BWC Board of Directors

Investment Committee

Thursday, September 25, 2008, 12:00 p.m.
William Green Building
Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Robert Smith, Chair Alison Falls, Vice Chair David Caldwell James Harris Larry Price William Lhota, ex officio
Members Absent:	None
Other Directors Present:	Charles Bryan, Kenneth Haffey, James Hummel, and Thomas Pitts

CALL TO ORDER

Mr. Smith called the meeting to order at 12 p.m. and the roll call was taken. Mr. Caldwell arrived at 12:05.

MINUTES OF AUGUST 28, 2008

Ms. Falls moved that the minutes of August 28, 2008, be approved. Mr. Price seconded and the minutes were approved by unanimous voice vote.

DISCUSSION ITEMS

COMMENTS OF THE CHAIR

Mr. Smith reported that there were no action items for the Investment Committee for this month.

At the August 28 meeting, Bruce Dunn, Chief Investment Officer, presented his goals for the Investment Division for the year. This was not an action item; however, Mr. Smith stated that the Investment Committee fully supported these goals.

Mr. Smith thanked representatives of Mercer Investment Consulting on their timely presentation on derivatives at the August meeting. Guy Cooper, Mercer, stated that most of the August presentation covered the types of investments which are at the root of the current financial crisis. He further reported that BWC has no investments of this type because they are not permitted under the BWC Investment Policy.

MERCER FIVE STEP DECISION-MAKING FRAMEWORK

Mr. Cooper reported on the five step decision-making framework proposed by Mercer to set BWC investment objectives. The outline of this had been presented to the Investment Committee before, but Mercer needed to wait for the findings of Deloitte Consulting before it could discuss in more detail step three focusing on Investment Objectives.

Mr. Cooper covered the current investment goals as stated in the BWC Investment Policy Statement. Deloitte recommended an objective to manage assets to a funding ratio (funded assets ÷ funded liabilities) as defined by Deloitte. Mr. Smith then discussed a table prepared by Tracy Valentino, Chief of Fiscal & Planning showing the BWC funding ratio calculated from the previous ten years of financial reports.

Mr. Bryan asked how to handle changes in the discount rate since a reduction of the discount rate results in a change in the funding ratio. Kristen Finney-Cooke, Mercer Investment Consulting, replied the objective would not be to adjust the Investment Strategy each year. Mr. Smith added that the setting of the discount rate by Actuarial Committee would have an important impact on the Investment Policy.

Mr. Bryan asked what other workers' compensation funds use this model to set the investment goal. Mr. Cooper stated he was unaware of any that did; however, most pension funds use it.

Mr. Smith asked what the effect of lowering the discount rate was. Mr. Cooper replied that would result in a decrease in the funding ratio.

Marsha Ryan, BWC Administrator, asked when the discount rate would be changed. Ms. Valentino reported it is usually changed in March, with July 1 as an effective date. BWC, however, can change the discount rate at any time, which would affect the next quarter's reserve analysis. Mr. Smith noted that Deloitte has recommended reducing the BWC discount rate.

John Pedrick, Chief Actuarial Officer, reported that the next reserve audit will be effective March 31, 2009, in order to give BWC time to look at the June 30 rate change.

Ms. Falls asked if BWC were to change the discount rate in October, what would be effect on the forthcoming financial statements. Mr. Haffey replied that since the change was after the close of the fiscal year, it would have no affect on the financial statements. The change would be a subsequent event which would be included in the footnotes.

Mr. Smith stated that the Workers' Compensation Board will ask Mercer to provide models based on a range of funding ratios for the October meeting. Mr. Cooper replied the October meeting will be too early, but Mercer can begin to create models with the goal of providing them by the end of the year. He added that BWC needs to choose one discount rate; otherwise the amount work to create the alternative models would be overwhelming.

MERCER INVESTMENT TOPICS FOR EDUCATION

Kweku Obed, Mercer Investment, conducted an education session on two topics: portfolio diversification and active investment management versus passive management.

MONTHLY AND FISCAL YEAR-TO-DATE PORTFOLIO VALUE COMPARISONS
Mr. Dunn reported that the BWC portfolio exhibited good performance for the month of August. The stock investment portion grew by 1.4% and there was a similar performance by bonds. The cash balance grew $319 million because of high premium collections.

Mr. Dunn reported that he expected Congressional legislation soon to address the financial crisis. So far BWC has an estimated market value decline of its fixed income and equity securities of $610 million during the month through September 24, representing a portfolio return of minus 3.5%. The S & P Index, by comparison, is down minus 7.4% month to date.

Mr. Dunn reported that BWC is contemplating a portfolio rebalancing removing $100 million from the TIPS portfolio to invest in the S&P 500 equity fund. The equity portion of the asset allocation is at the low end of the target range. Mr. Smith responded that since the allocation change is within the policy bounds, there is no action needed by the Workers' Compensation Board.

CHIEF INVESTMENT OFFICER MONTHLY REPORT
Mr. Dunn reported that there are no changes to the goals as set forth in the report of the Chief Investment Officer monthly report. Three pages are included in the report that discuss the creation of the conservatorship for Fannie Mae and Freddie Mac and the sudden bankruptcy of Lehman Brothers. Mr. Dunn indicated the realized loss from the sale of all Lehman Brothers debt and common stock removed from the Bureau benchmark indexes and thus requiring sale this month will exceed $50 million. There has been minor improvement in AIG bond prices since the report provided by Mr. Dunn to the Board earlier this month was written. Mr. Dunn indicated that AIG will stay in the S & P and Lehman Brothers indices for the time being, thus not requiring any sales of AIG securities owned.

Mr. Cooper commented that there is no place for any investor to hide at this moment, so BWC should stay put with its current portfolio asset mix.

Ms. Falls asked what other pension funds are doing in the wake of the current financial turmoil. Ms. Finney-Cooke reported that her other public fund clients are now assessing the damage as the result of the September financial crisis. Mercer anticipates no major changes to recommend to BWC in terms of asset allocation of investments.

Mr. Dunn commented that the financial crisis has had no effect on its money market fund investments. State Street is doing a good job in its security lending activities and reported no losses on securities lending activities. Mr. Dunn and Lee Damsel, Director of Investments, will be visiting State Street in November for a quarterly investment manager update meeting and will also include meetings with its securities lending team.

CALENDAR OF EVENTS & REPORTS

Mr. Smith requested a monthly progress report from Mercer at the October Investment Committee meeting and succeeding meetings providing an update on the asset-liability study project being conducted by Mercer in preparation for their proposed asset-liability study rollout.

ADJOURNMENT

Mr. Smith moved to adjourn, Ms. Falls seconded and the meeting was adjourned.

Prepared by: Larry Rhodebeck, Staff Counsel
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September 30, 2008

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

10 South Wacker Drive, Suite 1700
Chicago, IL 60606
312 902 7147 Fax 312 902 7640
guy.cooper@mercer.com
www.mercer.com

Memo

To: Ohio Bureau of Workers Compensation (Ohio BWC) Board of Trustees

Date: September 30, 2008

From: Guy Cooper
Kristin Finney-Cooke

Subject: **Quarter End Rebalancing**
Copy: Bruce Dunn, Lee Damsel (Ohio BWC Investment Division)

Background
Rebalancing is the periodic adjustment of an asset portfolio to restore the asset allocation to the desired target percentages. The Bureau's Statement of Investment Policy asks the Chief Investment Officer, under the guidance of the Administrator, to rebalance the equity portfolio of the State Insurance Fund (SIF) whenever the market value of total assets in the SIF falls below 17%. When this occurs, as it has presently, the policy requires the Administrator to purchase sufficient equities to bring the allocation into the target range of 17% - 23%. The Administrator has latitude to decide where in the target range the equity percentage falls after the rebalancing purchases are made.

Under normal circumstances, rebalancing policies are put in place to provide a reliable discipline for keeping a portfolio's approved asset allocation in balance as market conditions change. Maintaining balance is important as the asset allocation is the blueprint that has the highest probability of meeting the expected risk adjusted return for an investment program. Over time the asset mix of any portfolio drifts from its original target allocations, acquiring unintended risk and return characteristics, which potentially has a material impact on objectives being met in the future. Generally, asset mix drift results in more dollars in the riskier asset classes than was originally intended, as riskier assets tend to outperform less risky assets. Without rebalancing, most portfolios become over weighted in riskier assets requiring a conscious effort to bring the portfolio back into line with the original policies.

The opposite is the case with the Bureau's current position given the policy of 80% fixed income to a 20% equity allocation. Falling stock market prices has resulted in too few dollars invested in equities and too much invested in fixed income. It is our opinion that any proposed rebalancing at this time would result in more dollars of the SIF being invested in the stock market. Ordinarily this is an acceptable result; however, given the turmoil in the market, there is cause for pause.

Recommendations and Conclusion

We believe that automatic rules for rebalancing in normal markets can never entirely replace prudent judgment during turbulent markets. We have recommended to the Administrator that she not act at this time to rebalance the SIF portfolio by purchasing equities and selling fixed income due to extreme uncertainty of current market conditions. The consequences of any immediate action are wildly unpredictable, and we do not see any negative impact to the process by being cautious and doing nothing at this time until some clarity and order has emerged in the national financial crisis.

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October 30, 2008

Discussion: MWBE Firms

Investment Committee Meeting

Ohio Bureau of Workers' Compensation

Guy Cooper

Kristin Finney-Cooke

Services provided by Mercer Investment Consulting, Inc.

MWBE Overview
What is an MWBE Firm?

MWBE Firms are defined as a Minority and/or Women Owned Business Enterprises

Characteristics:

- Firms that have been certified as having a minority and/or woman own 51% of the company (majority stake).
- MWBE can also be considered emerging firms, but they are not mutually exclusive.
  - Emerging firms are defined as investment managers that have $2 billion or below in assets under management
  - An example of a MWBE firm that is not also emerging is Earnest Partners, which has approximately $20 billion under management
  - Whereas OPUS Capital with assets of $1 billion under management is considered both an emerging and an MWBE firm

MWBE Overview
What is an MWBE Firm?

Characteristics (cont…):

- MWBE firms have investment vehicles that cover many of the same asset classes as their non-minority owned counterparts:
  - Domestic Equity (all capitalization sizes)
  - Non-US Equity
  - Fixed Income
  - Private Equity
  - Private Real Estate
- We have not seen MWBE firms play a role in the following alternative strategies such as:
  - Infrastructure
  - Commodities
  - Timber

MWBE Overview
Economic Rationale for Selecting MWBE Managers

In recent years, academics (including *Lisa A. Hagerman – Oxford University / Harvard University*), Industry publications (such as *Pensions and Investments*) and Industry Players (including *Mercer*) have commented on the economic rationale for considering MWBE Managers in a total portfolio context.

Some of the reasons cited by some of these sources include the following:

- Overall, emerging managers have continued to exhibit favorable performance versus larger firms
  http://www.northerntrust.com/pointofview/07_April/april07_emergingmanagers.html
- Emerging and larger managers appear to be taking similar portfolio risk
  www.leia.net/downloads/LEIA_Performance_Study_Summary_1206_Web.pdf.
- Emerging managers have generally performed better than larger managers in down markets **http://www.progressinvestment.com/content/articles/view/resources**
- Emerging Managers exhibit slightly higher tracking error to benchmarks
  http://www.pensionconsulting.com/research.htm
- Emerging Managers have performed better when market volatility is high.
  http://urban.ouce.ox.ac.uk/research.php.

Economic Rationale for Selecting MWBE Managers

- *As more performance data has become available on smaller, lesser-known firms, more public retirement systems are taking notice and carving out dedicated emerging manager programs* (***Mark Bruno – Emerging Manager Program Shake-up' Pensions & Investments, May 17, 2007***).

- *Plan sponsors unwittingly exclude themselves from investing with managers who have produced some of the best returns out there and represent some of the best talent in the marketplace (**Ted Krum - Potential Benefits of Investing With Emerging Managers: Can Elephants Dance?).***

- *Do not treat emerging managers as separate or different—it's all about alpha **(Thurman V White, Jr – Investing in the Future: Minority Opportunities and the Federal Thrift Savings Plan (TSP)).***

MWBE Overview
Value Add of MWBE Firms

The Problem: Capacity constrained traditional managers may limit choices for large plans.

Solution: Qualified minority and female owned (MWBE) managers.

Mercer's Resources and Experience:

- 52 MWBE searches since 2002
- Extensive manager information
  - 184 MWBE firms (470 strategies)

Our Approach:

- Create a level playing field for all managers

Investment Manager Criteria

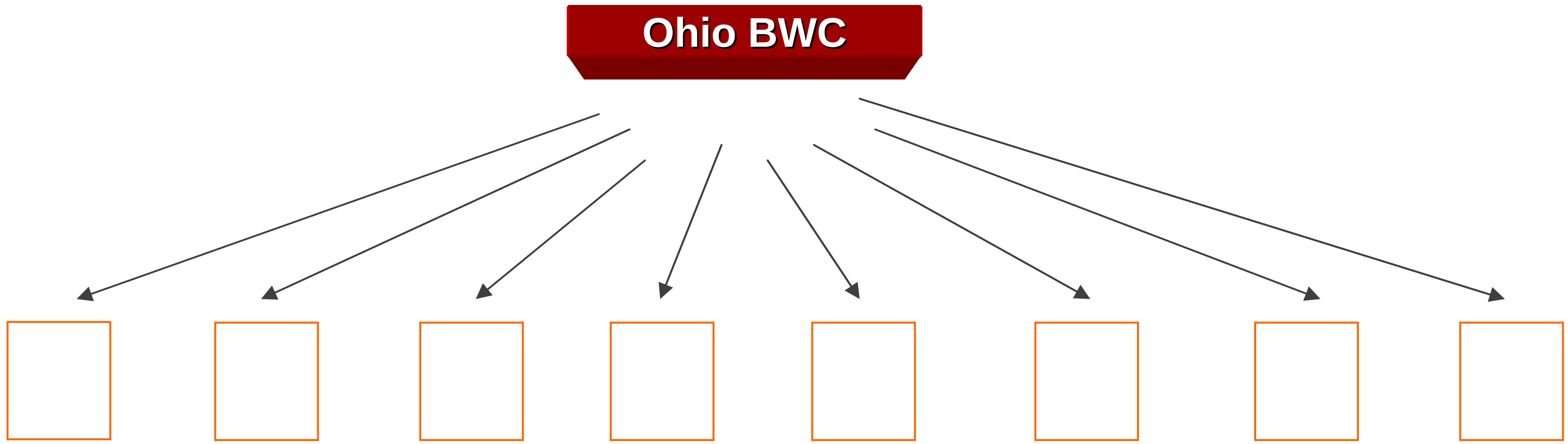
Waive Standard Criteria	Maintain Standard Criteria
Years in business (firm)	Performance benchmarks
Assets under management	Peer group comparisons
Length of track record	Strength of management team

Impact for Ohio BWC

Increase potential return to fund per unit of active risk by utilizing more nimble investment mandates.

Investment Options- Place Mandates Directly with a MWBE Firm

How a Direct Program is Implemented



MWBE Investment Managers across multiple asset classes

Investment Options: Place Mandates Directly with MWBE Firm (cont…)

Benefits	Risks
▪ The Trust develops a direct relationship with the investment manager ▪ The client has the ability to select the investment manager ▪ Fee’s tend to be lower ▪ Eliminate the middle man ▪ Can place more assets with a manager	▪ May be a smaller less experienced firm from an operations standpoint – thus causes organizational risk ▪ Less diverse than a manager of managers program where you invest with a basket of managers ▪ Do not have the extra layer of due diligence

Investment Options- Invest in Manager of Managers Program

How a Manager of Managers Program is Implemented

Ohio BWC

Attucks
FIS Group
Leading Edge
Progress
UIM

All Cap Domestic Equity
Manager of Manager

Non – Us Equity
Manager of Manager

Fixed Income
Manager of Manger

Investment Mangers

Investment Managers

Investment Managers

Investment Options- Invest in Manager of Managers Program (cont…)

Benefits	Risks
▪ Diversification: Through a manager of managers program the Trust invests in a basket of managers ▪ There is an extra layer of due diligence ▪ Typically manager of managers work with their underlying managers to ensure that their operations can effectively service institutional clients ▪ Great way to source managers for future Direct relationships	▪ Higher fees: The manager of managers charges a fee on top of the underlying manager fees ▪ Do not have the ability to select which underlying managers participate in the program ▪ There is a limit on the amount of assets that go to each underlying manager – as they are part of a larger program ▪ The Trust does not have a direct relationship with the underlying managers

Investment Options- Staged and Graduation Programs

The next two options combine Direct or Manager of Managers Programs strategies

- **Staged Program**: Invests via the Direct strategy, but gives the manager assets in a step by step process. Each additional infusion of assets are contingent on predetermined requirements such as performance or success of back office operations/compliance procedures.

- **Graduation Program**: Utilizes the Manager of Managers strategy initially. Once the program is underway for a predetermined amount of time the underlying managers are evaluated and one or two (if appropriate) managers are targeted to graduate out of the Manager of Managers program into a direct relationship with the Trust.

Mercer currently has experience advising clients on all four methods of gaining access to MWBE firms.

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October 30, 2008

Discussion – Asset Strategy in Today's Environment
Investment Committee Meeting

Ohio Bureau of Workers' Compensation

Guy M. Cooper

Kristin Finney-Cooke

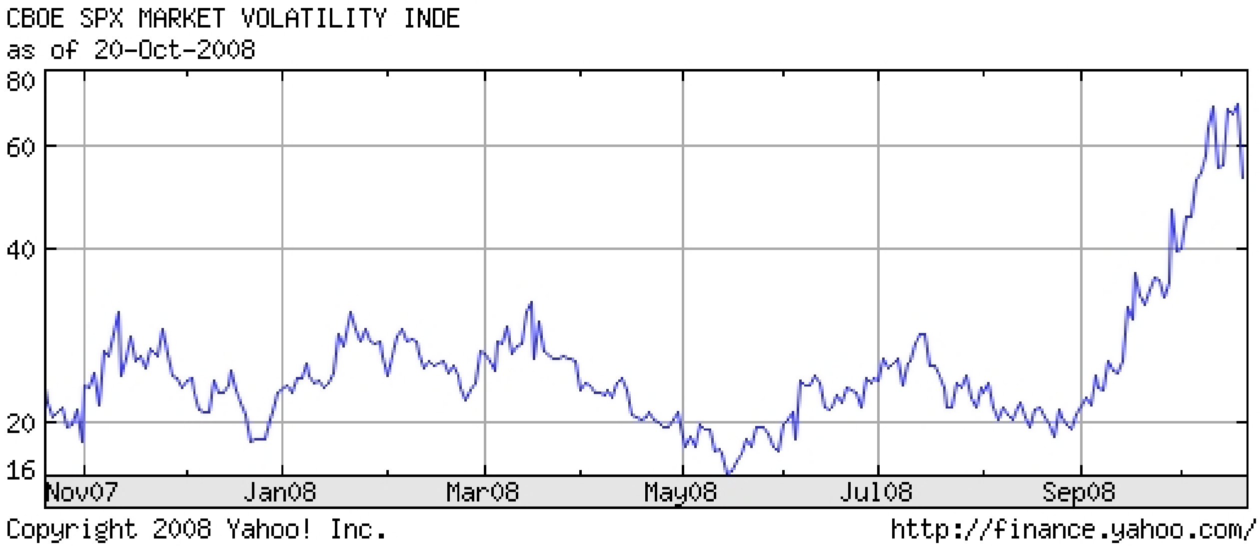
The U.S. Economy is a Train Wreck

So, how scared are investors?

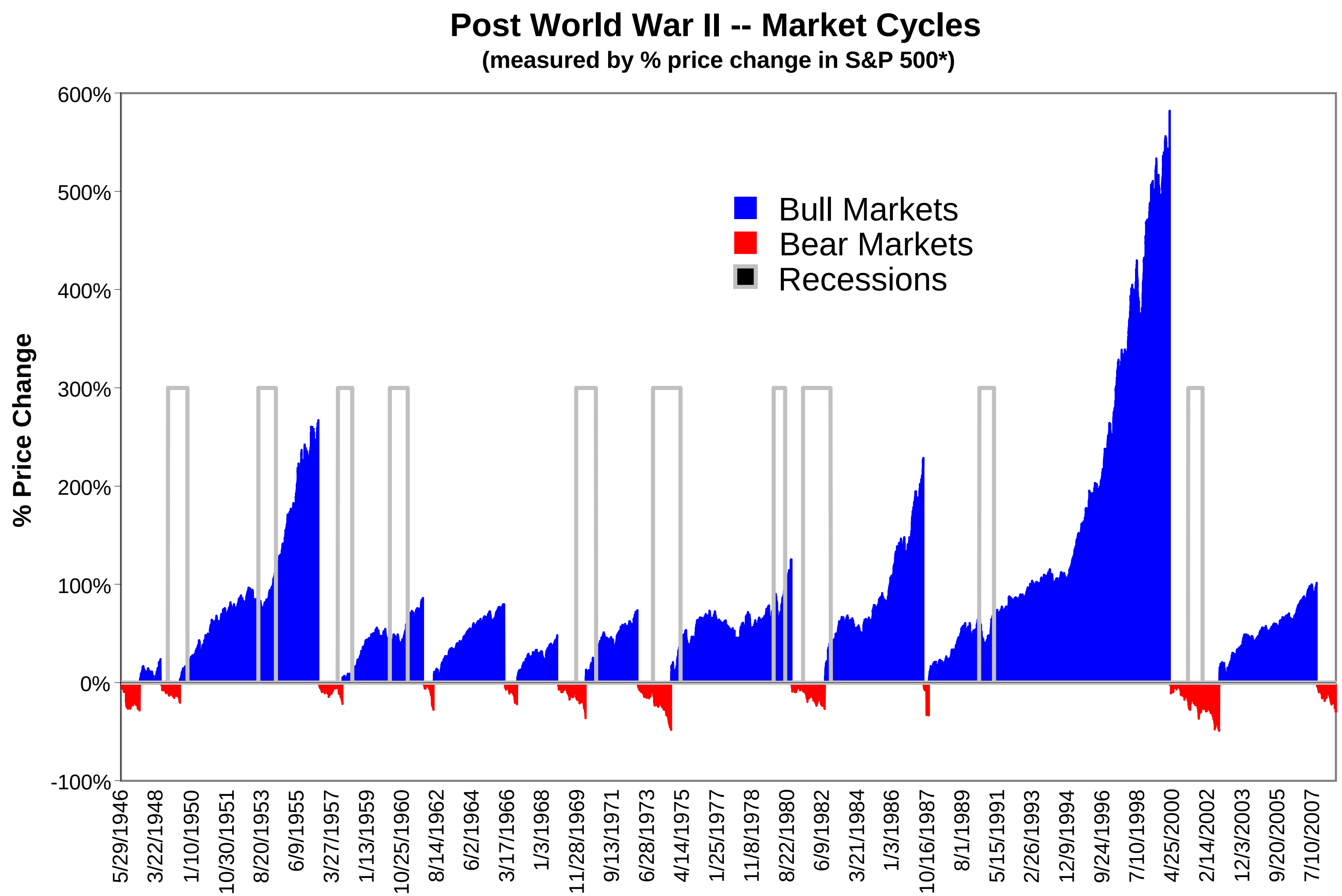
- The VIX (or the Chicago Board Options Exchange Volatility Index) measures volatility (market swings).
- A rising VIX is usually regarded as a sign that fear, rather than greed, is ruling the market.
- The higher the VIX goes, the more unhinged the market looks.
- *The VIX is hardly a household name like the Dow. But lately, it has become a fixture on CNBC and other financial news outlets, with commentators often invoking an index that most of the general public was blissfully unaware of only a few weeks ago (Michael Gryanbaum, NY Times – October 19, 2008)*

So, how scared are investors?

- On October 17,2008, the VIX rose to 70.33, its highest close since its introduction in 1993. To some experts, that suggests that the wild ride is far from over



Review of Past Market Cycles
Bull, Bear, Recession



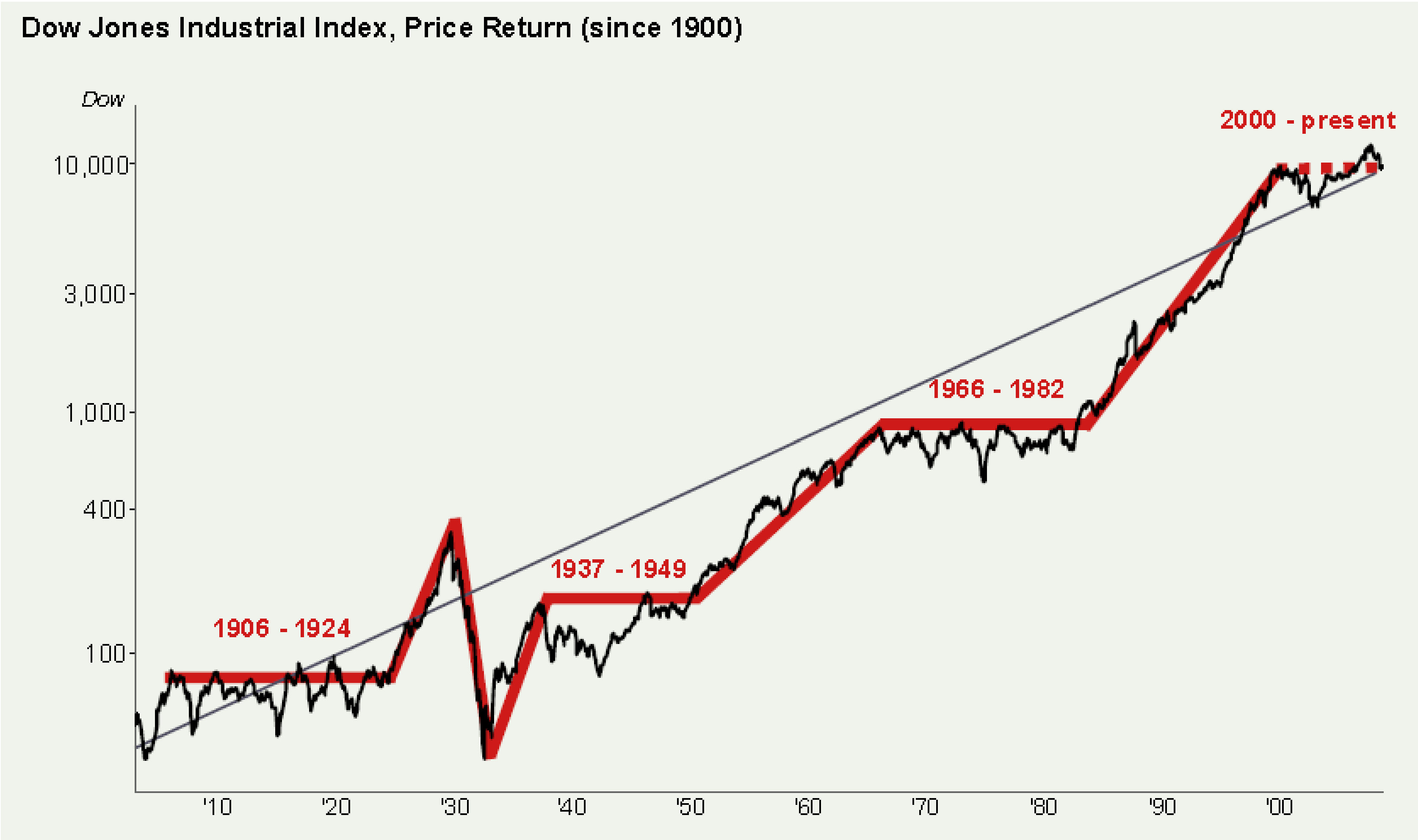
* price change in the S&P 500 and predecessor indexes

Extent of Past Market Cycles (S&P 500 Index)

Cycle	Bear Start	% Price Change	Elapsed Days	Bull Start	% Price Change	Elapsed Days
1	5/29/1946	-28.5%	355	5/19/1947	23.9%	393
2	6/15/1948	-20.6%	363	6/13/1949	267.1%	2,607
3	8/2/1956	-21.6%	446	10/22/1957	86.4%	1,512
4	12/12/1961	-28.0%	196	6/26/1962	79.8%	1,324
5	2/9/1966	-22.2%	240	10/7/1966	48.0%	784
6	11/29/1968	-36.1%	543	5/26/1970	73.5%	961
7	1/11/1973	-48.2%	630	10/3/1974	125.6%	2,248
8	11/28/1980	-27.1%	622	8/12/1982	228.8%	1,839
9	8/25/1987	-33.5%	101	12/4/1987	582.1%	4,494
10	3/24/2000	-49.2%	929	10/9/2002	101.5%	1,826
11*	**10/9/2007**	**-29.3%**	**356**			
10 Complete Post WWII Market Cycles						
Average		-31.5%	443		161.7%	1,799
Minimum		-20.6%	101		23.9%	393
Maximum		-49.2%	929		582.1%	4,494

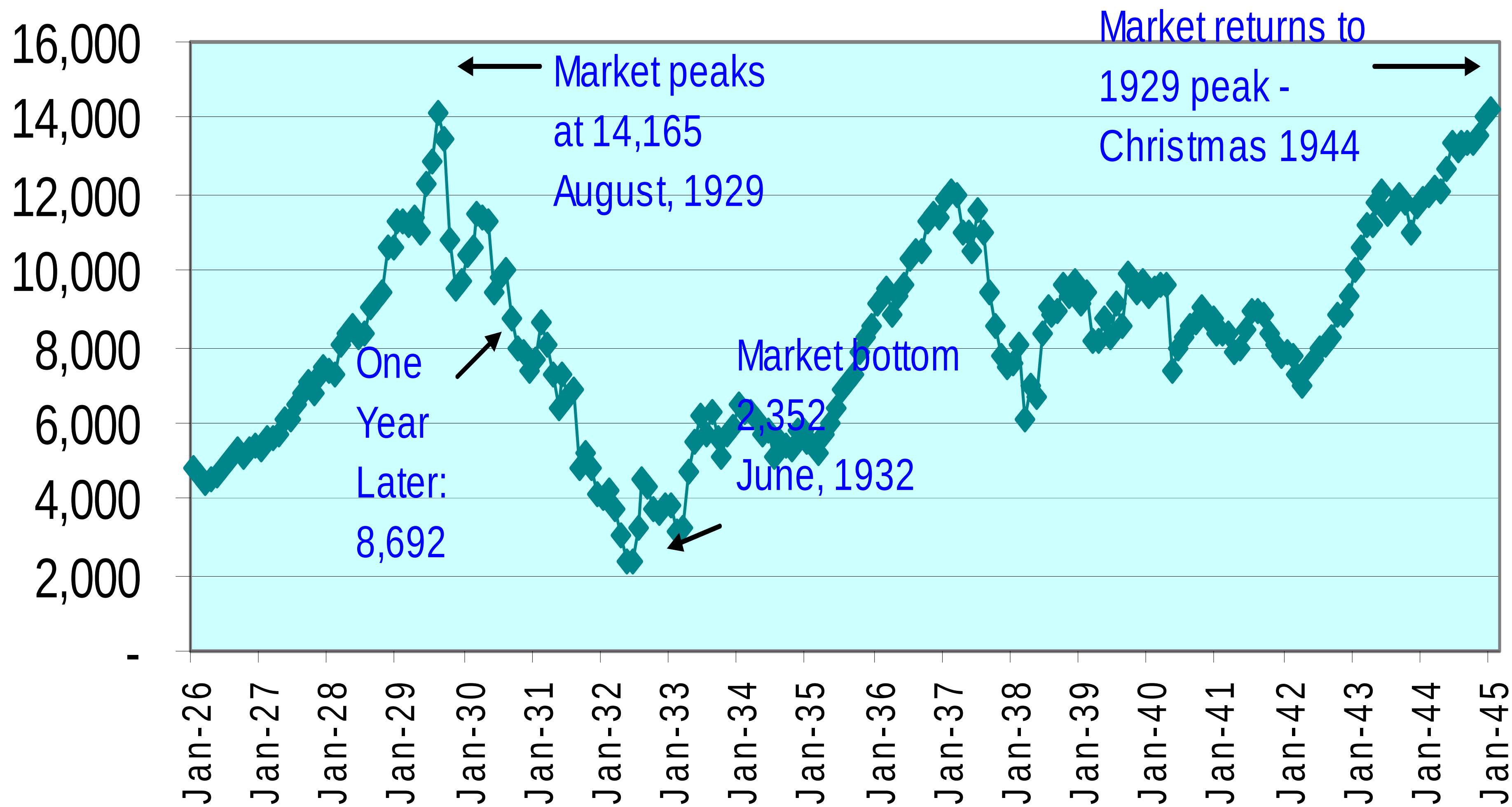
* to 9/29/2008 low close of 1106.42

Another Look at Market Cycles Before

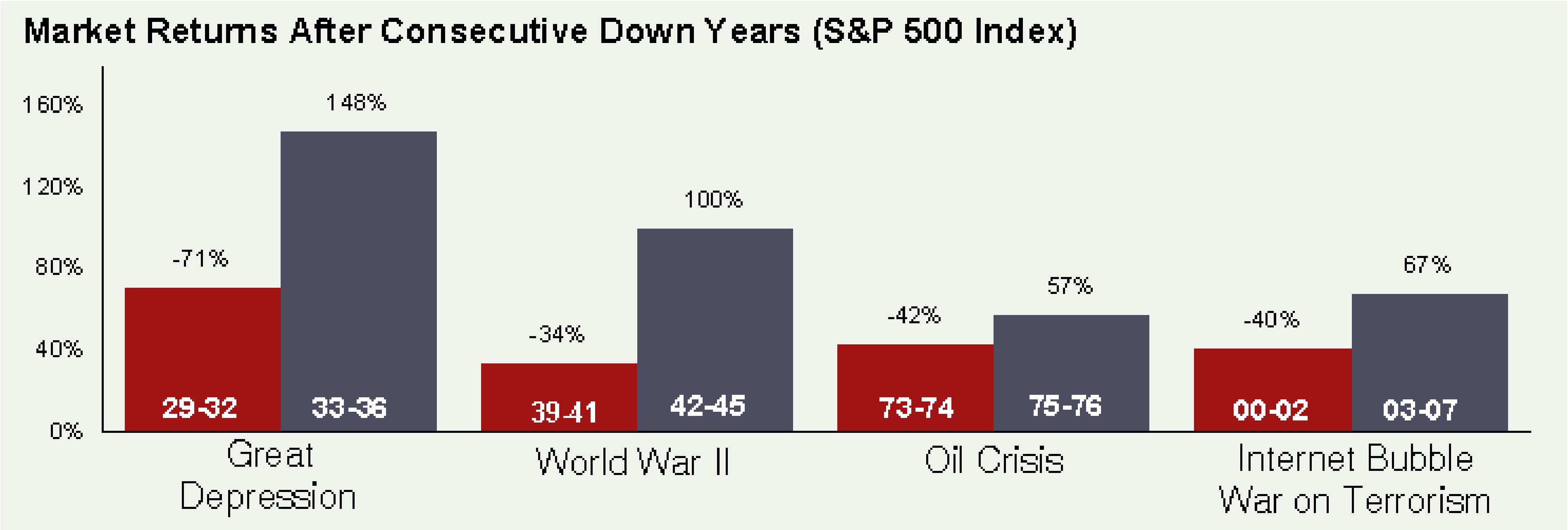


Source: IDC, FactSet, JP Morgan Asset Management.

The Stock Market 1926 - 1944



Historically, Markets Have Come Back Strong



Worst Case – Stocks and Bonds

- Bonds by themselves do not offer certain protection from loss
  – Looking at every 5 year period between 1926 and 2005, the worst periods for bonds was 1965 - 1969, where bonds lost -2.14% per year.
  – The worst 5 year period for stocks was -12.5% per year (1928 – 1932).
- Owning stocks is a good diversifier
  – The worst 5 year period for a portfolio that was 30% stocks and 70% bonds was 0.12% per year (1965 – 1969)
  – The worst 5 year period for a portfolio that was 50% stocks and 50% bonds was -2.77% per year (1928 – 1932)

Worst Case - Ten Year Periods

- Looking at every 10 year period between 1926 and 2005, the worst periods for bonds was 1950 - 1959, where bonds lost -0.07% per year.
- The worst 10 year period for stocks was -0.89% per year (1929 – 1938).
- The worst 10 year period for a portfolio that was 30% stocks and 70% bonds was 2.11% per year (1965 – 1974).
- The worst 10 year period for a portfolio that was 50% stocks and 50% bonds was -1.99% per year (1965 – 1974).

Investment Strategy

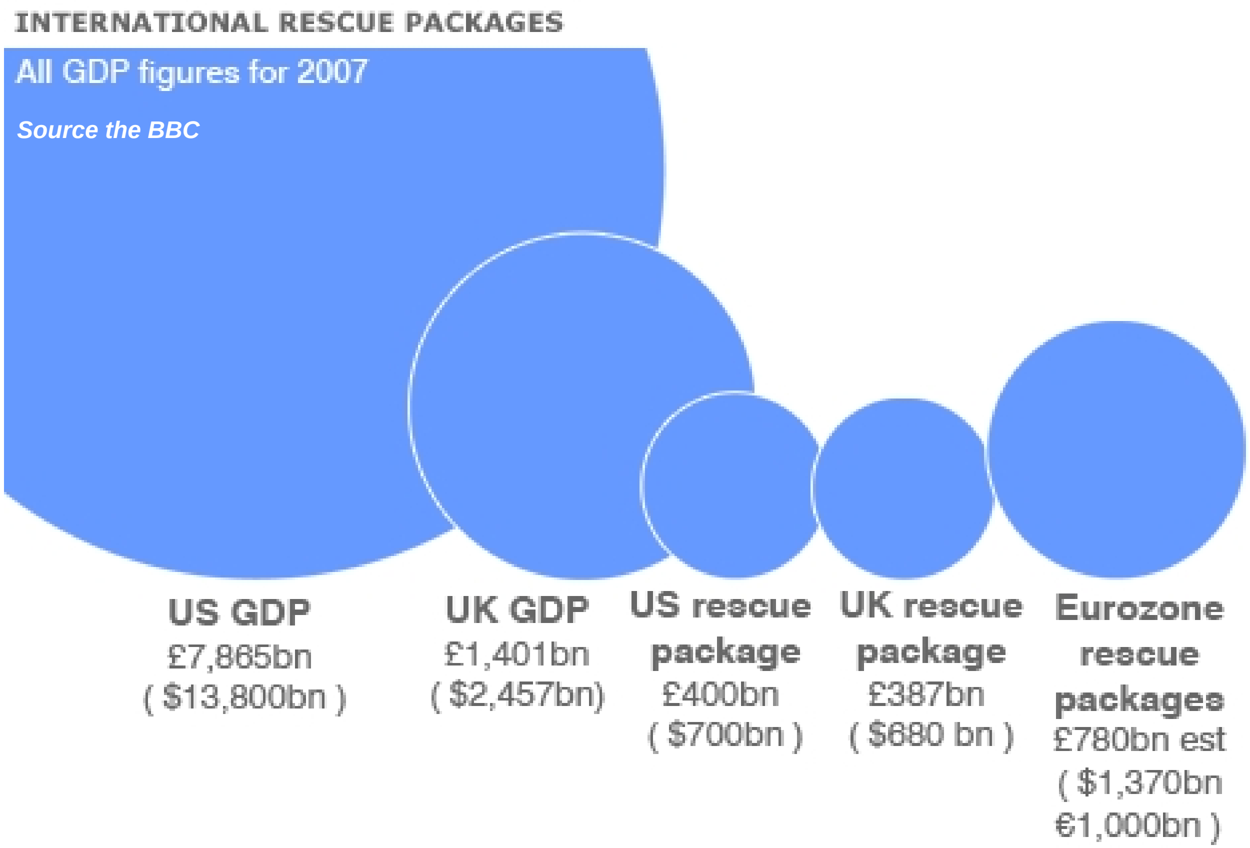
- We distinguish between <u>tactical</u> and <u>strategic</u> asset allocation.
- Tactical strategy takes place when you form an expectation of particularly good (or particularly poor) investment markets and invest accordingly.
- Strategic investing takes place when you trust the long term likelihoods – that stocks will outperform bonds – and invest in a relatively fixed mix of stocks and bonds that accords with your financial requirements and your risk preferences.
- We will always counsel that you trust the strategic approach. The strategic approach to asset allocation forms the basis for a sound investment strategy.

Tactical Investing

- Tactical investing is generally considered to be a recipe for failure.
- Markets move without warning so that it is important to stay invested in them all the time so that you do not miss the good times.
- In the 30 years, from 1975 – 2005, you would have earned 11.83% per year if you had been invested in stocks.
- If you had attempted tactical moves, and missed the best 20 days of the 30 year period, you would have only earned 8.98% per year.
- If you had attempted tactical moves, and missed the best 90 days of the 30 year period, you would have only earned 3.28% per year.
- Studies like this and others show the importance of not missing exposure to the stock market.

Governments Response to the Crisis

- Governments have spent billions of dollars on rescue packages, led by the U.S. with its $700bn rescue package.



The $700bn bail-out plan

- The U.S. government plans to borrow the money from world financial markets.
- The legislation under which the scheme was passed, gives the Treasury the authority to issue an additional $700 billion worth of Treasury securities.
- The bail-out (better known as the Troubled Asset Relief Program or TARP) essentially doubles the size of the U.S. budget deficit.
- The U.S. government argues that it intends to recover much of the money back from the TARP.
- The government plans to eventually sell back the shares it is buying in the major banks.

Credit Markets Showing Signs of Thawing

- The credit markets are finally showing some signs of thawing.
- The London Interbank Offered Rate (LIBOR) is the rate at which banks lend to each other for short term loans
- LIBOR is an important indicator because it is the underlying interest rate tied to many commercial loans (while most mortgages in the United States are priced off the prime rate, most commercial loans are priced off of LIBOR).
- The difference between LIBOR and the three month treasury bill interest rate can be used to judge the stress in the financial system.
- When the difference between the two rates (also called the TED spread) is wide it shows a reluctance to lend between banks.

Credit Markets Showing Signs of Thawing

- The chart below shows that the TED spread widened to historic levels in September 2008 (and for a few days in October 2008) but in recent days we have seen the TED spread narrow.
- When the difference between the two rates narrows it normally means that banks are less reluctant to lend to one another

Credit Markets Showing Signs of Thawing

- Another sign that the credit markets are thawing comes from the interest rates on asset backed commercial paper. Since the credit freezes of September 2008, the rates of all classes of commercial paper have been declining.

Source Seeking Alpha

Credit Markets Showing Signs of Thawing

- *While credit market participants are far from confident, the market is showing some signs of thawing.*
- On Friday (October 17, 2008), three-month LIBOR posted its first weekly decline since July. The rate had pushed as high as 4.81875% on October 10, 2008.

On October 21, 2008:

- LIBOR, for three-month dollar loans fell to 3.83375% from 4.05875% from the previous day.
- The overnight dollar lending rate plunged below the U.S. Federal Reserve's official federal funds rate of 1.5%, declining to 1.28125% from the previous day's level of 1.5125% (the move marks the first time the overnight rate has moved below fed funds since September 2007)
- Three-month sterling LIBOR fell to 6.085% from 6.11625%. The Bank of England's key lending rate is 4.5%.
- Three-month Euro Libor slipped to 4.95875% from 4.98625% on Monday. The Frankfurt-based European Central Bank's key lending rate is 3.75%.

Our prescription

- This won’t end tomorrow and volatility will be with us for a while.
- We recommend we proceed with our study of the right investment objectives and associated asset mixes for the Bureau.
- The time line for this will put us into early 2009 and we can make a final evaluation of our courses of action at that time.
- We would not sell out of the stock market.

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Ohio Bureau of Workers' Compensation
Invested Assets Market Value Comparison
TOTAL FUNDS

Asset Sector	Market Value Sept 30, 2008	% Assets	Market Value Aug 31, 2008	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2008	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	13,449,308,956	79.5%	13,957,513,222	78.2%	(508,204,266)	-3.6%	$13,917,829,156	79.8%	(468,520,200)	-3.4%
Equity	2,920,601,007	17.3%	3,201,805,576	17.9%	(281,204,569)	-8.8%	3,185,174,964	18.3%	(264,573,957)	-8.3%
Net Cash - OIM	17,914,542	0.1%	93,784,124	0.5%	(75,869,582)	-80.9%	31,217,754	0.2%	(13,303,212)	-42.6%
Net Cash - Operating	440,734,852	2.6%	492,110,903	2.8%	(51,376,051)	-10.4%	202,328,872	1.2%	238,405,980	117.8%
Net Cash - MIF, PWRF, SIEGF	96,827,912	0.6%	93,207,476	0.5%	3,620,436	3.9%	95,980,364	0.6%	847,548	0.9%
Total Net Cash	555,477,306	3.3%	679,102,503	3.8%	(123,625,197)	-18.2%	329,526,990	1.9%	225,950,316	68.6%
Total Invested Assets	$16,925,387,269	100%	$17,838,421,301	100%	($913,034,032)	-5.1%	$17,432,531,110	100%	($507,143,841)	-2.9%

OIM: Outside Investment Managers
MIF: Marine Industry Fund; **PWRE**: Public Work-Relief Employees' Fund; **SIEGF**: Self-Insured Employers' Guaranty Fund

Market Value of Bonds and Stocks includes accrued investment income.

Net Cash includes the impact of net trade receivables/payables, accrued money market earnings, and accrued investment manager fees.

September/August 2008 Comparisons

- Net investment income in September 2008 was a negative $864 million representing a monthly net portfolio return of -4.78% (unaudited).
- Bond market value decrease of $508.2 mm comprised of $75.7 mm in interest income, $657.6 mm in net realized/unrealized losses and $73.7 mm in OIM net bond purchases (decreasing net cash balances accordingly).
- Equity market value decrease of $281.2 mm comprised largely of $5.8 mm of dividend income, $289.6 mm in net realized/unrealized losses and $2.2 mm in lower OIM net cash balances.
- Net cash balances decreased $123.6 mm in September 2008 largely due to decreased OIM cash balances ($75.9mm) and decreased operating cash balances ($51.4mm).
  JPMorgan US Govt. money market fund had 30-day average yield of 2.26% for September 2008 (2.19% for Aug08) and 7-day average yield of 2.14% on 9/30/08 (2.20% on 8/31/08).

September 2008/June 2008 FYTD Comparisons

- Net investment income FYTD of a negative $744 million comprised of $277 mm of investment income and $1,020 mm of net realized/unrealized losses, offset slightly by $1 mm in fees, representing a FTYD net portfolio return of -4.18%
- Bond market value decrease of $469 mm comprised of $256 mm in interest income and $738 mm of net realized/unrealized losses, reduced by $13 mm in higher OIM cash balances.
- Equity market value decrease of $282 mm comprised largely of $18 mm in dividend income and $282 mm in realized/unrealized losses, reduced by $18 mm in higher OIM cash balances.

OBWC Board of Directors
Investment Committee Charter

Purpose

The purpose of the Investment Committee is to ensure that the assets of the Ohio Bureau of Workers' Compensation (OBWC) are effectively managed in accordance with the laws of the State of Ohio, and the Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines. The Investment Committee:

- assists the Board of Directors in the review and oversight of the State Insurance Fund and each Ancillary Fund (collectively the Funds) assets; and
- develops and monitors the implementation of the BWC's investment policy.

Membership

The Committee shall be composed of a minimum of five (5) members. Two of the members shall be the members of the Board who serve as the investment and securities experts on the Board. The Board, by majority vote, shall appoint three additional members to serve on the Investment Committee and may appoint additional members, either from the Board or someone not on the Board. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions.

The Chair and Vice Chair is designated by the Board, based on the recommendation of the Board Chair. The Board Chair if not a member is an ex-officio member, shall not vote if his/her vote will create a tie vote when serving as ex-officio.

Members of the Investment Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the members of the Committee who are the investment and securities expert members of the Board.

Meetings

The Investment Committee will meet at least nine (9) times annually; additional meetings may be scheduled as the Committee or its chairperson deem advisable. The Investment Committee is governed by the same rules regarding meetings, notice, quorum and voting requirements as are applicable to the Board. Committee meetings will be conducted according to Robert's Rules of Order. A quorum at any Investment Committee meeting will consist of a majority of the Committee members.

The Chair of the Committee will be responsible for establishing the agendas for the meetings of the Committee. An agenda, together with information/background materials, will be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee will be prepared to document all actions to the Committee's discharge of its responsibilities. The Committee will have a staff liaison designated to help it carry out its duties.

Duties and Responsibilities

The Investment Committee is charged with overseeing all investment-related matters and activities of the BWC. The Committee evaluates proposals requiring Board action and makes recommendations for consideration by the Board. The Committee shall:

1. Develop and recommend the strategic asset allocation and investment policy for the Funds and submit to the Board for approval. The Committee will periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties.
2. Evaluate and recommend an outside investment consultant to assist the Investment Committee in its duties. Submit a contract with the recommended investment consultant to the Board for approval.
3. Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives.
4. Provide advice and consent to the Administrator on the appointment of the Chief Investment Officer.
5. Recommend investment counsel to the Board for engagement.
6. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.
7. Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer. Review performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds.
8. Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval.
9. Monitor and review the investment performance of the Funds on a quarterly basis to determine achievement of objectives and compliance with this investment policy.
10. Recommend prohibited investments, on a prospective basis, the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval.
11. Recommend the opening and closing of each investment class and submit to the Board for approval.
12. Report all activities/recommendations to the Board following each meeting of the Investment Committee.
13. The Investment Committee will coordinate with other Board committees on items of common interest.
14. At least annually, this charter must be reviewed by the Investment Committee and any proposed changes submitted to the Governance Committee and to the Board for approval.
15. The Committee by majority vote may create a subcommittee consisting of one or more Directors on the Committee. In consultation with the chair, other board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. Each subcommittee shall keep minutes of its meetings. The subcommittee shall

report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

InvestmentCommitteeCharter.doc
Draft 092607
Review & Approved 112107, Bob Smith, Chair
Revised 012408
Revised 092408
Annual Review and Revision 112108

INVESTMENT DIVISION

TO: Marsha Ryan, Administrator
BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: October 14, 2008

SUBJECT: CIO Report September, 2008

Fiscal Year 2009 Goals

The Investment Division has five major goals for the new fiscal year 2009. These goals and brief comments on action plans for each goal follows:

1. Provide support and execute new BWC Investment Policy resulting from Asset-Liability study

2. Achieve full staffing of BWC Investment Division with continued training of developing staff

3. Continued establishment and execution of investment controls and compliance procedures

4. Complete implementation and utilization of resources provided by new investment accounting and performance system

5. Sell remaining miscellaneous investment assets

Strategic Goal One – PORTFOLIO TRANSITION

BWC investment consultant Mercer will be formulating an asset-liability study and related investment strategy recommendations to be presented to the BWC Investment Committee. The BWC Investment Division will provide whatever support is needed by Mercer in terms of background and information necessary for Mercer to complete its asset-liability study of the Bureau and its investment strategy recommendations. Once a new investment strategy is approved by the BWC Investment Committee and Board of Directors, the Investment Division will assist Mercer and the Investment Committee in developing a new or revised Investment Policy Statement reflecting the newly approved investment strategy.

The Investment Division in consultation with Mercer will employ a thorough and complete RFP process for each new outside investment manager search required to execute the new investment strategy. Given the assumption that multiple RFP processes will be necessary to execute the new investment strategy, a prioritization of the timing of RFP issuances will occur with the approval of the Investment Committee. Each RFP process is expected to result in investment manager recommendations to be presented for approval by the respective RFP evaluation committee to the Investment Committee and Board of Directors.

After each new investment manager for each identified investment asset class mandate is selected and approved, the Investment Division will coordinate the transfer of appropriate invested assets from the legacy investment manager to the new investment manager. It is expected that the Bureau will engage with its approved transition managers (Barclays, Russell, State Street) for the execution of each of its asset manager transfer strategies. The Investment Division will oversee the timing and execution of each targeted transition with the goal of achieving such asset transition with efficiency and at a low economic cost.

<u>Strategic Goal Two – INVESTMENT STAFF</u>

The Investment Division began fiscal year 2009 commencing July 1, 2008 with a staff of ten individuals consisting of the CIO, Director of Investments, Investment Administration Manager, one Senior Investment Manager, one Investment Manager, three Assistant Investment Managers and two administrative assistants. The one current remaining vacancy within the Investment Division is for a second Senior Investment Manager. It is the intention to fill this important position before the end of calendar 2008. Second stage interviews with the selected finalist candidates have recently been completed by the Investment Division with a leading candidate having emerged.

There will be a proper emphasis on the training of staff investment professionals to become more effective managers. Continuous investment education and an appropriate emphasis on CFA (Chartered Financial Analyst) related programs and study will be encouraged and supported. The number of investment professionals on staff who have achieved the CFA accreditation now totals six as Assistant Investment Manager Roy Charles achieved such status upon his passing of the level 3 CFA exam. The cross-training of many duties assigned to respective staff members will occur to broaden skill sets and ensure necessary backup support. Each investment professional on staff is expected to serve the needs of the Bureau and its customers with the highest of integrity, ethics and competence.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

The Investment Division will continue to establish and improve upon internal investment procedures and controls. All such procedures will be written and mapped through the use of the Webmethods schematic process. The BWC Internal Audit Division will be engaged as appropriate in guiding and assisting the Investment Division in the creation and refinement of such internal control procedures.

The Investment Division has focused on the management oversight of the passive style investment managers, performance reporting and other investment activities to support the BWC Investment Policy. Internal procedures will be developed for the monitoring of active style investment managers in advance of the anticipated selection and engagement of such managers as an outcome of any new investment strategy approved. Among new policies and procedures being addressed are brokerage activity, proxy actions, corporate actions, legal class actions and asset allocation rebalancing.

Strategic Goal Four – INVESTMENT ACCOUNTING SYSTEM RESOURCES UTILIZATION

A new investment accounting and reporting system offered by BNY Mellon was selected by the Bureau in 2007 via the RFP process. The Investment Division is focusing on the goal of utilizing this improved investment accounting system for the daily monitoring of investment managers in satisfaction of compliance with the BWC Investment Policy. The investment staff is now well into the process of learning how to utilize many of the compliance and performance measurement tools and resources offered by this accounting system through both formal training sessions and self education.

Strategic Goal Five – MISCELLANEOUS INVESTMENT ASSET SALES

It is a strategy and goal of the Investment Division to sell or liquidate during fiscal year 2009 the remaining miscellaneous investment assets of value owned by the Bureau. Miscellaneous assets are defined to include private equity, coins, stock distributions received from formerly owned private equity partnerships, and illiquid securities inherited and retained from previously terminated outside investment managers. The aggregate carrying value of these miscellaneous assets targeted for disposal was approximately $10.5 million on September 30, 2008.

At the end of fiscal year 2008 ending June 30, 2008, a total of 66 private equity partnerships had been sold by BWC since June, 2007 for total proceeds received of $399.0 million. All such proceeds received from private equity sales were reinvested in the passive indexed Large Cap S&P 500 Equity portfolio currently managed by Northern Trust. There are two remaining private equity fund investments owned by the Bureau at the end of September 2008, one of which is expected to be sold in October 2008 and the second of which is anticipated to be liquidated from portfolio asset sales and resulting cash distributions during fiscal year 2009. A significant cash distribution of $1.02 million was in fact received in September 2008 from the fund being liquidated, reducing its carrying value to $0.2 million.

A substantial distribution of cash totaling approximately $12.1 million was received by the Bureau in July, 2008 from the coin fund liquidation firm contracted by the State of Ohio to oversee the liquidation of remaining coin fund related assets associated with Tom Noe. As a result of this significant coin fund distribution, the Bureau has now received a total of approximately $53.5 million, net of coin-related expenses paid directly by the Bureau. All remaining unencumbered coin and collectible assets not reserved for litigation claims have now been liquidated with the recent completion of several small auctions and a direct sale transaction with a dealer. There are believed to be sufficient funds retained in a capital coin fund bank account, managed by the coin fund liquidation firm, to pay future projected professional fees and litigation settlements.

Compliance and Portfolio Rebalancing

The investment portfolios in the aggregate were in compliance with the BWC Investment Policy at the end of September, 2008. The equity class asset allocation market value for both the State Insurance Fund and Disabled Workers Fund investment portfolios fell slightly below its 17-23% asset allocation target range during certain periods in late September but closed the month slightly above 17%. This development was the result of the performance of the S&P 500 separate account index funds which had a negative return of 8.88% for the month of September for these two trust accounts.

Potential asset allocation rebalancing action was discussed with BWC investment consultant Mercer in late September. Mercer provided a memorandum dated September 30, 2008 addressed to the BWC Board of Directors which stated that action not be taken at this time to rebalance affected trust fund portfolios out of compliance with minimum equity allocations due to the extreme uncertainty of current market conditions in a time of national financial crisis. The BWC Administrator, BWC Chief Investment Officer, BWC Board Chair as well as the Chair and Vice Chair of the BWC Investment Committee supported this no rebalance action decision in discussions conducted on September 29, 2008.

The S&P 500 index continued to decline precipitously by 23.1% over the first eight trading days of October 2008 ending October 10. The senior officer BWC Portfolio Rebalancing Committee met on October 10 to review the portfolio rebalancing issue and reaffirmed the decision to suspend any portfolio rebalancing actions at this time. At the close of markets on October 9, for example, the State Insurance Fund had an equity allocation of 14.5% of total invested assets at market value or 2.5% below its minimum stated target, whereas its separate Long Duration Fixed Income (LDFI) and U.S. Treasury Inflation Protected Securities (TIPS) asset class allocations were still comfortably within stated target ranges. It is necessary and prudent to postpone such rebalancing actions until the U.S. financial markets show signs of stabilizing, partly from the working through of the unprecedented actions taken by the federal government and Federal Reserve to provide necessary cash liquidity to restart the flow of credit from and between major financial institutions. Current liquidity for corporate bonds is very poor and bid/ask trading spreads for equities and TIPS is unusually wide, resulting in large and unfavorable trading costs harming the affected Bureau trust funds if a rebalancing strategy was executed at this time.

The BWC Portfolio Rebalancing Committee consists of the BWC Administrator, BWC Chief Operating Officer, BWC Chief Investment Officer and the BWC Chief Fiscal & Planning Officer. The BWC Portfolio Rebalancing Committee will meet again on or around November 10, 2008, or sooner as directed by the BWC Chief Investment Officer, to evaluate the state of the financial markets and the appropriateness of any potential portfolio rebalancing actions.

Portfolio Realized Losses

The BWC investment portfolio incurred net realized losses from sales of securities totaling $94.6 million over the month of September 2008. These net realized losses were almost evenly divided between stock sales ($48.3 million) and bond sales ($46.3 million). The bulk of these losses were attributable to holdings in four troubled prominent financial services organizations whose financial conditions deteriorated rapidly due to each firm's large exposure to troubled and illiquid mortgage-related assets.

A summary of the losses realized from these holdings sold is provided below.

Stocks ($ 000)	**Cost**	**Sale Proceeds**	**Realized Loss**
Fannie Mae	$16,557	$249	$(16,308)
Freddie Mac	9,578	120	(9,458)
Lehman Brothers	10,543	35	(10,508)
Washington Mutual	10,040	12	(10,028)
TOTAL	$46,718	$416	$(46,302)

Bonds ($ 000)	**Cost**	**Sale Proceeds**	**Realized Loss**
Lehman Brothers	$47,366	$1,502	$(45,864)
Washington Mutual	1,342	475	(867)
TOTAL	$48,708	$1,977	$(46,731)

Fannie Mae and Freddie Mac were placed into conservatorship on September 7 upon the U.S. federal government assuming control over these two government-sponsored agencies, severely diluting the ownership interest of existing shareholders as the federal government provided capital support in the form of newly created senior preferred stock. Lehman Brothers, a large investment banking firm, was forced to file for bankruptcy protection on September 15 as it incurred a liquidity crisis precipitated by a rapidly growing lack of investor and institutional counterparty confidence resulting from its weak and deteriorating mortgage and real estate portfolios. Washington Mutual, the largest savings and loan bank in the nation, was declared insolvent and seized by federal regulators on September 25 who brokered an emergency sale to JPMorgan Chase Bank but wiped out any residual value to existing shareholders. Washington Mutual, with over $300 billion in assets, represents the largest bank failure in U.S. history.

Each of the stock sales of these four companies were the result of each company being removed from the S&P 500 index after their respective market capitalization values fell below minimum valuation qualification requirements prescribed for this index. As a result of these actions by Standard & Poor's, the BWC investment manager (Northern Trust) for the passive S&P 500 index fund separate accounts that held common stock in each of these entities was required to sell all shares held in each of the three BWC trust accounts owning these securities. Similarly, Lehman Brothers was removed from the Lehman Long U.S. Government/Credit benchmark index after its sudden bankruptcy filing on September 15. This action required the BWC long duration fixed income passive indexed investment managers (State Street and Barclays) to sell all Lehman Brothers bonds held in the three BWC trust funds owning these securities.

Quarterly Investment Manager Meetings Summary (Second Quarter 2008)

Barclays Global Investors (Passive Long Duration Fixed Income)

The BWC Chief Investment Officer and Director of Investments visited the new offices of Barclays (BGI) in San Francisco on August 4, 2008 for the dual purposes of conducting an on-site quarterly investment manager meeting as well as to visit with additional BGI professionals in requested focus areas. The remaining BWC investment staff participated in this quarterly meeting via conference call. Performance for 2Q08 for the State Insurance Fund LDFI portfolio managed by BGI had a total return of -1.46% as reported by BGI compared to the -1.48% benchmark index return.

BGI announced there will be a change in the backup relationship manager servicing the BWC account as the current backup relationship manager is moving to the London office of BGI on a new assignment. Chris Barr is now a senior strategist with the BGI fixed income team and will be providing assistance to primary PM Matt Tucker in managing the BWC LDFI portfolio. Chris was formerly with the BGI transition management team and was the point person who coordinated and executed well the large BWC portfolio transition from Lehman Aggregate indexed accounts to LDFI in early 2007. Pete Wilson, head of BGI U.S. Fixed Income Strategy, provided an update on the fixed income markets. Matt Tucker reports directly to Pete Wilson. BGI is bearish on the U.S. economy and believes the U.S. is entering a recession with weakening consumer spending, declining housing market, deteriorating commercial real estate market, expected rising credit defaults and major portfolio losses at banks forcing restrictive credit availability. BGI anticipates the Fed will not raise interest rates anytime soon. There was discussion on challenges in recent months of pricing credit bonds in the long Lehman G/C benchmark index and differences between Lehman pricing and the more mechanical matrix pricing employed by IDC for less liquid issues. IDC is the pricing source used by the BWC custodian and accounting vendor.

Northern Trust (Passive Large Cap U.S. Equity)

The BWC Chief Investment Officer and Director of Investments visited the offices of Northern Trust in Chicago on August 6, 2008 for the dual purposes of conducting an on-site quarterly investment manager meeting as well as to meet with additional Northern Trust professionals on requested focus topics. State Insurance Fund total return was -2.75% for 2Q08 versus -2.73% for the benchmark S&P 500 index while 2Q08 total returns of the Disabled Workers Fund and Coal Workers Fund were -2.70% and -2.73%, respectively, as represented by Northern Trust.

PM Brent Reeder reported that things are going well operationally with BNY Mellon and custodian JPMorgan. There were 7 S&P 500 index changes occurring in 2Q08, with 6 occurring in June. PM indicated many financial companies in index are issuing shares in the secondary market to improve capitalization, resulting in a recent higher weighting for financials in index exclusive of natural price driven weighting changes. Market reception to these financial sector secondaries was mixed, according to PM. The weighting of financials in the index has declined to only 14% now from 19% at end of 2007 due to significant market underperformance from this sector. Negative return of -8.43% for benchmark index in June08 was worst monthly return since 2002 and was led by poor performance in financials. The YTD cash drag for the three trust funds has been a positive impact for performance versus the index at +3bp above for SIF, +5bp above for DWRF and +6bp above for CWRF for 1H08 when index returned -11.91%. Goal of PM is to keep cash at around 20bp of total assets with tolerance range of 10-30bp since derivatives can not be employed to reduce tracking error from cash position.

State Street Global Advisors (Passive Long Duration Fixed Income; Passive TIPS)

The BWC investment staff met with the Long Duration Fixed Income (LDFI) portfolio manager and the primary relationship manager on August 21, 2008 at the Investment Division offices, with the TIPS portfolio manager conferenced via phone. State Insurance Fund total return of LDFI portfolio for 2Q08 was -1.45% reported by State Street versus -1.48% for benchmark index return. Total 2Q08 return of Disabled Workers Fund and Coal Workers Fund LDFI portfolios reported by State Street was -1.46% and -1.44%, respectively, versus -1.48% benchmark index return. LDFI PM John Kirby indicated that in the current market environment, the execution of any non-government bond trade of $10 million par or more is challenging for the SIF portfolio in this present environment of weak liquidity for longer maturity credit issues. There is a need and desire for U.S. banks to issue long maturity debt to recapitalize and extend duration on short-term debt rollovers but foreign investor buying interest in this market segment has declined significantly in recent months. PM also indicated there are a lot of callable Freddie Mac and Fannie Mae bonds in the Lehman index and these issues are now difficult to trade. PM indicated that a 25 bp cash allocation for the BWC portfolios is a general target.

The performance results for each of the three U.S. TIPS portfolios (State Insurance Fund, Disabled Workers Fund, Coal Workers Fund) for 2Q08 was -0.26%, as reported by State Street, versus the benchmark index return of -0.28%. PM Jay Mauro indicated TIPS breakeven inflation spreads have narrowed recently with a July narrowing by 28 basis points very pronounced. Headline CPI inflation hit highs in June and July. PM indicated breakeven inflation expressed in TIPS market has narrowed to 2.2% from over 2.5% in May 2008. PM expects headline inflation will decline to meet core inflation rate over remainder of 2008. PM believes this narrowing breakeven currently provides a virtual free option on inflation for current TIPS valuations with TIPS representing very good value now for accounts sensitive to inflation risk. PM indicated he does not believe in active trading of TIPS portfolios lately due to higher bid/ask spreads. SSGA revealed that their passive commingled TIPS product offerings will be split to include both a 1-10 yr. maturity TIPS fund and a 10 yr.+ TIPS fund to meet both ERISA or Common Trust Fund eligible client demands for such a segmentation. Both of these offering “sleeves” will have both securities lending and non-sec lending options. SSGA has also recently added a passive global ex-U.S. inflation common trust fund for clients looking to diversify real yield exposure.

MERCER

Consulting. Outsourcing. Investments.

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

October 30, 2008

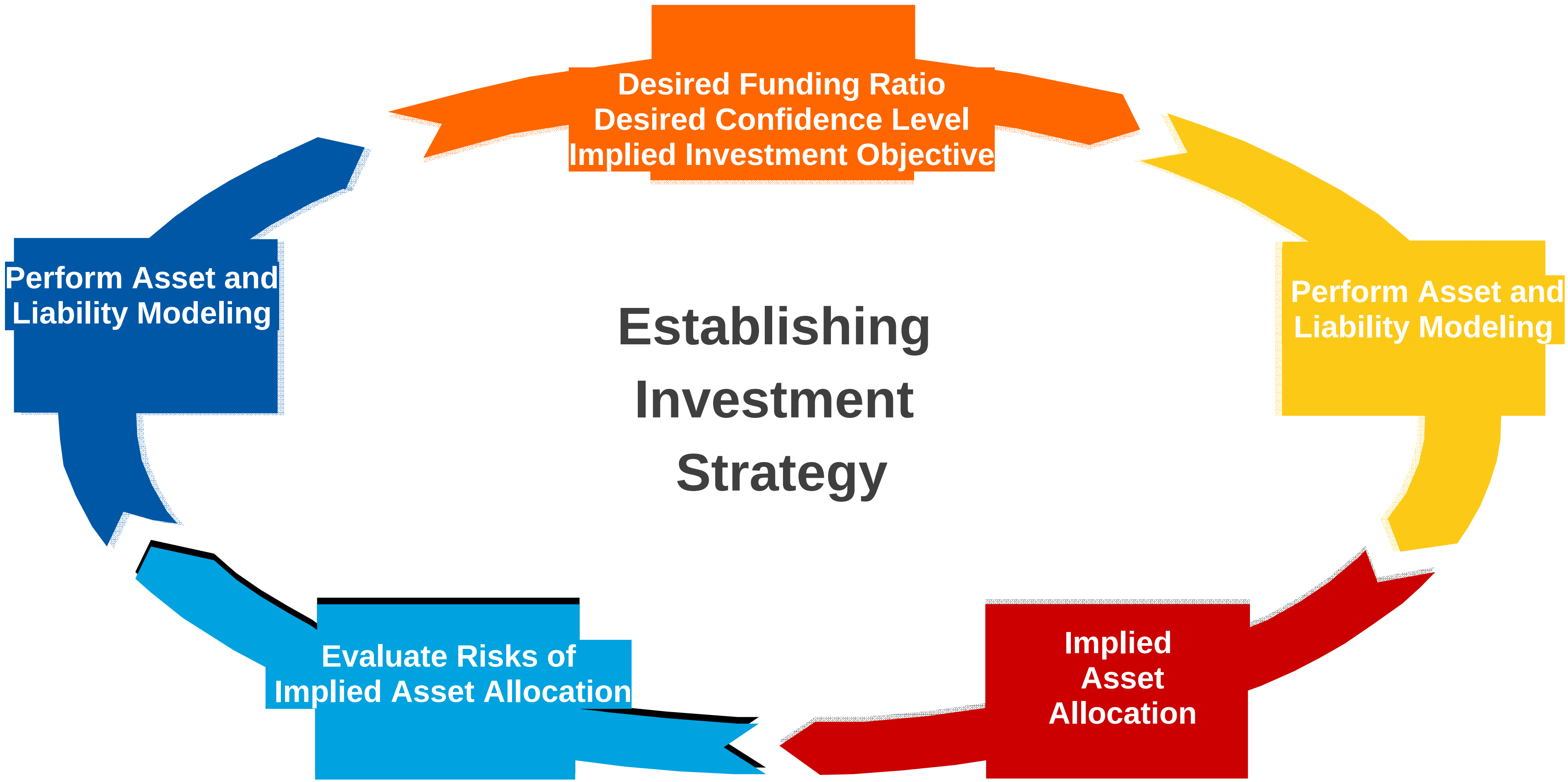
Discussion – Asset / Liability Modeling
Investment Committee Meeting

Ohio Bureau of Workers' Compensation

Guy M. Cooper

Kristin Finney-Cooke

Overview of Process - Setting Investment Strategy



Work Plan – Strategic Study of Assets and Liabilities

Discovery
- Collect data from actuarial, accounting, and investment departments
- Perform diagnostics on financial data. Seek clarifications where required.
- Design project structure to fit BWC needs and expectations. Confirm treatment of future claims and premiums and definition of funding ratio.
- Conduct a strategy session with actuarial, accounting, and investment staff to confirm desired approach, objectives, and expectations.

Analysis
- Develop forecasts of the economic and capital markets. Confirm acceptable asset classes.
- Consider sensitivity factors: wage, medical inflation, discount rate. Decide utility of studying A/L matching strategies.
- Determine alternative mixes of assets and liability structures and associated funding ratios and run the numbers.
- Analyze results

Decision-Making
- Prepare initial report and hold discussions
- Refine draft based on feedback gained from discussions
- Continue process until satisfied
- Implement changes to current investment policy

Overview of How the Stochastic Simulation Works

Compute

Develop forecasts of the economic and capital markets for the acceptable asset classes.

Detail

Mercer does this semi-annually for over 50 asset classes. Required: expected average return, standard deviation of return, and correlation for each asset class

Comments

Mercer's asset class projections are not mere historical extrapolations. They are based on an economic model.

Compute

Project behavior of asset classes for the next 30 years 1000 times – making 1000 30-year scenarios.

Detail

Behavior of each asset class each year is derived from and must be consistent with the assumptions.

Comments

There are standard computer formulas for generating each year's returns given the three factors.

Compute

Compute performance of BWC possible alternative asset mixes for each year for each of 1000 scenarios.

Detail

The 1000 versions of 30 years makes possible an analysis of the best 5 years, the worst 5, and other probabilistic assessments.

Comments

There are many details of this work plan that are yet to be decided. At each step we will be conferring with the staff, the investment committee, and the Board.

Compute

Compute funding ratio every year for each of the 1000 scenarios for each asset mix and summarize results.

Detail

Liabilities change from one year to the next but there is only one 30 year liability scenario. The present value of liabilities may change if we change the discount rate.

Comments

This stochastic process generates a large volume of data that needs to be carefully controlled as we proceed.

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Services provided by Mercer Investment Consulting, Inc.

Ohio BWC Processes and Procedures
Investment Asset Allocation Rebalancing Policy

Adopted: February 25, 2008

Objective

It is the intent of any portfolio rebalancing strategy to be meaningful such that the execution of such rebalancing strategy will result in the affected asset classes being significantly nearer target asset allocation as defined in the Investment Policy Statement (IPS). This rebalancing strategy will therefore minimize the likelihood of further rebalancing of such asset classes over the near term to minimize portfolio turnover and trading expenses.

Processes and Procedures

The following are actions required to implement and execute an asset allocation rebalancing of the investment portfolio of any respective trust fund of BWC:

- Investment Division will monitor the unaudited asset allocation of each trust fund on a weekly basis.

- BWC Administrator, Chief Operating Officer and Chief Fiscal & Planning Officer ("Senior Officer Review Team") will be notified by the Chief Investment Officer (or Director of Investments if designated by the CIO) if the asset allocation for a general asset class (Total Fixed Income; Total Equity) is either (a) within 0.25% of the policy range limits as defined in the IPS (example: 17-23% Total Equity range and at either 17.25% or lower//22.75% or higher allocation) or (b) within the upper or lower 5% tier of the asset allocation policy range ownership band defined in the IPS for a specific asset class (example: 4-6% High Yield Bond range and at either 4.1% or lower//5.9% or higher allocation).

- Investment Division will contact the appropriate outside investment managers and the BWC investment consultant to discuss market conditions and potential rebalancing actions.

Ohio BWC Processes and Procedures
Investment Asset Allocation Rebalancing Policy

- Investment Division will calculate a specific rebalancing dollar reallocation that will factor in appropriate future trust fund cash flows as well as the overall financial market environment.

- Chief Investment Officer will present a rebalancing recommendation to the Senior Officer Review Team for approval before any such asset rebalancing can be implemented and executed.

- Chief Investment Officer will provide a written summary of the rebalancing activity executed for any respective trust fund portfolio to the BWC Investment Committee at its next scheduled meeting.

Prepared by BWC Investment Division