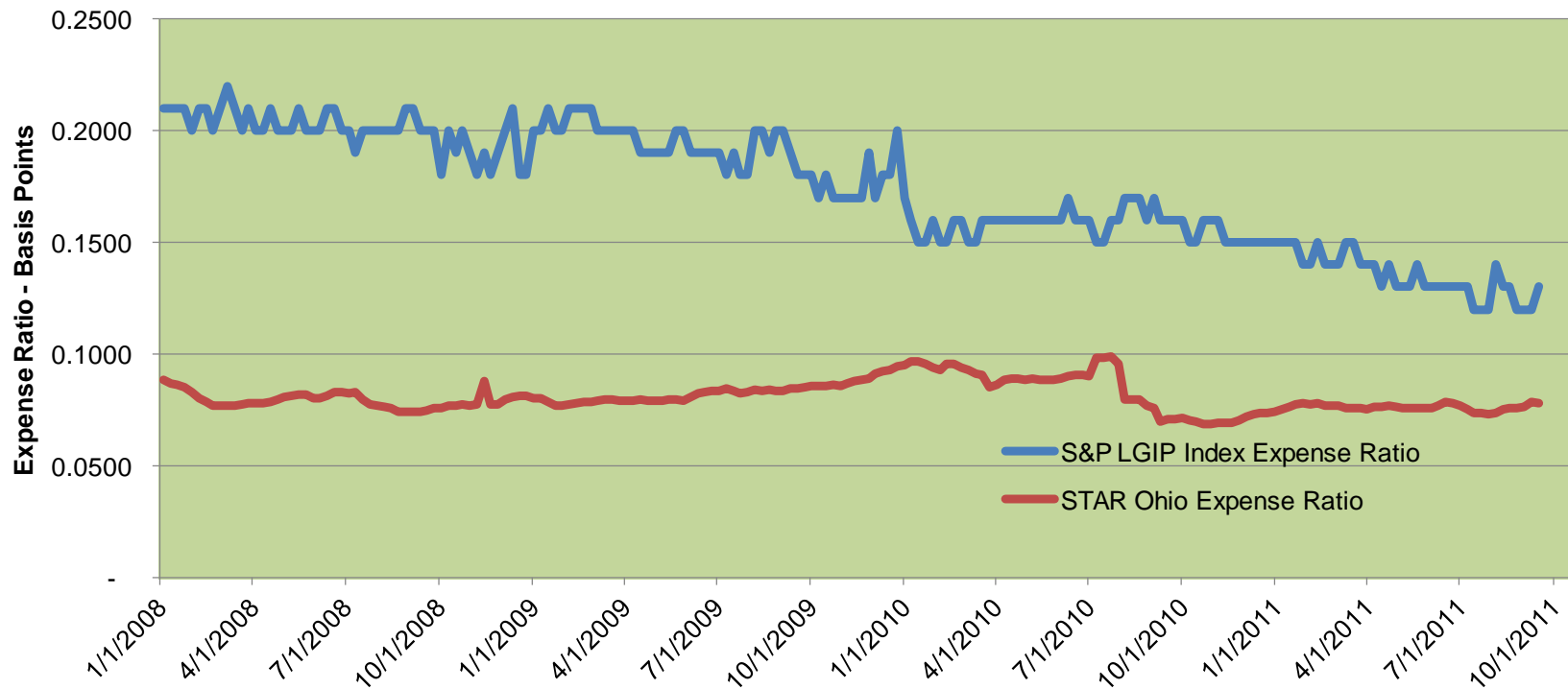




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STAR Ohio Expense Ratio January 2008 - September 2011

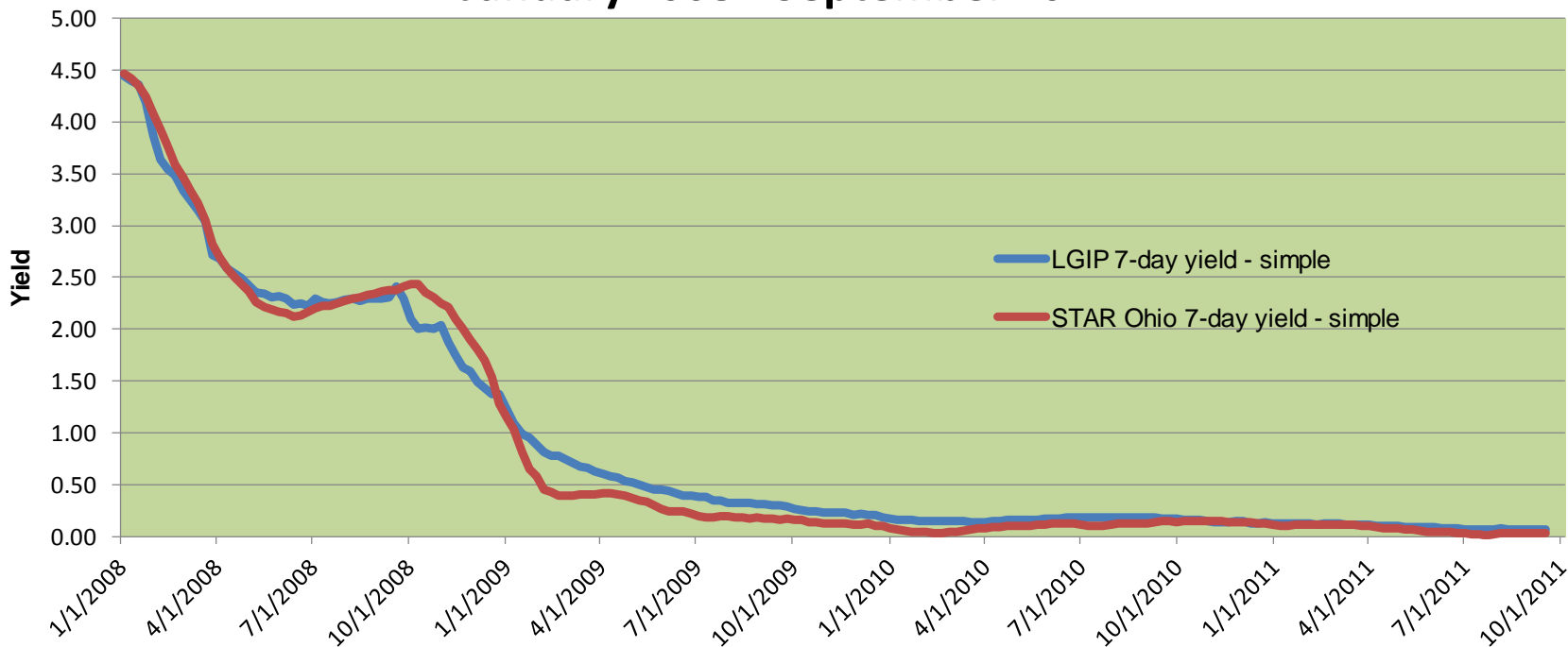




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STAR Ohio Yield vs LGIP January 2008 - September 2011





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Investor Advantages

- Multiple Accounts Segregation
- No Minimum Investment
- No Investment Time Frame
- Limited Check Writing
- Online ACH Trading
- Online Access



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Additional Benefits

- Daily investments and withdrawals without penalty
- Interest on all investments, even if the investment is only for 24 hours
- A consolidated monthly statement that simplifies tracking of multiple short-term investments
- Access to account balance and yield information 24 hours a day through STAR Search, STAR Ohio's Automated Voice Response System and www.ohiotreasurer.gov



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- Shareholders may invest in the fund on any business day. A shareholder may invest by one of the following methods:
 - Wire Transfer
 - Bank check
 - Direct deposit
 - ACH transmission
- All monies must be received by the fund prior to 1:30 PM to receive interest credit for that business day. Wire transfers initiated by your bank must be confirmed by a telephone call before 1:30 PM to the STAR Ohio Customer Service Department.



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