BWC Board of Directors

Investment Committee

Thursday, January 22, 12:00 p.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Robert Smith, Chairman Alison Falls Larry Price David Caldwell James Harris William Lhota
Other Members Present:	James Hummel Thomas Pitts Charles Bryan
Members Absent:	James Matesich Kenneth Haffey

CALL TO ORDER
Robert Smith called the meeting to order at 12:00 pm.

ROLL CALL
Roll call was taken. All committee members were present.

APPROVE MINUTES OF THE DECEMBER 17 MEETING
Upon motion of David Caldwell, seconded by Alison Falls, the minutes of December 17, 2008 were approved, 5-0. Mr. Price was not present for the roll call. The minutes were approved to reflect a correction, as noted by Don Berno, Board Liaison that the memorandum prepared by Mercer Consulting should refer to section seven of the Investment Policy Statement, on page seven of the memorandum.

DISCUSSION ITEMS:

MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO VALUE COMPARISONS
Bruce Dunn, Chief Investment Officer, presented the comparisons. A report is included, and incorporated by reference into the minutes. Comparison was made of December 2008 to November 2008, and December 2008 to June 2008. A portfolio rebalance was executed earlier in January of 2009.

Larry Price thanked Mr. Dunn and the investment staff for providing detailed numbers in the discussion of the portfolio value comparisons.

CIO REPORT DECEMBER 2008
Mr. Dunn presented the report. A written report is incorporated by reference into the minutes. A senior investment manager joining the Investment Division has been hired. The hiring of staff investment managers is now complete. All portfolios are in compliance with the Investment Policy Statement, with exceptions noted on page four of the report. A fuller discussion detailing the procedures followed in the rebalancing ensued. A meeting of the Portfolio Rebalancing Committee was convened on January 6, 2009 by Mr. Dunn to discuss a portfolio rebalancing action plan recommended by Mr. Dunn. After some discussion, Mr. Dunn indicated the senior review team of the Portfolio Rebalancing Committee consisting of Administrator Ryan, Chief Operating Officer Ray Mazzotta and Chief Fiscal & Planning Officer Tracy Valentino approved of the rebalancing action plan proposed by Mr. Dunn. The rebalancing action plan targeted the sale of $675 million in value of long duration bonds from the State Street managed portfolio and the reinvestment of $675 million in sale proceeds upon settlement into the Large Cap Equity account managed by Northern Trust. An identical asset buy/sell rebalancing strategy involving $55 million for the Disabled Workers' Relief Fund and $9 million for the Coal Workers' Pneumoconiosis Fund was also targeted. Mr. Dunn indicated the bond sales executed by State Street all occurred in the open market on January 8-9, 2009 and the equity purchases by Northern Trust occurred on January 13, 2009 upon the settlement of the bond sale proceeds. Mr. Dunn indicated he was pleased with the bond sale results and prices obtained by State Street which resulted in combined net realized gains of $30.6 million achieved for the Bureau. With the completion of this rebalancing action, the lower than targeted equity allocation and higher than targeted long duration fixed income asset allocation at market value was returned to within the target portfolio asset allocation ownership range for each trust fund consistent with the portfolio rebalancing policy stated in the investment policy. Mr. Dunn stated that he believes quick action should be taken when the decision to rebalance is made, due to rapid and unpredictable daily changes in the market. Mr. Price expressed an interest in Mercer's response to Mr.
Dunn's approach to rebalance. Guy Cooper of Mercer Consulting stated that Mercer fully supported Mr. Dunn's ideas and methods. James Harris, inquired as what was meant by "illiquid securities", on page three of the report. Mr. Dunn indicated that the Bureau owns a few securities with little or no value that are difficult to sell to any other investor. They were inherited from previously terminated outside investment managers.

MERCER REPORT ON ASSET-LIABILITY MODELING

A power point presentation was included, and is incorporated by reference into the minutes. It was noted at the outset by Richard Nuzum of Mercer Consulting there is inconsistency with the definition of the June 30, 2008 funding ratio. Deloitte used a 115% funding ratio, while Mercer calculations show a 102% funding ratio. As such, there is a thirteen percent gap. Mr. Nuzum indicated there is an issue with a (-) 3.2% additional variance in the funding ratio. As a result of these differences, Mr. Nuzum mentioned that ten percent is to be added to net asset figures and funded status numbers. The error shall be corrected, with corrections included in a report to be available by the February meeting.

Mr. Smith noted the content of the report will still be helpful with respect to understanding the concepts at issue. Ms. Falls noted the report will still permit the Board to develop a framework to guide decision making. Charles Bryan expressed a desire for the consultant discussion to include inflation rates, in particular, with regard to healthcare costs. A detailed presentation was made by Guy Cooper, Neil Cornell, Louis Finney, Kristin Finney-Cooke, and Rich Nuzum of Mercer Consulting. The discussion was led by Mr. Cooper. There is a principle assumption that equities earn at a compound rate of 8.4% over a thirty year period. Bonds earn a compound rate between 4.8% and 5.4% over a thirty year period. Discussion was made of asset mixes. Louis Finney discussed the basis for the assumptions at length. The assumptions are based upon current economic conditions and theory. Mr. Bryan entered into detailed discussion with Dr. Finney concerning assumptions. History is utilized to some extent with regard to inflation and growth. Ultimately, the assumptions are primarily based upon the consultant's professional opinion, and investment industry standards. Mr. Cooper mentioned it is worth noting that no model will rely upon an assumption having equities losing money over a long period of time. All models utilize the assumption that equities earn more than bonds over a long period of time.

Discussion was held of five possible asset mixes, including the current asset mix, plus four alternative mixes. The alternatives included both fixed income and equity. The mix of equities includes five percent that are not public stocks, but rather 2.5% real estate and 2.5% private equity. Mr. Bryan inquired as to whether this five percent should be left out of the modeling. Mr. Smith noted that it was determined to be all inclusive at the modeling level. Mr. Smith noted that he is very interested in closely monitoring liquidity of all assets. Brief discussion was made of private equity firms. Mr. Bryan expressed concern about flaws that may have impacted probability distributions, and arriving at different numbers subsequent to every trial. More specifically, Mr. Bryan inquired as to how a specific return is arrived at for a specific year, and whether or not the modeling generates yield curves. Dr. Finney noted that they have built random number processes, starting with a random seed, so there is consistency in the trial runs, permitting comparison of portfolios across time. Ms. Falls noted the method used here is the best way to incorporate volatility, which is important. The study performed provides one thousand scenarios for how returns may be for 2008-2028. It is a probabilistic (stochastic) forecasting model. The summary of the results are on pages seven and eight of the presentation. Mr. Nuzum noted that one billion must be added to the summary figures. Mr. Dunn expressed concern over Mercer's starting funding ratio and discount rate used in the study, more specifically noted on page seven of the presentation. Ms. Falls further noted this issue needs to be revisited in the future. Mr. Bryan inquired as to whether the model includes premium collections after 2008. Mr. Cooper responded no. Mr. Smith inquired as to whether some variables need to be controlled. Mr. Bryan noted that it is important to include underwriting results. There was discussion led by Mr. Cooper of comparison of the portfolios. The discussion included probability statements about different funding ratios. There is a normal distribution to the results. There was much discussion on the discount rate and its determination.

There shall be further evaluation of method and economic representation of what happens in practice. Mr. Smith wants to see an amended report with the previously discussed inconsistency corrected and changes to the asset mixes. The asset mixes will range from 20/80 stocks/bonds to 40/60 in 5% increments. Mr. Smith wants to see additional results, with a four percent discount rate. Mr. Smith views these evaluations as a staging process. There shall be further discussion of static and smooth modeling, considering both methods, in addition to a change in rates. The revised report will be prepared for the February 2009 meeting.

ADJOURN:
Motion was made by Mr. Price, seconded by William Lhota, to adjourn the meeting at 2:05 pm. Roll call was taken and the motion passed 5-0. Mr. Caldwell was not present for the roll call.
Prepared by: Thomas Woodruff, Interim Director Self Insured Department
January 27, 2009