Workers' Compensation
Oversight
Commission

Investment Committee

Agenda

May 25, 2006
William Green Building, Second Floor, Room 2
8 a.m.

Old business

Approval of previous meeting minutes .... Mike Koetters

Insurance coverage – liability .... James Barnes

Wilshire quarterly performance report .... Mark Brubaker

New business

Asset liability study ....Mark Brubaker and Dimitry Mindlin

Customized benchmark for SIF and ancillary funds – sensitivity analysis
.... Mark Brubaker

Note: Written reports provided – no prepared presentations

JP Morgan monthly performance report

CIO monthly newsletter

Management fees

MRT progress report

Investment expenses – manager and operational fees

Investment Division budget

Investment Division table of organization

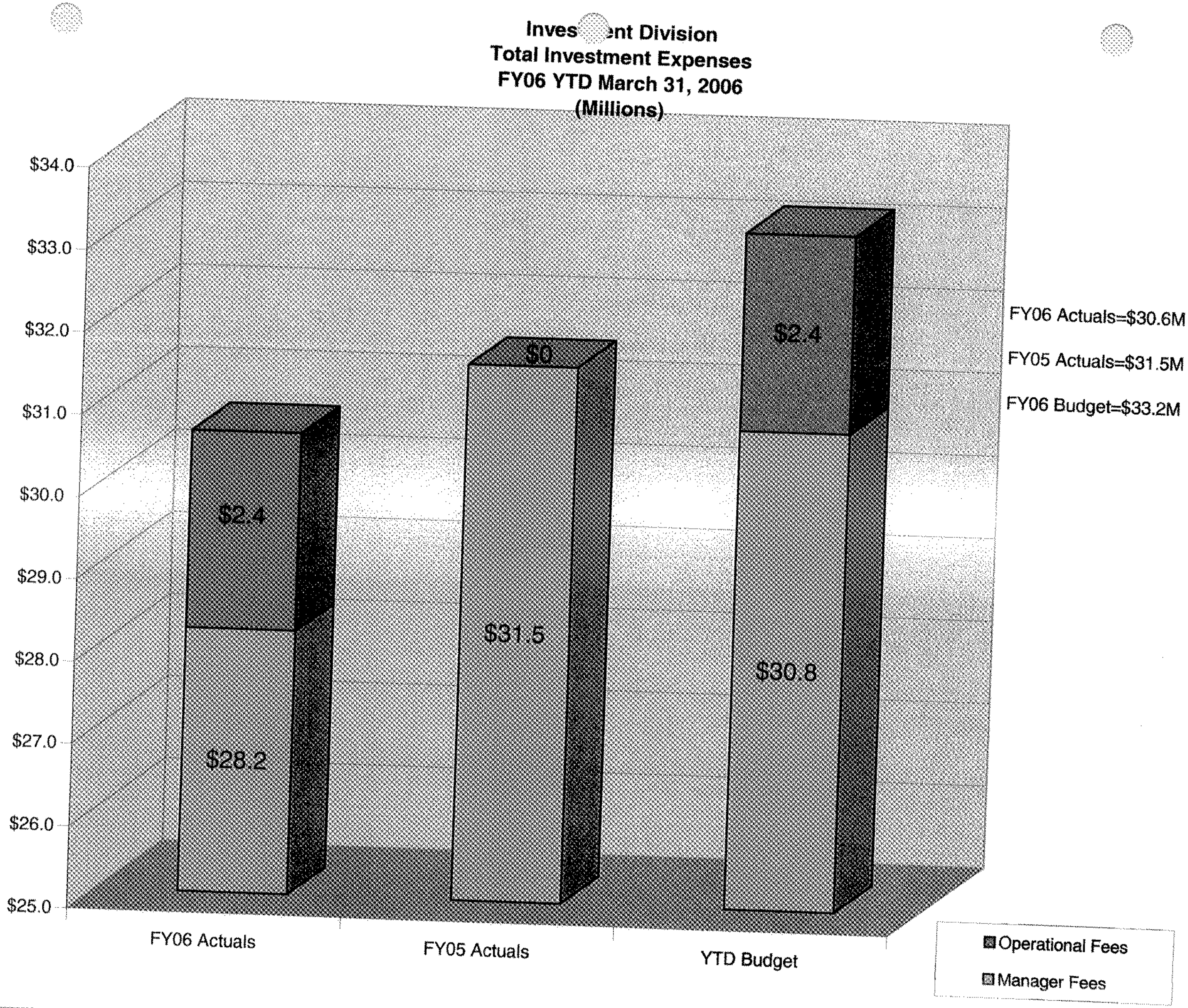
Private equity RFP update

......................................Lee Damsel will be available for questions

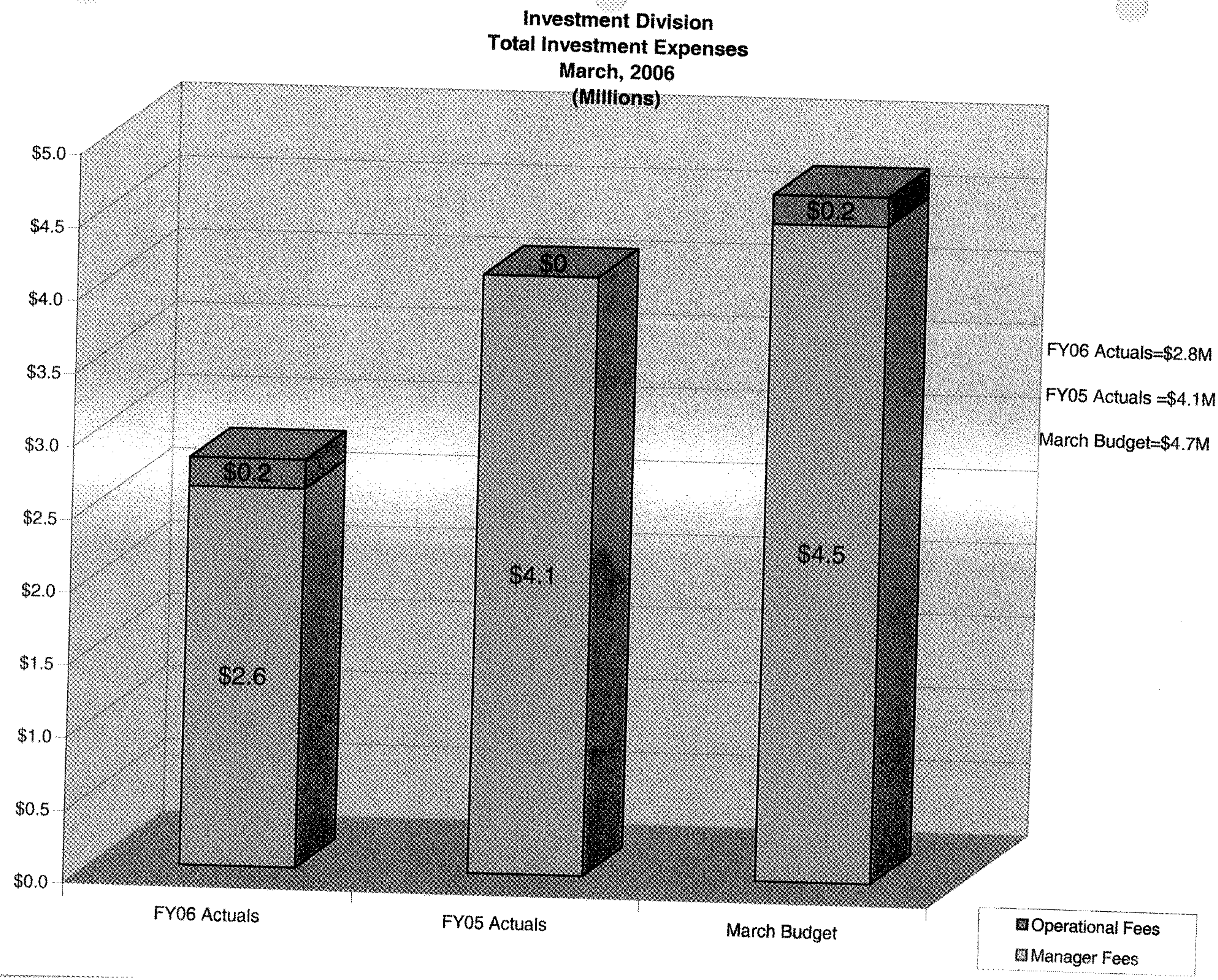
Adjournment

Adjourn .... Mike Koetters

The next WCOC Investment Committee meeting is scheduled for:
June 16, 2006
William Green Building, Level 2, Room 2
8:00 A.M.



Inves[illegible]ent Division
Total Investment Expenses
FY06 YTD March 31, 2006
(Millions)
$34.0
$33.0
$32.0
$31.0
$30.0
$29.0
$28.0
$27.0
$26.0
$25.0
$2.4
$28.2
$0
$31.5
$2.4
$30.8
FY06 Actuals=$30.6M
FY05 Actuals=$31.5M
FY06 Budget=$33.2M
FY06 Actuals
FY05 Actuals
YTD Budget
Operational Fees
Manager Fees


Investment Division
Total Investment Expenses
March, 2006
(Millions)
$5.0
$4.5
$4.0
$3.5
$3.0
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
$0.2
$2.6
$0
$4.1
$0.2
$4.5
FY06 Actuals
FY05 Actuals
March Budget
FY06 Actuals=$2.8M
FY05 Actuals =$4.1M
March Budget=$4.7M
Operational Fees
Manager Fees

OBWC State Insurance Fund Asset-Liability Valuation – Draft

Investment Committee Presentation

May 25, 2006

Mark E. Brubaker, CFA
Managing Director

Dimitry D. Mindlin, ASA, MAA, PhD
Managing Director

Agenda

I. Executive Summary

What is Asset Allocation?

- Wilshire believes that the core business of a workers' compensation insurance fund is to provide the benefits promised to injured workers.
- Asset Allocation is the process of selecting a policy portfolio - allocating a portfolio's assets among asset classes that have the potential to serve the financial objectives of the fund.
- The role of asset allocation is to manage the risk to the fund's core business.
- The goal of asset allocation is to maximize the safety of promised benefits at a minimum cost (premiums).

A Multitude of Risks

- Workers' compensation funds face a multitude of risks. Prioritizing those risks is crucial in determining a proper methodology for selection of the policy portfolio.

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

Example 2 - Risk of Mismatch Between Assets and "Accounting" Liabilities

- It is undesirable to have a negative surplus as defined by GASB accounting standards.

Example 3 - Insufficient Asset Risk

- It is undesirable to have insufficient assets to pay benefits promised to injured workers.
- Wilshire believes this is the primary risk.
- This risk is directly related to the Fund's core business.
- This risk can be managed through Asset Liability Valuation.

A Long Term Capital Market Perspective

	1802-2005	1926-2005	*High Inflation* 1970-1979	*Bull Market* 1980-1999	*Wilshire* Forecast
Total Returns					
Stocks	8.2%	10.4%	5.9%	17.8%	8.3%
Bonds	4.9	5.7	7.2	10.0	5.0
T-Bills	4.3	3.8	6.4	7.2	3.0
Inflation	1.4	3.0	7.4	4.0	2.3
Real Returns					
Stocks	6.8	7.4	-1.5	13.8	6.0
Bonds	3.5	2.7	-0.2	6.0	2.8
T-Bills	2.9	0.8	-1.0	3.2	0.8
Risk (Std. Dev.)					
Stocks		19.3	16.0	15.0	17.0
Bonds		5.2	6.4	6.6	5.0
T-Bills		1.0	0.6	1.0	1.0
Stocks minus Bonds	3.3	4.7	-1.3	7.8	3.3

Wilshire's 10-Year Capital Market Assumptions

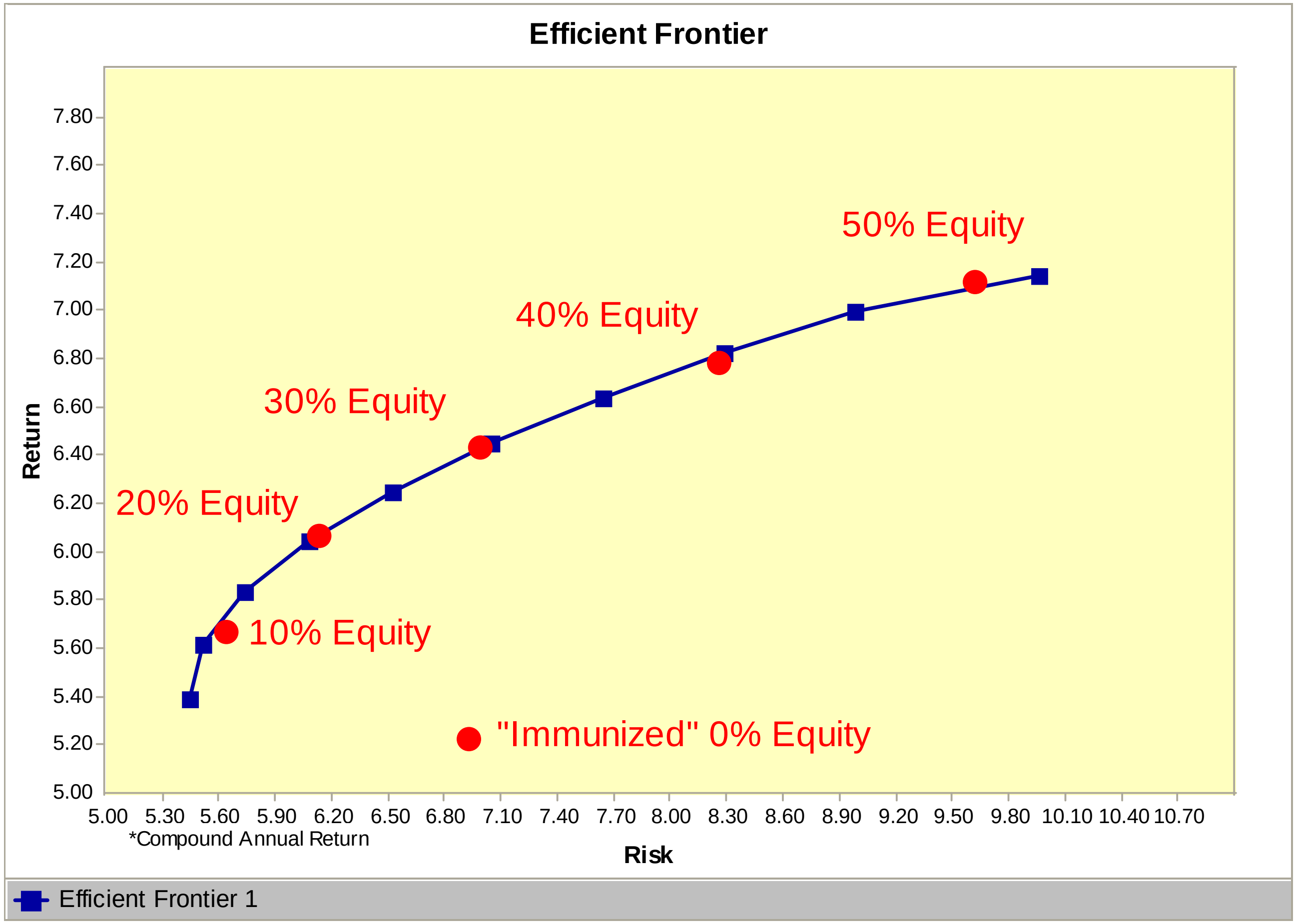
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00
Correlations							
U.S. Equity	1.00						
Non-U.S. Equity	0.78	1.00					
Fixed Income - Core	0.29	0.08	1.00				
Fixed Income - Long Duration/Dedicated	0.34	0.09	0.95	1.00			
Fixed Income - High Yield	0.48	0.29	0.39	0.40	1.00		
Fixed Income - Inflation Protected	0.00	0.10	-0.01	0.00	0.01	1.00	
Cash Equivalents	0.00	-0.10	0.10	0.10	0.00	0.25	1.00

- **The above figures represent Wilshire's 10-year forward-looking risk, return and correlation assumptions.**
  - Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset class is expected to produce returns that are within +/- one standard deviation of the expected return.

Source: Wilshire Consulting: 2006 Asset Allocation Return and Risk Assumptions

Efficient Frontier

- **The efficient frontier is comprised of portfolios that generate the highest level of expected return for a given level of risk in *asset-only space* – SIF liabilities are not considered in this exhibit:**



Efficient Portfolios

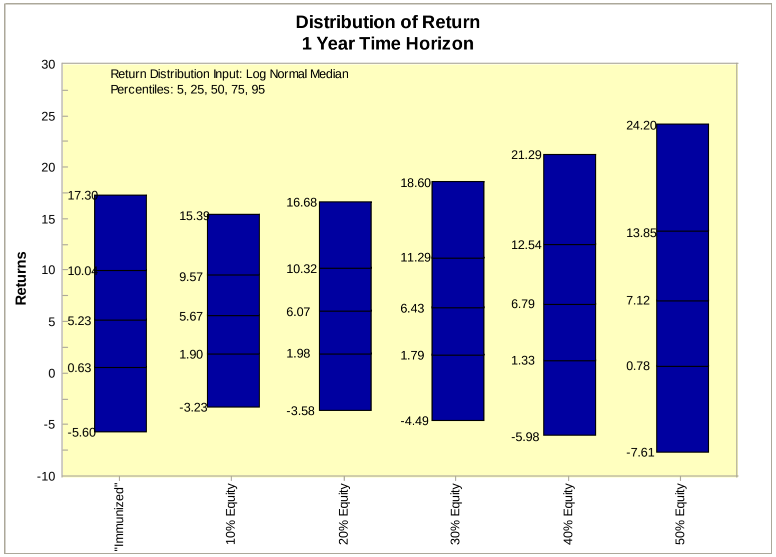
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income - Core	0	0	0	0	0	0
Fixed Income - Long Duration/Dedicated	99	65	54	44	39	34
Fixed Income - High Yield	0	4	5	5	5	5
Fixed Income - Inflation Protected	0	20	20	20	15	10
Total Fixed Income	***99***	***89***	***79***	***69***	***59***	***49***
Cash Equivalents	1	1	1	1	1	1

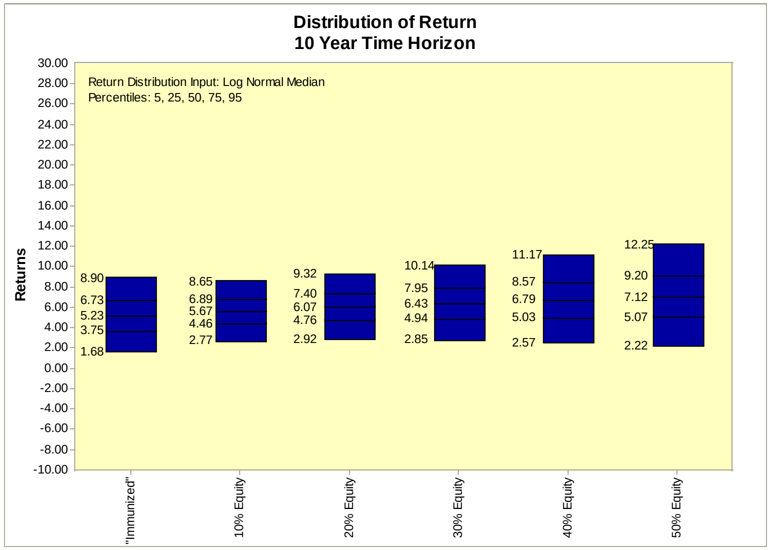
Return	**5.23**	**5.67**	**6.07**	**6.43**	**6.79**	**7.12**
Risk	**6.93**	**5.64**	**6.13**	**6.99**	**8.25**	**9.62**

- **Constraints:**
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- **Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.**
- **Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset mix is expected to produce returns that are within +/- one standard deviation of the expected return.**

1 and 10-Year Distribution of Expected Returns

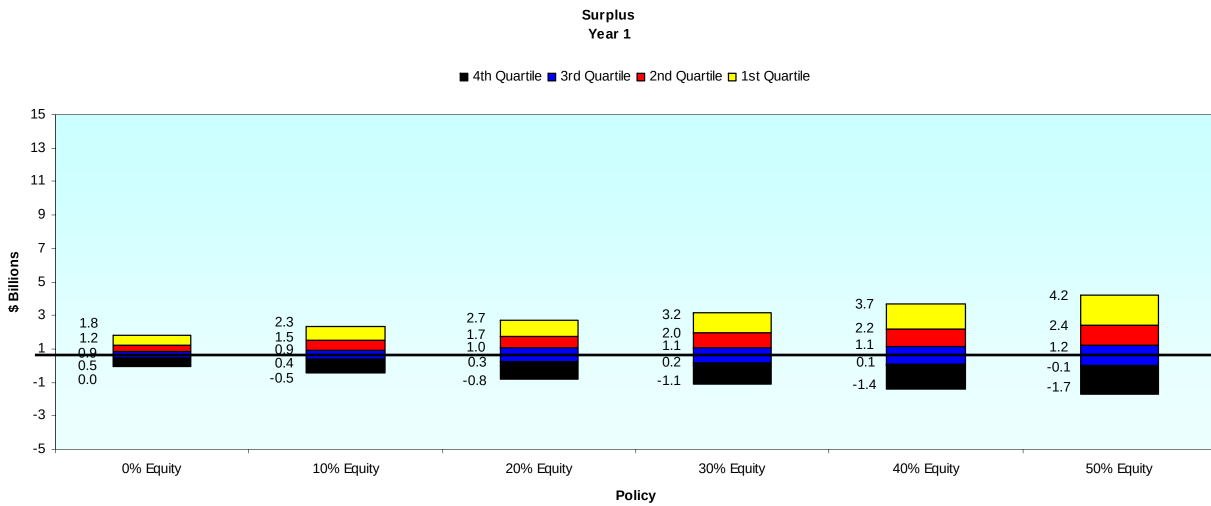
- **Distributions of returns are quite wide for any one year period…**
- **…but they narrow considerably over a 10-year period**



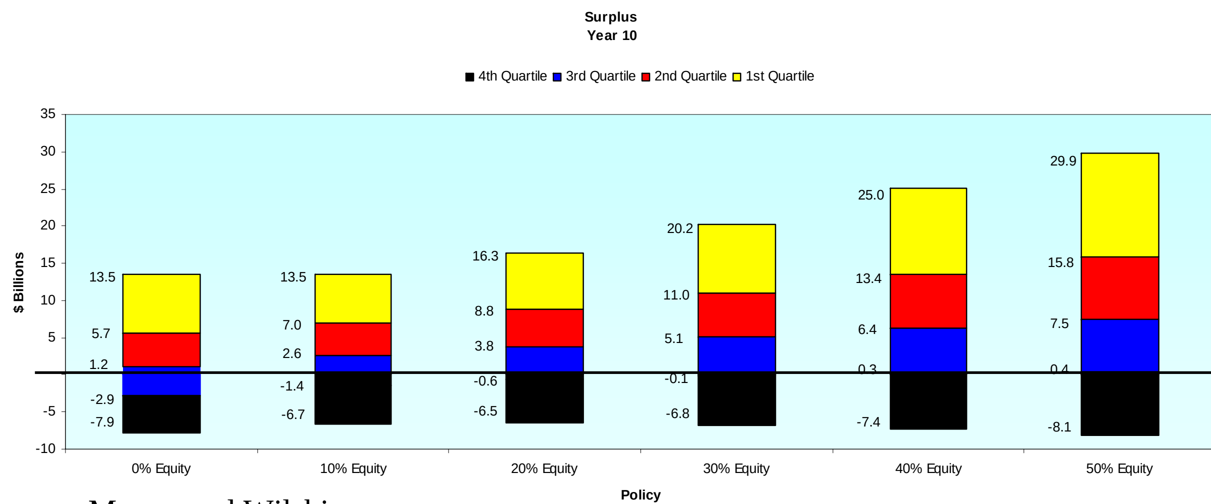


Stochastic Simulation of Surplus: Year 1 and Year 10

- **The floating bar charts incorporate a stochastic simulation of assets, premiums, claims and reserves under potential interest rate, inflation and capital market environments and illustrate the potential SIF surplus under various asset mixes over short and long-term time horizons:**



Current Surplus



Current Surplus

Source: Mercer and Wilshire

Observations

- **The optimal asset mix is highly dependent on the Fund's ultimate objective and time horizon:**
  - If minimizing short term volatility of the accounting surplus is the sole objective, then the "Immunized" fixed income portfolio is optimal
  - If minimizing the long-term (10-year) downside risk of the accounting surplus is the objective, then a 20% equity allocation is optimal
  - If maximizing the safety of benefit claims is the objective (and the Fund can withstand downside risk to the accounting surplus), then an equity allocation greater than 20% may be justified (please see slide 45)
- **The immunized bond portfolio will not likely preserve the surplus in periods when medical and/or wage inflation exceed current expectations**
  - There is no financial instrument that can effectively hedge this inflation risk
- **Regardless of the asset mix selected, Wilshire recommends that OBWC build a larger surplus before considering future premium refunds to employers**
  - Under any asset allocation policy mix, there exists the probability of a shortfall (please see slide 45) in the future
  - Because of the positive cash flow characteristics (slide 44) of the SIF, any shortfall would likely not be an issue until well into the future

Recommendation

- **If the OBWC's time horizon is longer-term (i.e. 10-years), then Wilshire recommends a 20% equity allocation and the specific asset mix as detailed below:**

	Portfolio Weights	
	"Immunized"	*Recommended*
Asset Class	***0% Equity***	***20% Equity***
U.S. Equity	0	15
Non-U.S. Equity	0	5
Total Equity	***0***	***20***
Fixed Income - Core	0	0
Fixed Income - Long Duration/Dedicated	99	54
Fixed Income - High Yield	0	5
Fixed Income - Inflation Protected	0	20
Total Fixed Income	***99***	***79***
Cash Equivalents	1	1
Return	**5.23**	**6.07**
Risk	**6.93**	**6.13**

- **This mix provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons**

Investment Structure

- **Wilshire recommends the following investment structure for implementing the asset allocation policy:**

	SIF Allocation		
Asset Class	***%***	***$ mm***	***Benchmark***
U.S. Equity	**15**	**2,265**	**Wilshire 5000**
Large Cap	*12*	*1,812*	*S&P 500*
Active (0%)	0	-	
Passive (100%)	12	1,812	
Small/Mid Cap	*3*	*453*	*Wilshire 4500 / Russell 2500*
Active (100%)	3	453	
Passive (0%)	0	-	
Non-U.S. Equity	**5**	**755**	**MSCI ACWI ex-U.S.**
Active (80%)	4	604	
Passsive (20%)	1	151	
Fixed Income - Long Duration	**54**	**8,153**	**Lehman Long Government/Credit**
Active (50%)	27	4,076	
Passive (50%)	27	4,076	
High Yield	**5**	**755**	**Merrill Lynch High Yield Master II**
Active (100%)	5	755	
Passive (0%)	0	-	
Inflation-Protected Securities	**20**	**3,020**	**Lehman U.S. TIPS**
Active (0%)	0	-	
Passive (100%)	20	3,020	
Cash Equivalents	**1**	**151**	**90-Day T-Bill**

Please refer to the following page for an analysis of the long-duration fixed income benchmark.

Long-Duration Fixed Income Benchmark

- **Due to the marginal benefit derived from Customized Benchmark 2 (yield-to-maturity of 5.8% vs. 5.6%) and the credit risk that it entails, Wilshire recommends that OBWC utilize the Lehman Long Government/Credit Index for the fixed income allocation**
- **The Lehman Long Government/Credit index sector allocation as of March 31, 2006 was approximately 55% government / 45% credit**
  - Active fixed income managers may elect to overweight credit sectors when they present relative value

Customized Benchmark 1:	
99%	Lehman Long-Term Gov't/Corp
1%	91 Day T-Bill

Customized Benchmark 2:	
40%	Lehman Long-Term Gov't
56%	Lehman Long-Term Corporate
4%	Lehman Int-Term Corporate

Portfolio Statistics	Lehman Aggregate	Customized Benchmark 1	Customized Benchmark 2	Liability Stream
Effective duration	4.59	10.38	10.30	10.38
Effective d2	2.87	8.70	8.61	8.67
Effective d3	3.57	6.43	6.24	6.06
Yield to Maturity	5.48	5.57	5.81	--
Cash flow yield	5.46	5.56	5.79	--
Current yield	5.19	5.90	6.08	--
Average coupon	5.24	6.79	6.80	--
Average price	100.04	100.00	110.27	--
Years to maturity	12.91	19.77	20.55	--
Est. Annual Income ($)	$900,446,055	$916,937,742	$954,868,619	--

Optimized portfolio duration, D2, D3

Effective duration: measures risk to changes in level of the yield curve
Effective D2: measures risk to changes in slope of the yield curve
Effective D3: measures risk to changes in the curvature of the yield curve

Illustrative Transition Timeline

Jun-06
Present asset allocation recommendation to WCOC Present revised Investment Policy Statement to WCOC for approval Issue RFPs for transition management and index managers Issue RFPs for long-duration fixed income active managers

Jul-06
Issue RFP for non-U.S. equity active managers

Aug-06
Evaluate RFP responses for transition management and index managers Evaluate RFP responses for active long-duration fixed income managers Issue RFP for small cap U.S. equity active managers

Sep-06
Evaluate RFP responses for transition management and index managers Evaluate RFP responses for active long-duration fixed income managers Evaluate RFP responses for non-U.S. equity active managers Issue RFP for high yield active managers

Oct-06
Present transition management and index manager recommendations to WCOC Commence allocating assets to U.S. equity, non-U.S. equity, fixed income and TIPS index manager(s) (6 months) Present long-duration fixed income active manager recommendations to WCOC Evaluate RFP responses for non-U.S. equity active managers Evaluate small cap U.S. equity active managers

The above calendar is for illustrative purposes only. Actual implementation may differ due to a variety of factors. Expected completion during Q2 2007.

Illustrative Transition Timeline

Nov-06
Present non-U.S. equity active manager recommendations to WCOC
Commence implementing active long-duration fixed income allocation (4 months)
Evaluate small cap U.S. equity active managers
Evaluate high yield active managers

Dec-06
Present small cap U.S. equity active manager recommendations to WCOC
Commence implementing non-U.S. equity active manager allocation (4 months)
Evaluate high yield active managers

Jan-07
Commence implementing small cap U.S. equity allocation (3 months)
Present high yield active manager recommendations to WCOC

Feb-07
Commence implementing high yield allocation (3 months)

The above calendar is for illustrative purposes only. Actual implementation may differ due to a variety of factors. Expected completion during Q2 2007.

<u>Mark E. Brubaker, CFA</u>
Managing Director

Mark joined the Pittsburgh, PA office of Wilshire Associates as a Senior Consultant in 1997. Mark works with a broad range of fund sponsors including public and corporate pensions, endowments and foundations and insurance companies. In addition to his client responsibilities, he serves on Wilshire's investment committee and chairs Wilshire's small cap value and growth manager research committees. He is a frequent speaker on investment-related topics including asset/liability management, alternative investments and emerging markets.

Mark earned a B.A. from Yale University and an MBA from Carnegie Mellon University with a concentration in finance. Before joining Wilshire, Mark worked at Westinghouse Electric Corporation, where he was responsible for over $9 billion in defined benefit, defined contribution and foundation assets and at PNC Bank where he managed pension client relationships for the Investment Management and Trust Division.

He holds the Chartered Financial Analyst designation and is a member of the CFA Institute and Pittsburgh Society of Financial Analysts.

<u>Dimitry D. Mindlin, ASA, MAAA, PhD</u>
Managing Director

Dimitry Mindlin joined Wilshire in 1998 and is responsible for the development and maintenance of Wilshire's asset allocation models. Dr. Mindlin works closely with Wilshire's investment research group in the development of capital market assumptions. Prior to joining Wilshire, he spent several years as an actuary with an insurance company and an actuarial consulting company. He earned his Ph.D. from Academy of Sciences of USSR. Dr. Mindlin is an Associate of the Society of Actuaries and a member of the American Academy of Actuaries.

II. Background

Background

- **The OBWC was established by the Ohio Constitution, Article II, Section 35:**
  - "For the purpose of providing compensation to workmen and their dependents, for death, injuries or occupational disease, occasioned in the course of such workmen's employment, laws may be passed establishing a state fund to be created by compulsory contribution thereto by employers, and administered by the state…"

- **Ohio Revised Code Section 4123.34:**
  - "The administrator of workers' compensation, in the exercise of the powers and discretion conferred upon him in section 4123.29 of the Revised Code, shall fix and maintain, with the advice and consent of the workers' compensation oversight commission…the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund and the creation and maintenance of a reasonable surplus…"

Ohio Revised Code Section 4123.44

- "The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with (the Ohio Revised Code) and the investment objectives, policies and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund."
- "The administrator and other fiduciaries shall discharge their duties with respect to the funds with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

What is Ohio Bureau of Workers' Compensation?

Insurance Company

- OBWC's primary role is to pay compensation and medical expenses for injured workers, but…
  - It is not subject to statutory accounting standards and capital requirements
  - It is not subject to regulation by the state insurance department
  - It incurs longer-tailed liabilities than typical workers' compensation insurance company
  - It is run solely for the benefit of Ohio employers and employees – there is no profit motive

Public Policy Tool

- Ohio employers benefit from premium refunds when the assets of the Fund perform well
- Ohio employees benefit from enhanced safety programs when the assets of the Fund perform well

Is it more similar to a Pension Fund?

- 10.4 year duration of claims stream comparable to the benefit stream of pension funds, which typically have a duration of 11-13 years
- Medical claims and indemnity claims each account for roughly 50% of the discounted loss reserves

Insurance and Pension Comparison

- **OBWC is thinly capitalized when compared to other workers' compensation insurance funds; however, OBWC's "funded status" is very high when compared to state pension funds**
- **The duration (using a market AA yield curve) of the OBWC claim payment stream is higher than the typical workers' compensation fund (due primarily to their use of reinsurance) and more comparable to the benefit payment stream of public pension funds**

	OBWC Financials	Insurance Industry Comparison[3]		Public Pension Fund Comparison	
	OBWC	OBWC	Industry Average	OBWC	Industry Average
Discount Rate	5.25%		0.00%		8.00%
Assets [1]	18,918	18,918		18,918	
Liabilities [2]	18,048	35,733		13,359	
Surplus	870	(16,815)		5,559	
Assets/Liabilities	1.05	0.53	1.45	1.42	0.87
Equity as % of Total Investments	**2.4%**	**2.4%**	**7.0%**	**2.4%**	**67.7%**
Duration of Liabilities		10.4	~4.0	10.4	13.0

Sources: BWC Financial and Operational Report - March 2006
AM Best and BlackRock
2006 Wilshire Report on State Retirement Systems: Funding and Asset Allocation
Mercer Oliver Wyman

[1] Assets are as reported under GASB by BWC. Not adjusted to reflect statutory accounting.

[2] Liabilities under the Insurance Industry Comparison and Public Pension Fund Comparison are approximated using the discount rates indicated.

[3] Insurance Industry Comparison represents 72 private insurance companies that wrote 75% or more of 2004 net premiums in workman's compensatior

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- It is undesirable to have a negative surplus as defined by GASB accounting standards.

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- Wilshire believes this is the primary risk.
- This risk is directly related to the Fund's core business.
- This risk can be managed through Asset Liability Valuation.

III. Mean-Variance Optimization (Asset-only)

Ohio Bureau of Workers' Compensation

Executive Summary of Investment Performance

March 31, 2006

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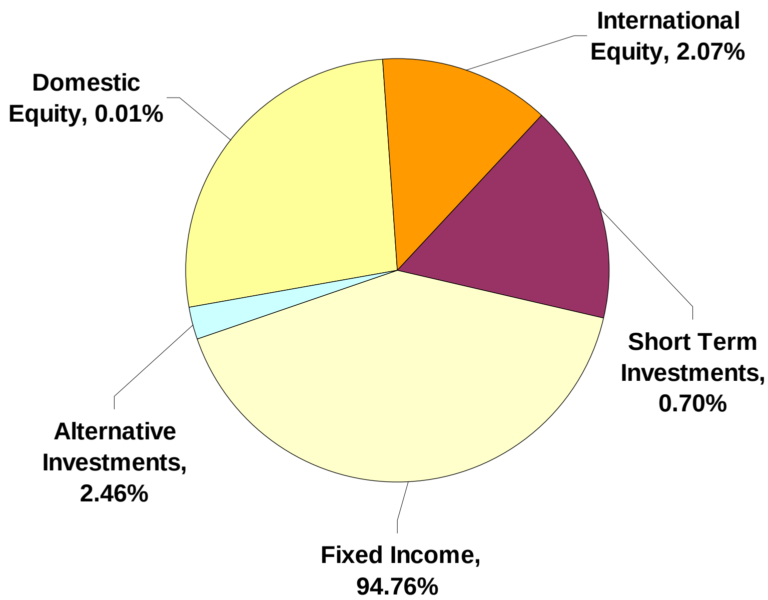
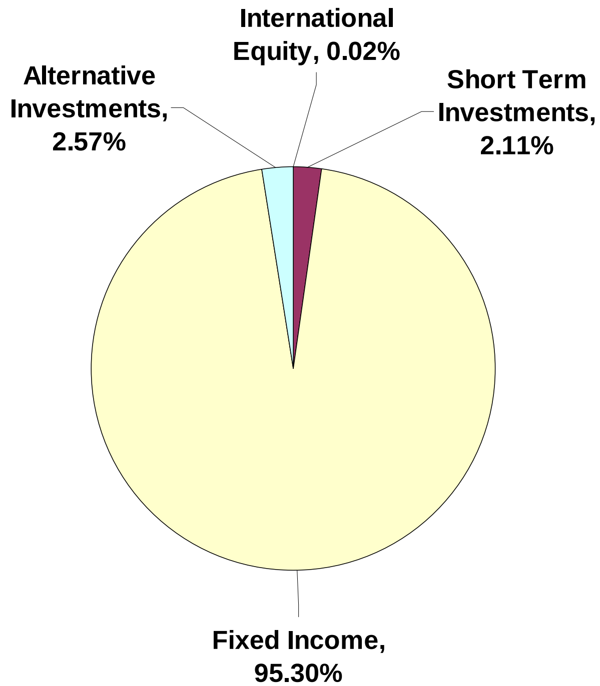
Asset Allocation – State Insurance Fund

As of December 31, 2005



As of March 31, 2006



Ohio BWC - State Insurance Fund
Executive Summary Table
Periods Ending March 31, 2006
Net of Fee Return

Name	Value $(000)	% of Fund	Periods Ending 3/31/06 1 Qtr	YTD	1 Year	3 Yrs	5 Yrs	10 Yrs	Since Inception Ret	Date
State Insurance Fund	**15,097,566**	**100.0**	**1.53**	**1.53**					**3.58**	**9/30/05**
SIF Custom Policy			*0.76*	*0.76*					*2.20*	*9/30/05*
Tranche #1	1,246,661	8.3	2.57	2.57					2.57	12/31/05
Tranche #2	2,861,907	19.0	1.97	1.97					1.97	12/31/05
Tranche #3	1,570,211	10.4	0.60	0.60					0.60	12/31/05
Tranche #4 - Domestic Equity	581,039	3.8	2.62	2.62					2.62	12/31/05
Tranche #4 - International Equity	793,631	5.3	5.13	5.13					5.13	12/31/05
Tranche #5	6,937,658	46.0	0.17	0.17					0.17	12/31/05
Cash Account	345,929	2.3	1.19	1.19					2.22	9/30/05
Accounts Outside of Transition	302,209	2.0	-0.84	-0.84					-0.84	12/31/05
Alternative Investments Composite	458,321	3.0	15.99	15.99					15.99	12/31/05
Indices										Since
91 Day T-Bill Index			1.04	1.04	3.52	2.08	2.25	3.83	1.94	9/30/05
Lehman Aggregate			-0.64	-0.64	2.26	2.92	5.11	6.29	-0.05	9/30/05
Standard & Poor's 50			4.20	4.20	11.71	17.21	3.96	8.95	6.38	9/30/05
DJ Wilshire 5000			5.44	5.44	14.72	19.67	5.95	9.13	7.78	9/30/05
MSCI EAFE Index (N)			9.39	9.39	24.40	31.13	9.63	6.49	13.86	9/30/05

Ohio BWC - Total Fund
Executive Summary Table
Periods Ending March 31, 2006
Net of Fee Return

Name	Value $(000)	% of Fund	Periods Ending 3/31/06 1 Qtr	YTD	1 Year	3 Yrs	5 Yrs	10 Yrs	Since Inception Ret	Date
Ohio BWC Total Fund	**16,436,913**	**100.0**	**1.40**	**1.40**					**3.33**	**9/30/05**
Tranche #1	1,246,661	7.6	2.57	2.57					2.57	12/31/05
Tranche #2	2,861,907	17.4	1.97	1.97					1.97	12/31/05
Tranche #3	1,570,211	9.6	0.60	0.60					0.60	12/31/05
Tranche #4 - Domestic Equity	581,039	3.5	2.62	2.62					2.62	12/31/05
Tranche #4 - International Equity	793,631	4.8	5.13	5.13					5.13	12/31/05
Tranche #5	6,937,658	42.2	0.17	0.17					0.17	12/31/05
Tranche #6 - Non SIF	1,339,348	8.1	-0.07	-0.07					-0.07	12/31/05
Cash Account	345,929	2.1	1.19	1.19					2.22	9/30/05
Accounts Outside of Transition	302,209	1.8	-0.84	-0.84					-0.84	12/31/05
Alternative Investments Composite	458,321	2.8	15.99	15.99					15.99	12/31/05
Indices										Since
91 Day T-Bill Index			1.04	1.04	3.52	2.08	2.25	3.83	1.94	9/30/05
Lehman Aggregate			-0.64	-0.64	2.26	2.92	5.11	6.29	-0.05	9/30/05
Standard & Poor's 50			4.20	4.20	11.71	17.21	3.96	8.95	6.38	9/30/05
DJ Wilshire 5000			5.44	5.44	14.72	19.67	5.95	9.13	7.78	9/30/05
MSCI EAFE Index (N)			9.39	9.39	24.40	31.13	9.63	6.49	13.86	9/30/05

Alternative Investment Performance
December 31, 2005

WILSHIRE
CONSULTING

Composite Level Totals

Fund Type	BWC Commitment	BWC Contributions to Date [1]	Capital Returned to BWC	Market Value	IRR
Buyout Fund Total	$ 285,000,000	$ 164,690,668	$ 61,621,400	$ 149,420,848	11.96%
Fund-of Funds Total	$ 100,000,000	$ 65,182,777	$ 18,019,664	$ 48,898,615	1.00%
Mezzanine Total	$ 60,000,000	$ 58,148,057	$ 31,054,086	$ 52,139,842	16.00%
Venture Capital Total	$ 368,450,000	$ 201,880,613	$ 32,828,512	$ 147,203,845	-6.92%
Total	**$813,450,000**	**$489,902,114**	**$143,523,662**	**$397,663,150**	**4.72%**

[1]BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

Buyout Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Capital Returned to BWC	Market Value	IRR	Last Actual Market Value Received from General Partner
Buyout Fund Total				$ 285,000,000	$ 164,690,668	$ 61,621,400	$ 149,420,848	11.96%	
Brantley Partners	Brantley Partners IV, LP	Buyout	1999	$15,000,000	$14,184,411	$3,423,650	$14,470,120	6.44%	Dec-05
ABS Capital Partners	ABS Capital Partners IV, LP	Buyout	2000	$15,000,000	$13,258,024	$5,123,627	$12,295,287	14.19%	Dec-05
Behrman Capital	Behrman Capital III, LP	Buyout	2000	$20,000,000	$14,881,163	$2,531,198	$13,260,403	2.34%	Dec-05
Blue Point Capital Partners	Blue Point Capital Partners, LP	Buyout	2000	$10,000,000	$7,588,974	$5,752,903	$5,372,013	12.93%	Dec-05
Carlyle Group	Carlyle Partners III, LP	Buyout	2000	$15,000,000	$15,740,763	$9,657,790	$14,868,470	19.59%	Sep-05
Fremont Partners	Fremont Partners III, LP	Buyout	2000	$15,000,000	$7,807,069	$6,641,599	$3,524,835	17.65%	Sep-05
Halpern, Denney & Co.	Halpern Denny Fund III, LP	Buyout	2000	$20,000,000	$17,800,000	$9,447,130	$13,502,746	8.30%	Dec-05
Rosemont Investment Partners	Rosemont Partners I, LP	Buyout	2000	$5,000,000	$4,485,144	$1,307,275	$3,092,441	-0.64%	Mar-05
Quad C Advisors	Quad-C Partners VI, LP	Buyout	2001	$15,000,000	$8,478,395	$4,884,634	$14,229,572	41.63%	Sep-05
Castle Harlan Inc.	Castle Harlan Partners IV, LP	Buyout	2002	$15,000,000	$9,928,964	$4,990,705	$6,213,344	12.70%	Dec-05
Wind Point Partners	Wind Point Partners V, LP	Buyout	2002	$10,000,000	$7,974,269	$1,481,950	$7,223,320	6.02%	Dec-05
Freeman Spogli & Co.	FS Equity Partners V, LP	Buyout	2003	$15,000,000	$5,590,951	$1,432,938	$4,280,459	2.60%	Dec-05
Kirtland Capital Corporation	Kirtland Capital Partners IV, LP	Buyout	2003	$5,000,000	$2,686,279	$218,180	$2,294,464	2.86%	Dec-05
Levine Leichtman Capital Partners	Levine Leichtman Capital Partners III	Buyout	2003	$15,000,000	$4,121,117	$1,785,478	$4,228,878	14.65%	Dec-05
Sterling Partners	Sterling Capital Partners, LP	Buyout	2003	$15,000,000	$9,341,448	$2,746,542	$7,096,437	3.64%	Dec-05
Thayer Capital Partners	Thayer Equity Investors V, L.P.	Buyout	2003	$15,000,000	$10,295,505	$12,652	$13,202,399	23.48%	Dec-05
Carlyle Group	Carlyle Partners IV, LP	Buyout	2004	$20,000,000	$4,400,112	$0	$4,397,627	-0.45%	Sep-05
MCM Capital Partners	MCM Capital Partners II, LP	Buyout	2004	$5,000,000	$468,934	$0	$300,215	-55.62%	Dec-05
Rosemont Investment Partners	Rosemont Partners II, LP	Buyout	2004	$10,000,000	$1,827,036	$0	$1,473,125	-37.37%	Sep-05
ABS Capital Partners	ABS Capital Partners V, LP	Buyout	2005	$20,000,000	$1,482,110	$0	$1,482,110	0.00%	NA
Harbourvest Partners	HarbourVest Partners VII - Buyout	Buyout	2003-2005	$10,000,000	$2,350,000	$183,150	$2,612,584	15.68%	Dec-05

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

Fund-of-Funds and Mezzanine Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Capital Returned to BWC	Market Value	IRR	Last Actual Market Value Received from General Partner
Fund-of Funds Total				$ 100,000,000	$ 65,182,777	$ 18,019,664	$ 48,898,615	1.00%	
INVESCO Private Capital	Chancellor V, LP	Fund of Funds	2000	$20,000,000	$16,938,542	$3,571,358	$8,371,463	-11.85%	Dec-05
Lexington Partners	Lexington Capital Partners V, LP	Fund of Funds	2002	$20,000,000	$16,137,809	$7,983,277	$13,097,296	23.10%	Sep-05
Peppertree Partners	The Peppertree Fund, LP	Fund of Funds	2000-2001	$10,000,000	$7,413,674	$2,627,000	$5,296,707	3.25%	Sep-05
Fort Washington Capital Partners	Fort Washington Private Equity Investors III, LP	Fund of Funds	2000-2003	$15,000,000	$11,273,858	$2,114,772	$9,356,899	0.60%	Sep-05
INVESCO Private Capital	INVESCO Venture Partnership Fund III, LP	Fund of Funds	2000-2004	$12,000,000	$6,979,783	$914,169	$5,414,950	-3.93%	Sep-05
INVESCO Private Capital	INVESCO US Buyout & Expansion Capital Fund	Fund of Funds	2001-2003	$8,000,000	$3,138,597	$809,088	$3,693,926	14.62%	Sep-05
Fort Washington Capital Partners	Fort Washington Private Equity Investors IV, LP	Fund of Funds	2003-2005	$15,000,000	$3,300,515	$0	$3,667,373	4.00%	Sep-05
Mezzanine Total				$ 60,000,000	$ 58,148,057	$ 31,054,086	$ 52,139,842	16.00%	
Smith Whiley & Company	SW Pelham Fund II, L.P.	Mezzanine	1998	$10,000,000	$7,623,221	$1,850,672	$8,472,649	25.75%	Mar-05
ABRY Partners	ABRY Mezzanine Partners, LP	Mezzanine	2001	$5,000,000	$6,169,548	$2,786,680	$4,083,608	11.04%	Dec-05
TCW/Crescent Mezzanine	TCW/Crescent Mezzanine Partners III, LP	Mezzanine	2001	$15,000,000	$13,821,070	$16,288,468	$7,002,850	35.03%	Dec-05
Babson Capital Management, LLC	Tower Square Capital Partners, LP	Mezzanine	2002	$10,000,000	$9,500,561	$3,698,442	$7,158,079	11.52%	Dec-05
Smith Whiley & Company	SW Pelham Fund, L.P.	Mezzanine	2003	$20,000,000	$21,033,657	$6,429,824	$25,422,656	11.05%	Sep-05

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

Venture Capital Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Capital Returned to BWC	Market Value	IRR	Last Actual Market Value Received from General Partner
Venture Capital Total				$ 368,450,000	$ 201,880,613	$ 32,828,512	$ 147,203,845	-6.92%	
Athenian Venture Partners	Athenian Venture Partners II, LP	Venture	2000	$17,500,000	$15,541,278	$6,280,197	$5,153,538	-14.12%	Dec-05
Blue Chip Venture Company	Blue Chip IV, LP	Venture	2000	$20,000,000	$15,400,000	$1,376,152	$10,216,900	-12.82%	Dec-05
Meritech Capital Partners	Meritech Capital Partners II, LP	Venture	2000	$11,250,000	$9,037,500	$1,098,058	$6,835,637	-5.94%	Sep-05
Perseus-Soros Management Compa	Perseus-Soros Biopharmaceutical Fund, LP	Venture	2000	$5,000,000	$3,901,321	$2,060,028	$3,868,239	20.67%	Sep-05
Pharos Capital Group	Pharos Capital Partners, LP	Venture	2000	$5,000,000	$4,700,000	$653,204	$4,387,100	1.96%	Dec-05
Primus Venture Partners	Primus Capital Fund V, LP	Venture	2000	$20,000,000	$13,230,000	$3,110,000	$9,315,473	-2.23%	Dec-05
Technology Venture Partners	Technology Venture Partners, L.P.	Venture	2000	$16,000,000	$7,975,000	$125,673	$5,343,172	-55.25%	Dec-05
Ascend Venture Group	Ascend Ventures, LP	Venture	2001	$5,000,000	$4,844,408	$1,174,992	$1,789,378	-18.60%	Dec-05
Axxon Capital Advisors	Axxon Capital, LP	Venture	2001	$3,000,000	$2,501,350	$719,422	$1	-29.65%	Sep-05
Carlyle Group	Carlyle Venture Partners II, LP	Venture	2001	$25,000,000	$23,496,378	$11,187,654	$14,365,727	1.40%	Sep-05
Edgewater Funds	Edgewater Growth Capital Partners, LP	Venture	2001	$10,000,000	$10,500,000	$2,628,856	$10,166,916	16.82%	Dec-05
Meritage Private Equity Funds	Meritage Private Equity II, LP	Venture	2001	$15,000,000	$8,255,322	$798,042	$5,795,488	-9.67%	Sep-05
Adena Ventures	Adena Ventures, LP	Venture	2002	$500,000	$400,000	$0	$248,506	-30.92%	Dec-05
Apex Venture Partners	Apex Investment Fund V, LP	Venture	2002	$10,000,000	$7,044,158	$0	$7,654,202	4.84%	Dec-05
Early Stage Partners	Early Stage Partners, LP	Venture	2002	$9,000,000	$6,877,344	$0	$5,591,163	-11.60%	Sep-05
Edison Venture Fund	Edison Venture Fund V, LP	Venture	2002	$15,000,000	$10,200,000	$0	$10,419,258	1.19%	Dec-05
Buerk, Dale & Victor	Northwest Opportunity Fund, LP	Venture	2002	$20,000,000	$11,000,000	$21,845	$8,858,336	-13.28%	Sep-05
Prospector Equity Capital	Prospector Equity Capital, LP	Venture	2002	$15,000,000	$8,353,103	$0	$5,158,308	-29.27%	Dec-05
River Cities Capital Funds	River Cities Capital Fund III, LP	Venture	2002	$5,000,000	$3,306,526	$699,683	$2,322,366	-5.40%	Dec-05
Adams Street Partners	Adams Street V, LP	Venture	2003	$8,000,000	$4,480,000	$0	$4,089,476	-7.90%	Dec-05
Athenian Venture Partners	AVP Ohio Technology I, LP	Venture	2003	$10,000,000	$4,390,581	$0	$3,667,026	-16.48%	Jun-05
Athenian Venture Partners	AVP Technology II, LP	Venture	2003	$2,200,000	$2,200,000	$0	$716,297	-37.15%	Jun-05
MK Capital Management	MK Capital, LP	Venture	2003	$10,000,000	$2,500,000	$0	$1,934,881	-15.82%	Dec-05
MWV Pinnacle Management Co.	MWV Pinnacle Capital Fund, LP	Venture	2003	$2,000,000	$723,004	$0	$700,000	-2.71%	Mar-05
Reservoir Venture Partners	Reservoir Venture Partners, LP	Venture	2003	$5,000,000	$1,915,213	$219,694	$1,362,322	-11.71%	Jun-05
Ascend Venture Group	Ascend Ventures II, LP	Venture	2004	$7,500,000	$2,098,016	$0	$1,606,614	-40.80%	Dec-05
Athenian Venture Partners	Athenian Venture Partners III, LP	Venture	2004	$25,000,000	$3,134,724	$0	$3,134,724	0.00%	NA
Charter Life Sciences	Charter Life Sciences, LP	Venture	2004	$5,000,000	$827,955	$0	$597,941	-33.41%	Dec-05
Draper Triangle Ventures	Draper Triangle Ventures II, LP	Venture	2004	$5,000,000	$506,029	$0	$360,942	-33.88%	Dec-05
EDF Ventures	EDF Ventures III, LP	Venture	2004	$10,000,000	$1,495,486	$0	$2,463,775	-15.49%	Dec-05
Seneca Partners	Seneca Health Partners, LP I	Venture	2004	$1,500,000	$555,000	$0	$455,664	-22.14%	Dec-05
Triathlon Medical Ventures	Triathlon Medical Ventures Fund, LP	Venture	2004	$5,000,000	$1,461,188	$0	$929,468	-35.84%	Jun-06
Edgewater Funds	Edgewater Growth Capital Partners II, LP	Venture	2005	$25,000,000	$0	$0	NA	NA	Dec-05
Harbourvest Partners	HarbourVest Partners VII - Venture Partnership	Venture	2003-2005	$15,000,000	$3,525,000	$111,375	$3,504,118	2.79%	Dec-05
Sema4 Inc.	Midwest Economic Opportunity Fund, LP*	Venture	N/A	$5,000,000	$5,504,730	$563,637	$4,190,890	-4.04%	NA

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

Notes to Performance Report

Total Fund Investment Performance:

- All information presented is based on the records of JP Morgan Chase, the custodian bank to Ohio Bureau of Workers' Compensation.

- All rate of return information provided is net of investment management fees and expenses. Returns for periods less than one year represent unannualized figures.

- Returns were independently calculated and verified by Wilshire Associates using industry accepted standards and methodology.

Alternative Investment Performance:

- Market Values as of December 31, 2005 are market values provided by the manager, when available. In the instances when managers did not provide market values as of December 31, 2005, estimates were calculated using actual market values as of September 30th rolled forward to December 31, accounting for contributions and distributions during that time period.
- Internal rates of return (IRR) presented are net of investment management fees and expenses.
- IRR calculations are based on cash flow data submitted by each general partner, if available. In a few instances where general partners would not submit data or submitted incomplete data, information from Ohio Bureau of Workers' Compensation QED accounting system was utilized.

Notes to Performance – SIF Custom Policy Benchmark

SIF Policy Benchmark Transition			
Start	**End**	**Percent**	**Description**
11/30/2005	1/31/2006	100%	Pre-Transition Policy
1/31/2006	2/28/2006	50%	Pre-Transition Policy
		50%	Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark	
S&P 500 Index	29%
MSCI EAFE Index	11%
Lehman Aggregate	57%
91 - Day T-Bill	3%

Notes to Performance - Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	**Domestic Equity**	**Domestic Equity**	**International Equity**
Manager	*Apex Capital Management, Inc.*	*ING Investment Management - Aeltus*	*ING Investment Management*
	Bahl & Gaynor Investment Counsel	*Lakepoint Investment Partners*	*Capital Gaurdian*
	Delancey Capital Group	*Lazard Asset Management*	*Clay Findlay*
	Gratry & Company	*Lynmark Capital Group, Inc*	*Invesco Global*
	Gries Financial LLC	*New Amsterdam Partners, LLC.*	*Perigee (aka Legg Mason)*
	Charter Financial Group	*Rutland Dickson Asset Management*	*Simms Capital Asset Management*
	CIC Asset Management	*Swarthmore Group*	*Lombard Odier*
	Dana Investment Advisors, Inc.	*Nottinghill Investment Advisers, Ltd.*	*Montgomery Int'l*
	Edgar Lomax Company	*Paradigm Asset Management*	*Oeschle*
	JPMorgan Investment Management, Inc.	*Putnam Advisory Company, Inc*	*Putnam Institutional*
	Eubel Brady & Suttman Asset Management	*Sturdivant & Company, Inc.*	*Societe General Investment Management*
	Cordillera Asset Management	*Union Heritage Capital Management*	
	Fortaleza Asset Management, Inc.	*Victory Capital Management Inc.*	
	Great Northern Asset Management, Inc.	*Putnam Advisory Company, Inc*	
	GW Capital, Inc.	*James Investment Research, Inc.*	
	Ariel Capital Management	*Quantum Legacy Capital Management, LLC*	
	Buckhead Capital	*Renaissance Investment Management*	
	Daruma Asset Management, Inc.	*Riverbridge Partners LLC*	
	Ironwood Capital Management, LLC	*UBS Global Asset Management, Inc*	
		Veredus Asset Management	
		Loomis Sayles & Co., L.P.	
		Opus Capital Management, Inc.	
		Penn Capital Management Co., Inc.	
		R. Meeder & Associates	
		Tamro Capital Partners LLC	
		Piedmont Investment Advisors, LLC (fixed income)	

Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	**Domestic & International Equity**	**Fixed Income**	**Ancillary**
Manager	*State Street Global EAFE Index CTF*	*Blackrock*	*Self Insured Bond Fund 200*
	SSgA S&P 500 Index CTF	*Pugh Capital Management*	*Public Workers Relief Fund*
		Smith Graham Management	*Marine Account 2005*
		Advent Capital Management	*Disabled Workers Retirement*
		Alliance Capital	*Black Lung 2000*
		Blaylock Abacus Financial Group, Inc.	
		John Hancock Advisers, LLC.	
		LM Capital Group, LLC	
		Morgan Stanley Investments LP	
		Prima Capital Advisors	
		Reams Capital Management, LLC	
		Wasmer, Schroeder and Company, LLC	
		Western Asset Management	
		Banc One Managed 1030	
		Fairport Asset Management, LLC	
		Holland Capital Management	
		Hughes Capital Management	
		Taplin, Canida & Habacht	

Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

A Long Term Capital Market Perspective

	1802-2005	1926-2005	*High Inflation* 1970-1979	*Bull Market* 1980-1999	*Wilshire* Forecast
Total Returns					
Stocks	8.2%	10.4%	5.9%	17.8%	8.3%
Bonds	4.9	5.7	7.2	10.0	5.0
T-Bills	4.3	3.8	6.4	7.2	3.0
Inflation	1.4	3.0	7.4	4.0	2.3
Real Returns					
Stocks	6.8	7.4	-1.5	13.8	6.0
Bonds	3.5	2.7	-0.2	6.0	2.8
T-Bills	2.9	0.8	-1.0	3.2	0.8
Risk (Std. Dev.)					
Stocks		19.3	16.0	15.0	17.0
Bonds		5.2	6.4	6.6	5.0
T-Bills		1.0	0.6	1.0	1.0
Stocks minus Bonds	3.3	4.7	-1.3	7.8	3.3

Wilshire's 10-Year Capital Market Assumptions

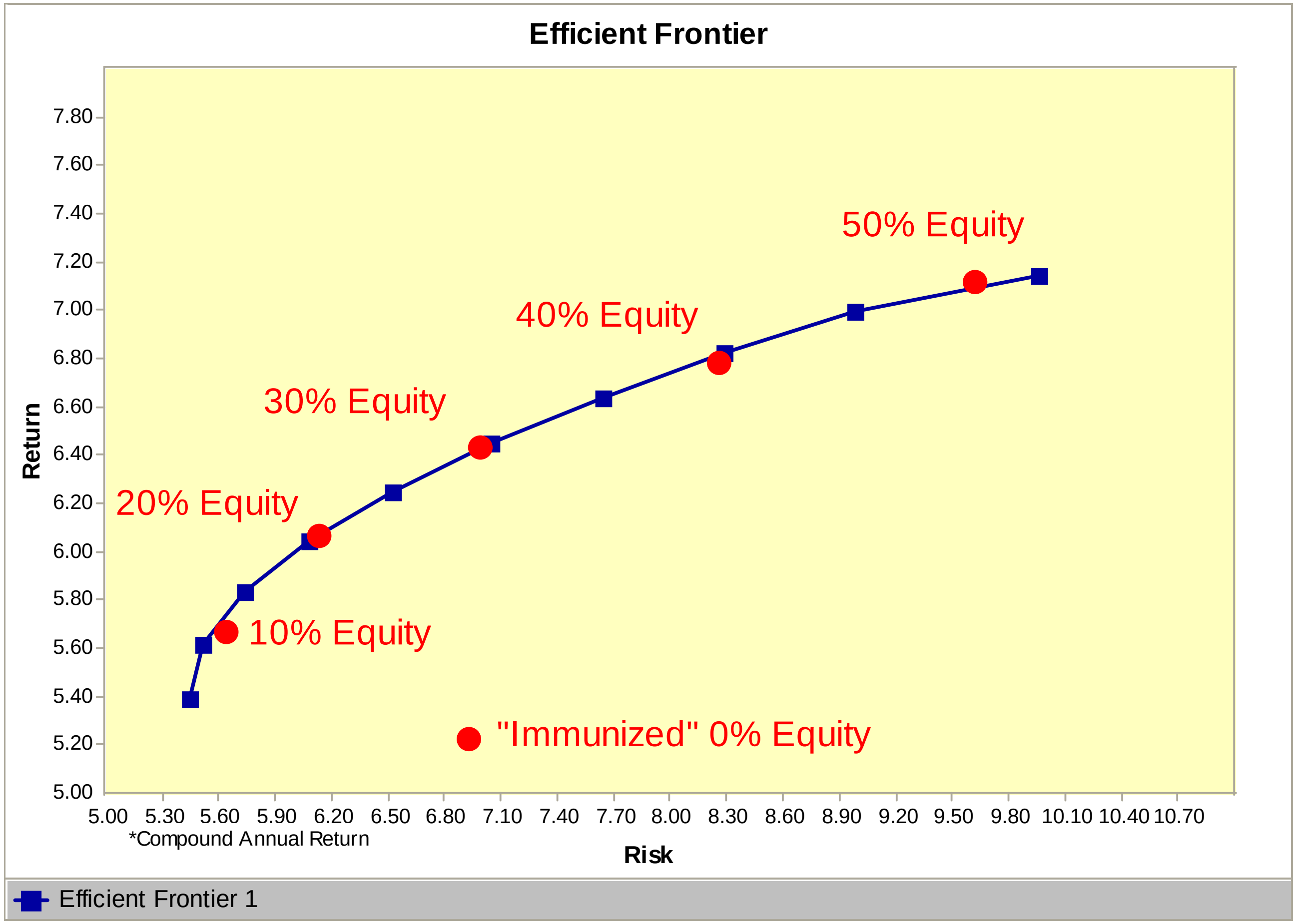
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00
Correlations							
U.S. Equity	1.00						
Non-U.S. Equity	0.78	1.00					
Fixed Income - Core	0.29	0.08	1.00				
Fixed Income - Long Duration/Dedicated	0.34	0.09	0.95	1.00			
Fixed Income - High Yield	0.48	0.29	0.39	0.40	1.00		
Fixed Income - Inflation Protected	0.00	0.10	-0.01	0.00	0.01	1.00	
Cash Equivalents	0.00	-0.10	0.10	0.10	0.00	0.25	1.00

- **The above figures represent Wilshire's 10-year forward-looking risk, return and correlation assumptions.**
    - Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset class is expected to produce returns that are within +/- one standard deviation of the expected return.

Source: Wilshire Consulting: 2006 Asset Allocation Return and Risk Assumptions

Efficient Frontier

- **The efficient frontier is comprised of portfolios that generate the highest level of expected return for a given level of risk in *asset-only space* – SIF liabilities are not considered in this exhibit:**



Efficient Portfolios

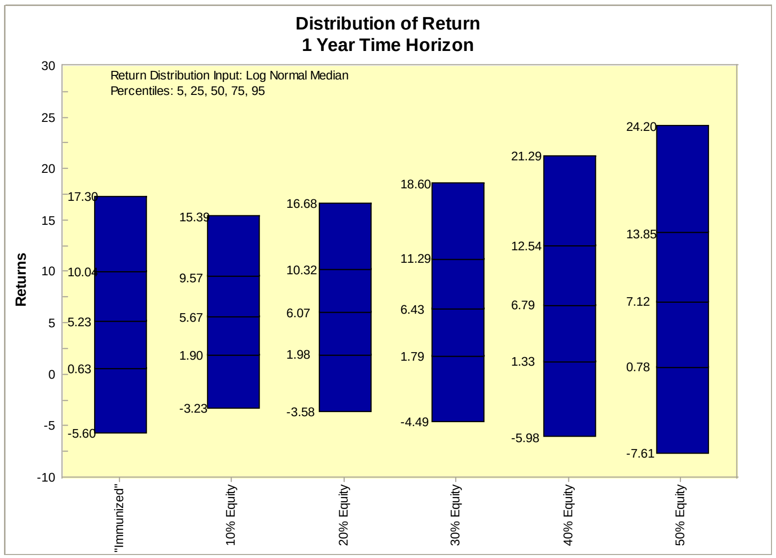
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income - Core	0	0	0	0	0	0
Fixed Income - Long Duration/Dedicated	99	65	54	44	39	34
Fixed Income - High Yield	0	4	5	5	5	5
Fixed Income - Inflation Protected	0	20	20	20	15	10
Total Fixed Income	***99***	***89***	***79***	***69***	***59***	***49***
Cash Equivalents	1	1	1	1	1	1

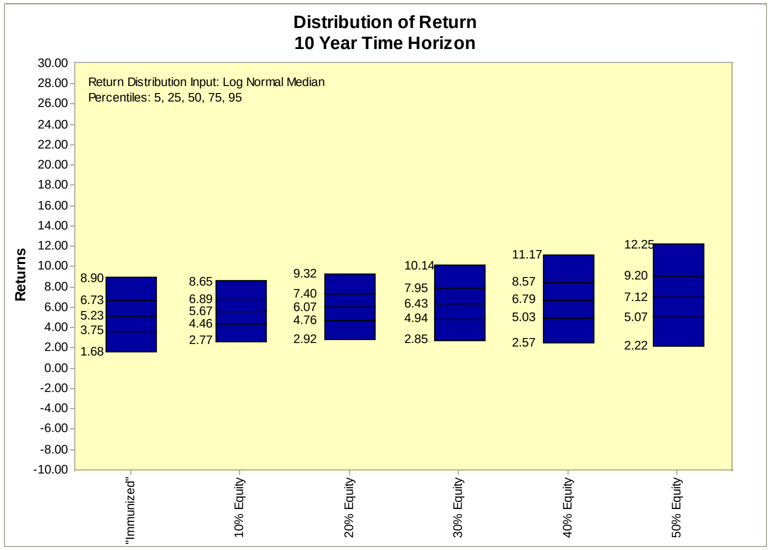
Return	**5.23**	**5.67**	**6.07**	**6.43**	**6.79**	**7.12**
Risk	**6.93**	**5.64**	**6.13**	**6.99**	**8.25**	**9.62**

- **Constraints:**
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- **Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.**
- **Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset mix is expected to produce returns that are within +/- one standard deviation of the expected return.**

1 and 10-Year Distribution of Expected Returns

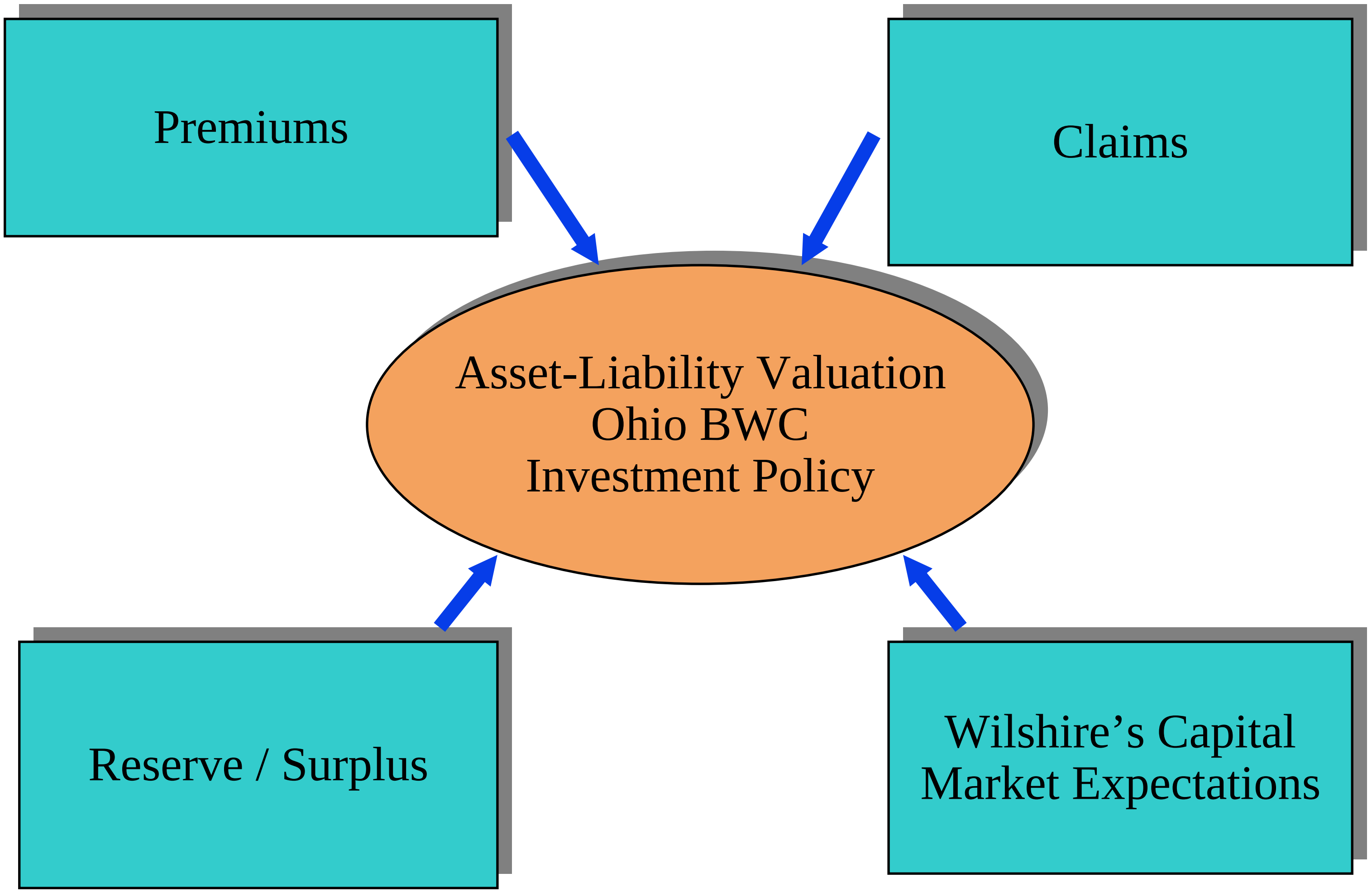
- **Distributions of returns are quite wide for any one year period…**
- **…but they narrow considerably over a 10-year period**





IV. Inputs to Asset-Liability Valuation Model

- **Wilshire's Asset-Liability Model integrates key economic and accounting data**

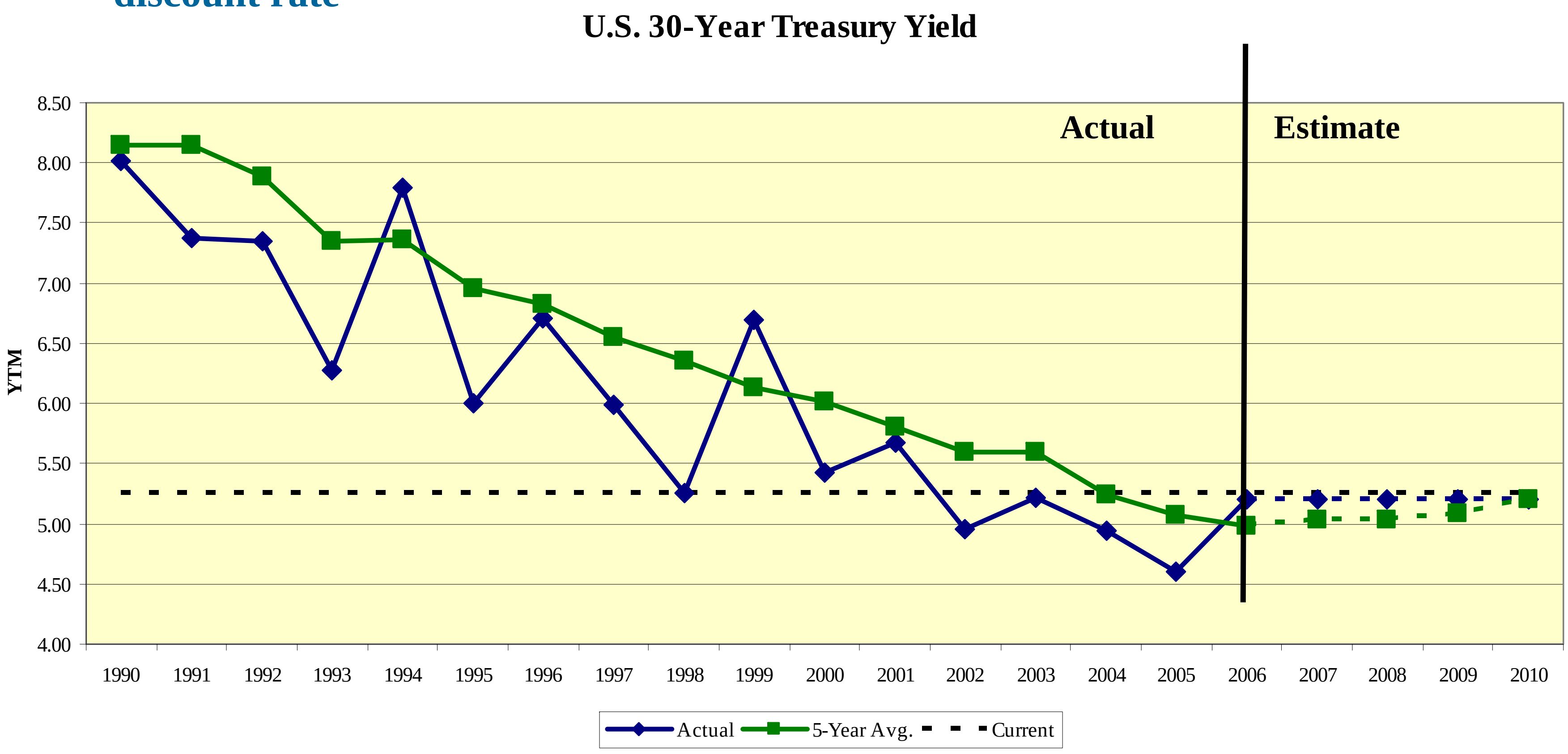


Key Actuarial Assumptions

- **Medical Inflation = 9%**
  - Expectation for 2006 and beyond
  - A 1% unexpected increase in the rate of medical inflation (i.e. to 10%), would increase reserves by over $1.3 billion over a 10-year timeframe (estimate)
- **Wage Inflation = 3.5%**
- **Discount Rate = 5.25%**
  - 5-year average of 30-year Treasury Constant Maturity Index
- **Premium pricing policy:**
  - Premiums are priced to reflect the current year’s future claims (discounted)
- **Population:**
  - Wilshire used an open population consisting of existing claimants plus 30 years of new entrants

Historical Yield Curve

- **BWC currently uses a five year average of the U.S. 30-Year Treasury yield as its discount rate**



Estimate based on 30-Year Treasury YTM as of 4/30/2006

V. Surplus Optimization (Accounting-based)

Current BWC Accounting Status

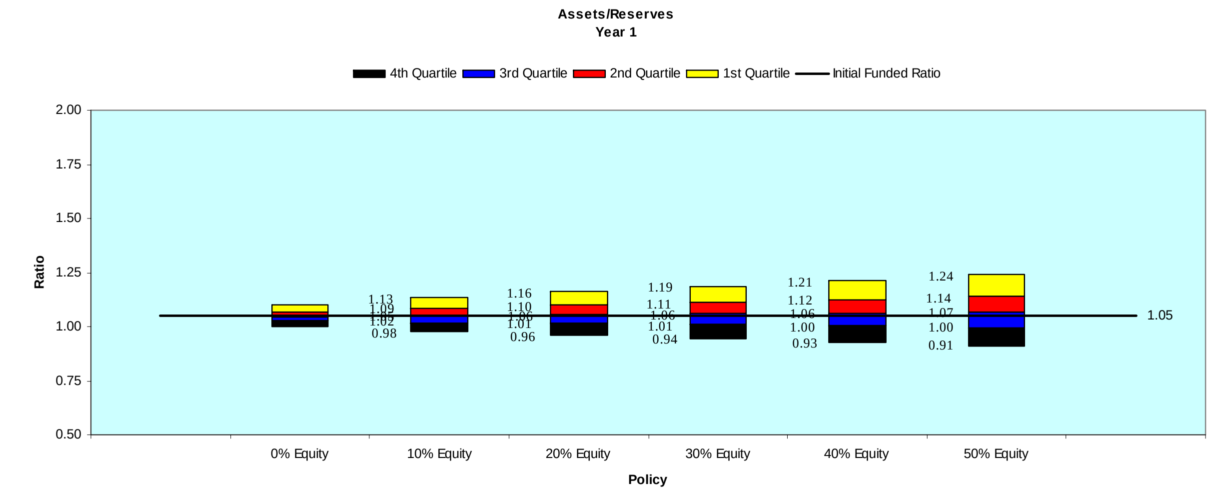
Assets ($ mm)	
Total Cash and Investments	16,458.00
Accrued Premiums	1,981.00
Other Accounts Receivable	349.00
Investment Receivables	2.00
Other Assets	128.00
Total Assets	18,918.00

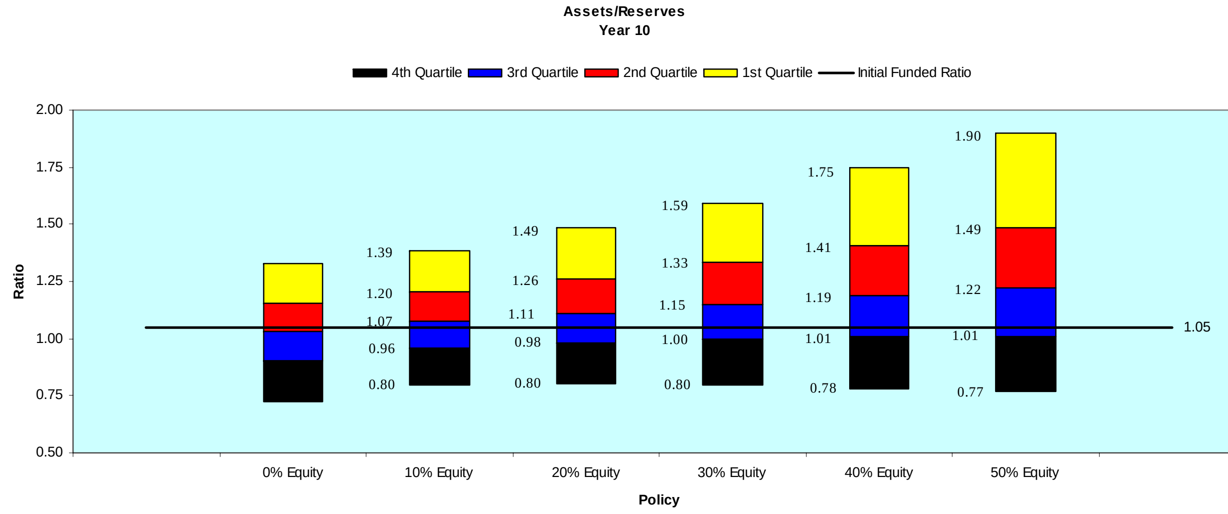
Liabilities ($ mm)	
Reserve	17,308.00
Accounts Payable	39.00
Investment Payables	-
Other Liabilities	701.00
Total Liabilities	18,048.00

Net Assets ($ mm)	870.00

Source: BWC Financial and Operational Report – March 2006

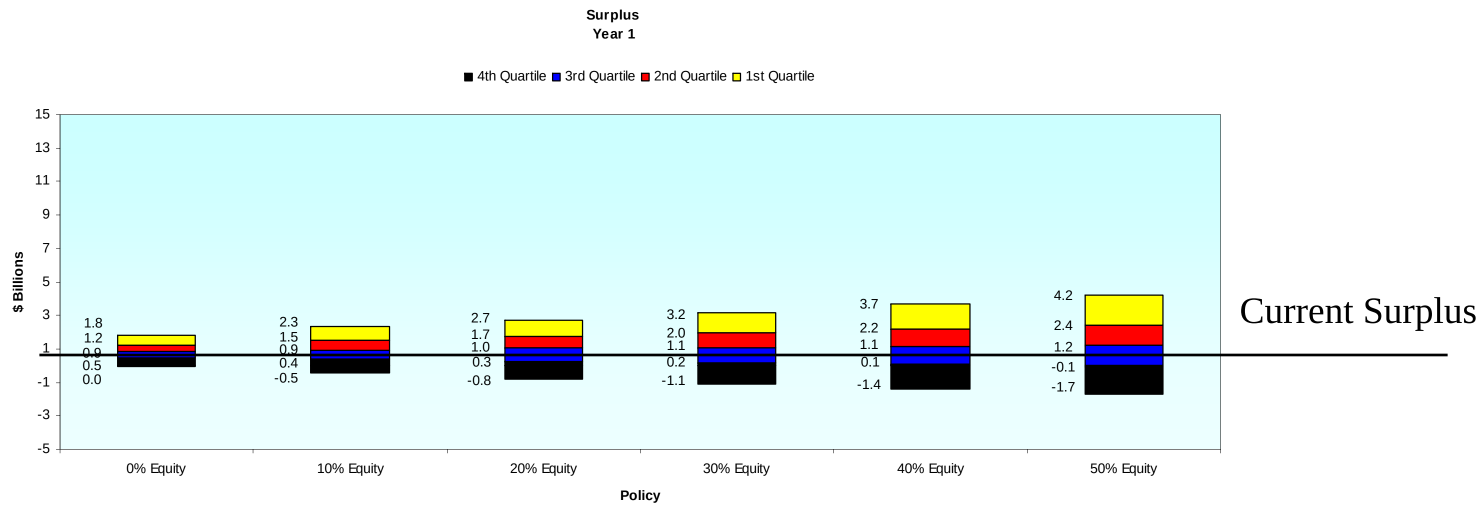
Stochastic Simulation of Assets as a % of Reserves: 1-Year and 10-Year

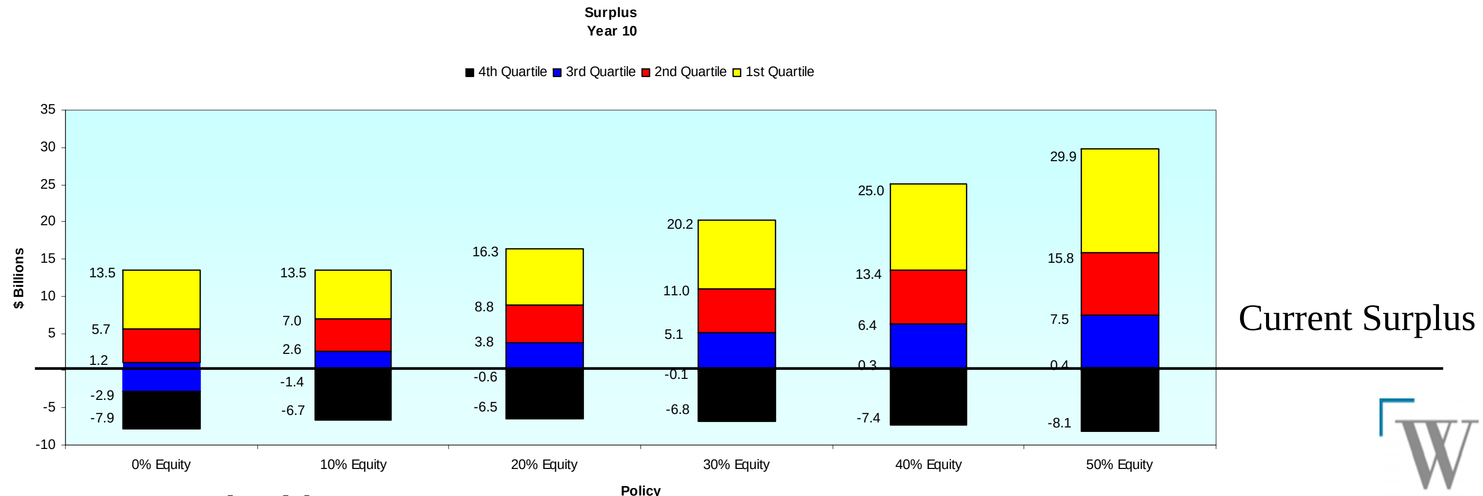




Stochastic Simulation of Surplus: Year 1 and Year 10

- **The floating bar charts incorporate a stochastic simulation of assets, premiums, claims and reserves under potential interest rate, inflation and capital market environments and illustrate the potential SIF surplus under various asset mixes over short and long-term time horizons:**

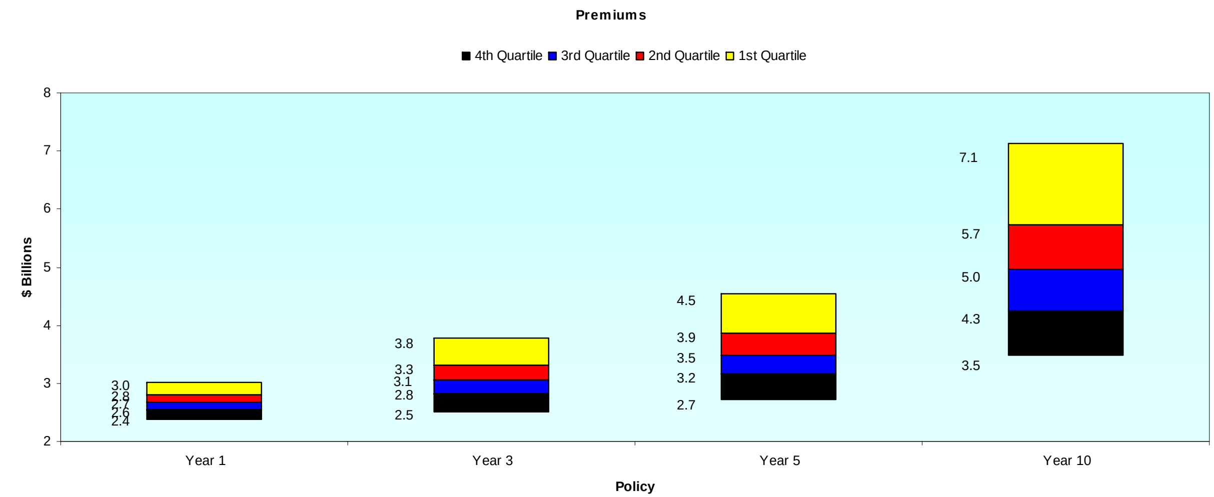


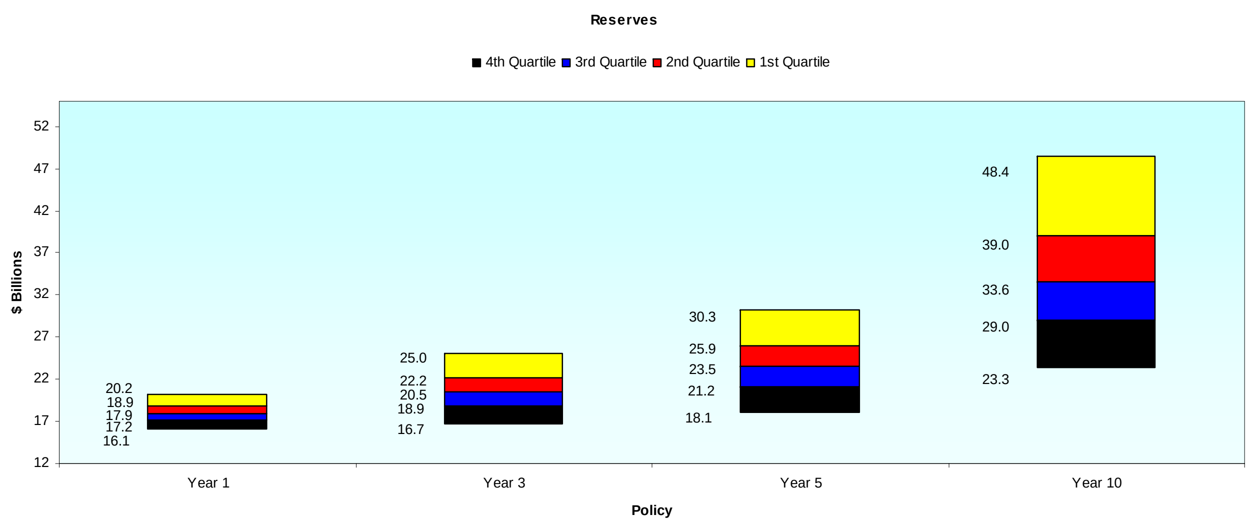


Source: Mercer and Wilshire

Stochastic Simulation of Premiums and Reserves

➢ Distribution of Expected Premiums and Reserves:





Surplus Optimization - Observations

- **Surplus Optimization measures the volatility of the difference in accounting assets vs. liabilities**
- **Over a one year time horizon, the “Immunized” Portfolio (i.e. 0% Equity) results in the least downside risk to the surplus of the Fund**
- **Over a longer term horizon (10 years), the 20% Equity portfolio results in the least downside risk to the surplus of the Fund due to time diversification and the inflation risk embedded in the liabilities**

VI. Cost-Risk Optimization (Cash Flow-based)

The Core Business of a Workers' Compensation Fund

- The core business of a workers' compensation insurance fund is to pay claims as promised to injured workers.
- The primary risk to the core business is to have insufficient assets to pay promised benefits.

Stakeholders – Employees

- Given expected premiums, we can maximize the probability that all claims obligations will be met. That is, we can minimize the risk to the core business at a given level of cost.
- For each cost level, there exists a policy portfolio which maximizes the chance that all benefits will be paid.
- Wilshire's asset allocation methodology - Asset Liability Valuation - yields a frontier of portfolios which are in the best interest of Employees

Stakeholders – Employers

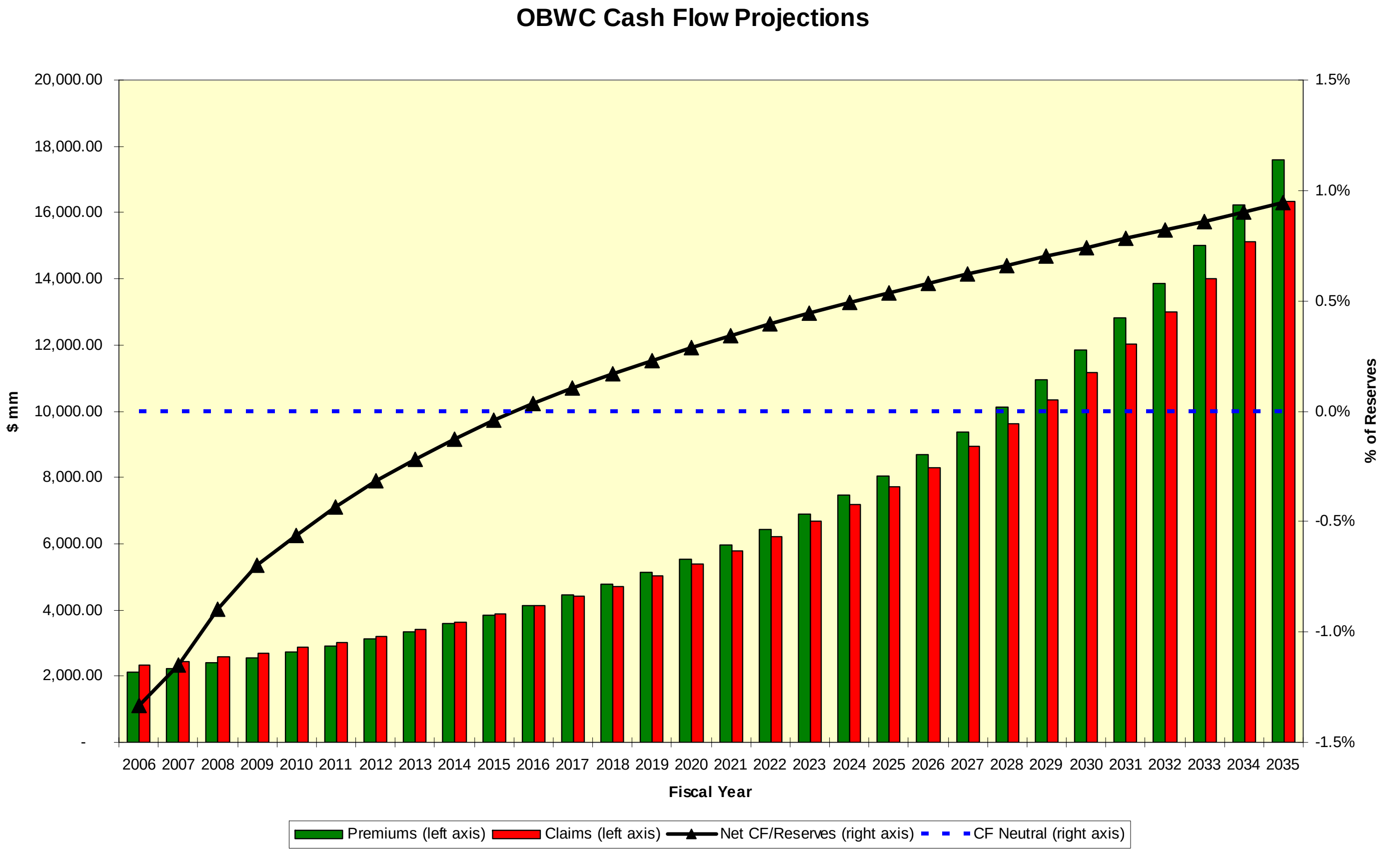
- Given a level of benefit security – a probability that all benefits will be paid – we can minimize the cost to the core business.
- For each probability, there exists a policy portfolio which minimizes the cost necessary to pay benefits.
- Asset Liability Valuation yields a frontier of portfolios which are in the best interest of the Employers. It can be shown that this set of policies is identical to the set of policies which are in the best interest of Employees.

The Role of Asset Allocation

- It is in the best interest of the employees to make promised benefits as secure as possible. Asset Liability Valuation will identify policies which maximize the safety of benefits at a given cost
- It is in the best interest of employers to limit the cost of funding benefits at an appropriate level of risk. Asset Liability Valuation will identify policies which minimize the cost of paying for promised benefits

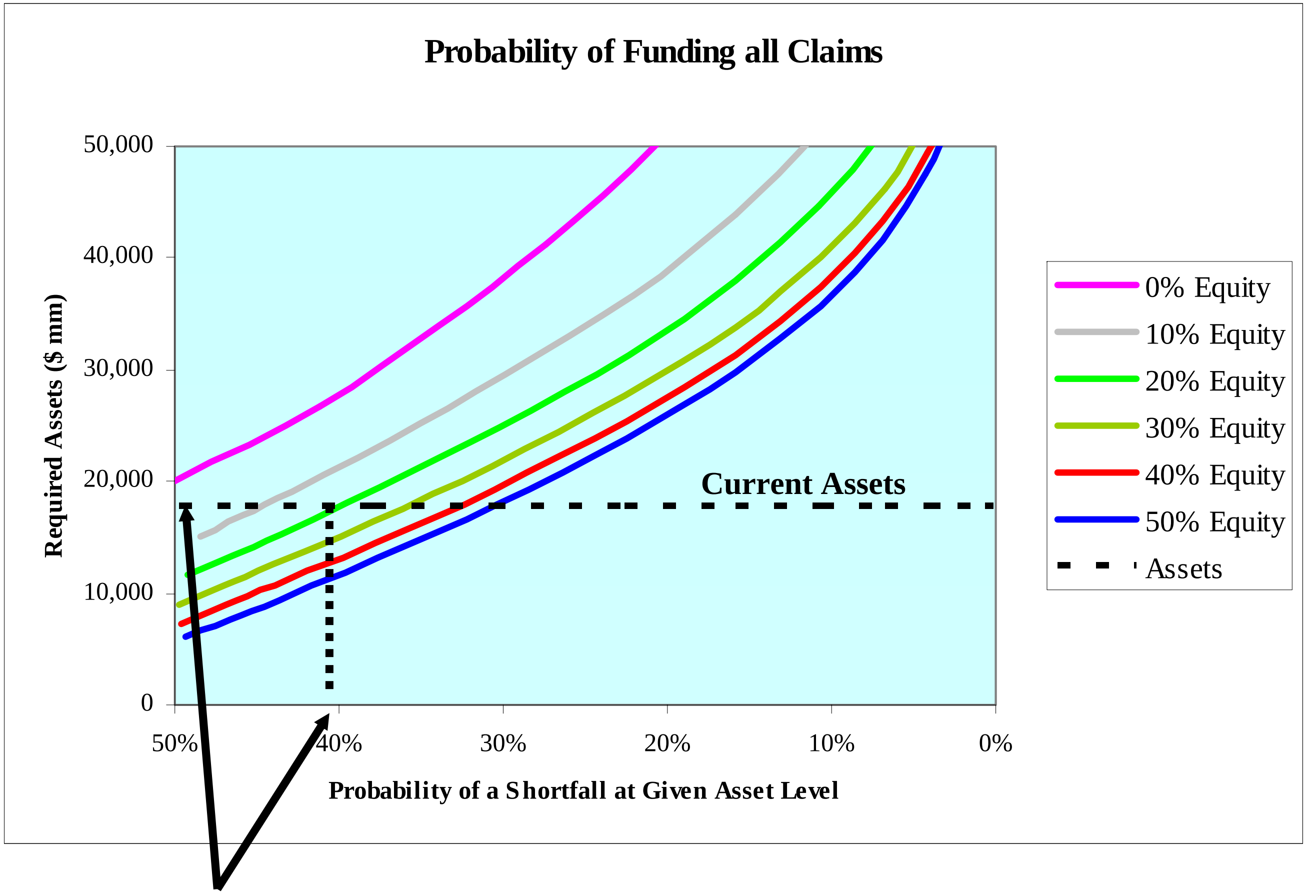
OBWC Cash Flow Projections

- **Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows**
- **This illustration excludes expected investment income**



Source: Mercer Oliver Wyman Projections

- **The graph below, based on Wilshire's Asset-Liability Valuation model, illustrates the probability of funding all future claims based on current assets and a stochastic simulation of expected returns and future premiums and claims:**



A 20% equity allocation results in a ~10% greater probability of funding all claims than a 100% fixed income allocation given the current assets and expected premiums.

Observations

- **The cost-risk optimization is a multi-period model that measures the ability of the Fund to pay all claims when due.**
- **The objective is to maximize the safety of claims payments**
- **Due primarily to the expected future positive cash flows to the Fund and the inflation risk embedded in the claims payment streams, asset mixes that include equity result in a higher probability of funding all benefit claims than the "Immunized" fixed income portfolio.**

Observations

- **The optimal asset mix is highly dependent on the Fund's ultimate objective and time horizon:**
  - If minimizing short term volatility of the accounting surplus is the sole objective, then the "Immunized" fixed income portfolio is optimal
  - If minimizing the long-term (10-year) downside risk of the accounting surplus is the objective, then a 20% equity allocation is optimal
  - If maximizing the safety of benefit claims is the objective (and the Fund can withstand downside risk to the accounting surplus), then an equity allocation greater than 20% may be justified (please see slide 45)
- **The immunized bond portfolio will not likely preserve the surplus in periods when medical and/or wage inflation exceed current expectations**
  - There is no financial instrument that can effectively hedge this inflation risk
- **Regardless of the asset mix selected, Wilshire recommends that OBWC build a larger surplus before considering future premium refunds to employers**
  - Under any asset allocation policy mix, there exists the probability of a shortfall (please see slide 45) in the future
  - Because of the positive cash flow characteristics (slide 44) of the SIF, any shortfall would likely not be an issue until well into the future

Recommendation

- **If the OBWC's time horizon is longer-term (i.e. 10-years), then Wilshire recommends a 20% equity allocation and the specific asset mix as detailed below:**

	Portfolio Weights		
	"Immunized"		Recommended
Asset Class	***0% Equity***		***20% Equity***
U.S. Equity	0		15
Non-U.S. Equity	0		5
Total Equity	***0***		***20***
Fixed Income - Core	0		0
Fixed Income - Long Duration/Dedicated	99		54
Fixed Income - High Yield	0		5
Fixed Income - Inflation Protected	0		20
Total Fixed Income	***99***		***79***
Cash Equivalents	1		1
Return	**5.23**		**6.07**
Risk	**6.93**		**6.13**

- **This mix provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons**

- **Wilshire recommends the following investment structure for implementing the asset allocation policy:**

	SIF Allocation		
Asset Class	***%***	***$ mm***	***Benchmark***
U.S. Equity	**15**	**2,265**	**Wilshire 5000**
Large Cap	*12*	*1,812*	*S&P 500*
Active (0%)	0	-	
Passive (100%)	12	1,812	
Small/Mid Cap	*3*	*453*	*Wilshire 4500 / Russell 2500*
Active (100%)	3	453	
Passive (0%)	0	-	
Non-U.S. Equity	**5**	**755**	**MSCI ACWI ex-U.S.**
Active (80%)	4	604	
Passsive (20%)	1	151	
Fixed Income - Long Duration	**54**	**8,153**	**Lehman Long Government/Credit**
Active (50%)	27	4,076	
Passive (50%)	27	4,076	
High Yield	**5**	**755**	**Merrill Lynch High Yield Master II**
Active (100%)	5	755	
Passive (0%)	0	-	
Inflation-Protected Securities	**20**	**3,020**	**Lehman U.S. TIPS**
Active (0%)	0	-	
Passive (100%)	20	3,020	
Cash Equivalents	**1**	**151**	**90-Day T-Bill**

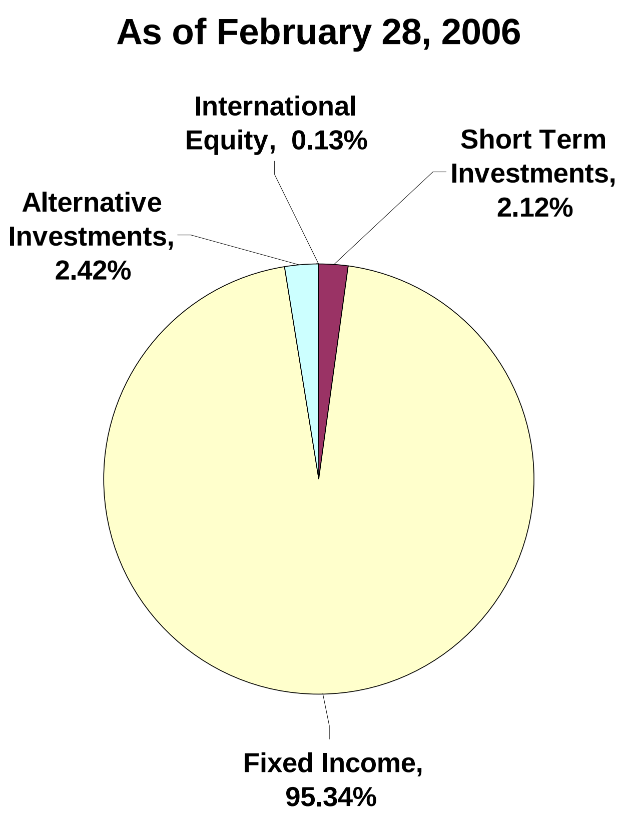
Please refer to the following page for an analysis of the long-duration fixed income benchmark.

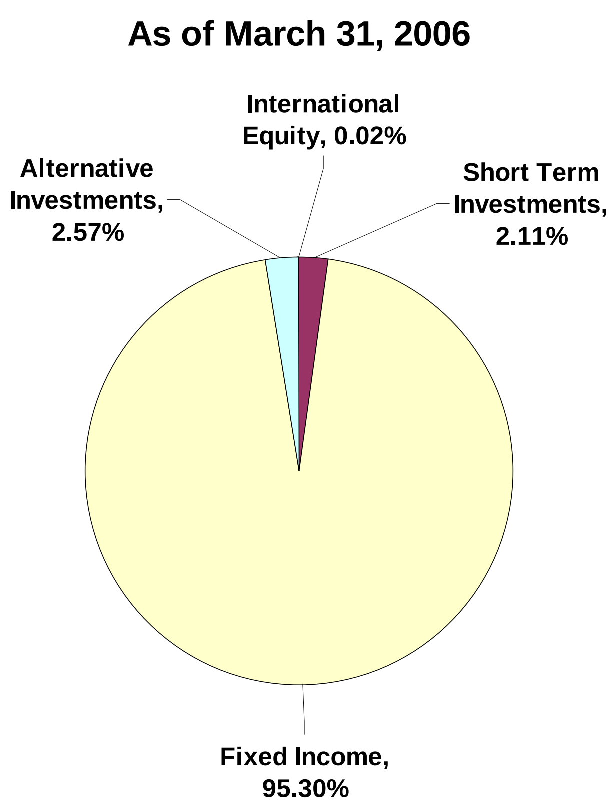
Appendix – Wilshire's 2006 Asset Class Assumptions

Ohio Bureau of Workers' Compensation

March 2006 Monthly Performance Flash Report

Asset Allocation – State Insurance Fund





Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 3/31/06

	Returns						Market Value	
Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ohio BWC Total Fund	-0.09	0.21	1.40	1.40	1.40		16,436,913	100.00
State Insurance Fund	-0.08	0.23	1.53	1.53	1.53		15,097,566	100.00
SIF Custom Policy	-0.98	0.29	0.76	0.76	0.76			
Tranche #1	-0.58	0.24	2.57	2.57	2.57		1,246,661	7.58
Tranche #2	-0.60	0.20	1.97	1.97	1.97		2,861,907	17.41
Tranche #3	-1.00	-0.27	0.60	0.60	0.60		1,570,211	9.55
Tranche #4 - Domestic Equity	-0.25	0.10	2.62	2.62	2.62		581,039	3.53
Tranche #4 - International Equity	-1.32	0.44	5.13	5.13	5.13		793,631	4.83
Tranche #5	-0.28	0.34	0.17	0.17	0.17		6,937,658	42.21
Tranche #6 - Non SIF	-0.12	0.03	-0.07	-0.07	-0.07		1,339,348	8.15
Indices								
91 Day T-Bill Index	0.39	0.33	1.04	1.04	1.04	3.53		
Lehman Aggregate	-0.98	0.33	-0.64	-0.64	-0.64	2.26		
Standard & Poor's 500	1.24	0.27	4.20	4.20	4.20	11.71		
DJ Wilshire 5000	1.84	-0.03	5.44	5.44	5.44	14.72		
MSCI EAFE Index (N)	3.30	-0.22	9.39	9.39	9.39	24.40		

Returns are preliminary and subject to change.

Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 3/31/06

Manager	Returns: Month	Prior Month	QTD	3 Months	YTD	1 Year	Market Value: $(000)	Percent
Alternative Investments Composite	15.99	N/A	15.99	15.99	15.99		458,321	2.79
Accounts Outside of Transition	-1.16	0.32	-0.84	-0.84	-0.84		302,209	1.84
Cash Account	0.38	0.35	1.19	1.19	1.19		345,929	2.10
Indices								
91 Day T-Bill Index	0.39	0.33	1.04	1.04	1.04	3.53		
Lehman Aggregate	-0.98	0.33	-0.64	-0.64	-0.64	2.26		
Standard & Poor's 500	1.24	0.27	4.20	4.20	4.20	11.71		
DJ Wilshire 5000	1.84	-0.03	5.44	5.44	5.44	14.72		
MSCI EAFE Index (N)	3.30	-0.22	9.39	9.39	9.39	24.40		

Returns are preliminary and subject to change.

Custom Policy Transition – State Insurance Fund

SIF Policy Benchmark Transition

Start	End	Percent	Description
11/30/2005	1/31/2006	100%	Pre-Transition Policy Benchmark
1/31/2006	2/28/2006	50%	Pre-Transition Policy Benchmark
		50%	Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark

S&P 500 Index	29%
MSCI EAFE Index	11%
Lehman Aggregate	57%
91 - Day T-Bill	3%

Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	Domestic Equity	Domestic Equity	International Equity
Manager	Apex Capital Management, Inc.	ING Investment Management - Aeltus	ING Investment Management
	Bahl & Gaynor Investment Counsel	Lakepoint Investment Partners	Capital Gaurdian
	Delancey Capital Group	Lazard Asset Management	Clay Findlay
	Gratry & Company	Lynmark Capital Group, Inc	Invesco Global
	Gries Financial LLC	New Amsterdam Partners, LLC.	Perigee (aka Legg Mason)
	Charter Financial Group	Rutland Dickson Asset Management	Simms Capital Asset Management
	CIC Asset Management	Swarthmore Group	Lombard Odier
	Dana Investment Advisors, Inc.	Nottinghill Investment Advisers, Ltd.	Montgomery Int'l
	Edgar Lomax Company	Paradigm Asset Management	Oeschle
	JPMorgan Investment Management, Inc.	Putnam Advisory Company, Inc	Putnam Institutional
	Eubel Brady & Suttman Asset Management	Sturdivant & Company, Inc.	Societe General Investment Management
	Cordillera Asset Management	Union Heritage Capital Management	
	Fortaleza Asset Management, Inc.	Victory Capital Management Inc.	
	Great Northern Asset Management, Inc.	Putnam Advisory Company, Inc	
	GW Capital, Inc.	James Investment Research, Inc.	
	Ariel Capital Management	Quantum Legacy Capital Management, LLC	
	Buckhead Capital	Renaissance Investment Management	
	Daruma Asset Management, Inc.	Riverbridge Partners LLC	
	Ironwood Capital Management, LLC	UBS Global Asset Management, Inc	
		Veredus Asset Management	
		Loomis Sayles & Co., L.P.	
		Opus Capital Management, Inc.	
		Penn Capital Management Co., Inc.	
		R. Meeder & Associates	
		Tamro Capital Partners LLC	
		Piedmont Investment Advisors, LLC (fixed income)	

Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	Domestic & International Equity	Fixed Income	Ancillary
Manager	State Street Global EAFE Index CTF	Blackrock	Self Insured Bond Fund 200
	SSgA S&P 500 Index CTF	Pugh Capital Management	Public Workers Relief Fund
		Smith Graham Management	Marine Account 2005
		Advent Capital Management	Disabled Workers Retirement
		Alliance Capital	Black Lung 2000
		Blaylock Abacus Financial Group, Inc.	
		John Hancock Advisers, LLC.	
		LM Capital Group, LLC	
		Morgan Stanley Investments LP	
		Prima Capital Advisors	
		Reams Capital Management, LLC	
		Wasmer, Schroeder and Company, LLC	
		Western Asset Management	
		Banc One Managed 1030	
		Fairport Asset Management, LLC	
		Holland Capital Management	
		Hughes Capital Management	
		Taplin, Canida & Habacht	

Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

May 16, 2006

[Name/Address]

RE: Ohio Bureau of Workers' Compensation Investment Performance

Dear Commissioner:

Enclosed please find Wilshire Associates' reporting on the Ohio Bureau of Workers' Compensation portfolio performance. The two enclosed reports cover the month and quarter ending March 31, 2006, respectively.

As you know, the Ohio Bureau of Workers' Compensation portfolio was transitioned to an investment strategy designed to closely match the performance of the Lehman Aggregate Bond Index. This transition began in January and was completed over a period of approximately three months. To facilitate trading required under the transition process, the portfolio was grouped into six transition tranches based on the type of assets held in each of the underlying investment manager accounts. A complete summary of these tranches is provided inside each of the enclosed reports. Consequently, Wilshire's report on performance follows the structure described above.

Trading of Tranche 1, Tranche 2, and Tranche 3 was initiated during January to sell equity securities and purchase fixed income securities as part of the transition to the Lehman Aggregate Bond Index strategy. Trading of Tranche 4 (equity), Tranche 5 (fixed income) and Tranche 6 (fixed income) began in February.

Please contact us if you have any questions about this reporting, or if Wilshire Associates can be of further assistance to the Commission.

Sincerely,

Mark E. Brubaker, CFA
Managing Director

cc: Lee Damsel, Interim CIO – Ohio Bureau of Workers' Compensation

Enclosures

INVESTMENT DIVISION

TO: Bill Mabe, Administrator/CEO
Mike Koetters, Chairman, Investment Committee
Denise Farkas, Investment Committee
Win McCausland, Investment Committee
Bill Sopko, Investment Committee

FROM: Lee Damsel, Interim Chief Investment Officer

DATE: May 11, 2006

SUBJECT: CIO Report for April, 2006

The Investment Division in April, 2006, completed another major initiative and continued to execute many of the other key investment initiatives/directives given by the WCOC Investment Committee and Administrator Mabe. This report summarizes some of these activities, issues, and action plans relating to Ohio Bureau of Workers' Compensation Investment Division.

2006 Strategic Initiatives

The Investment Division has the following 2006/2007 goals:

1.	Transition BWC's portfolio to a fixed income allocation while increasing annual cash income*	12/31/06	COMPLETED
2.	Establish a new BWC internal investment organization for restructured portfolio	06/01/06	
3.	Create and implement a new monthly reporting system by outsourcing to custodian	03/31/06	COMPLETED
4.	Establish proper investment controls and procedures to protect the assets of the State Insurance Fund	12/31/06	
5.	Establish new investment accounting process for the restructured portfolio	03/31/07	

*$546 million last year vs. $646 million cash income

Strategic Initiative One- COMPLETED

The transition of BWC's actively managed portfolios to the State Street Lehman Ag passive fixed income index commenced on January 9, 2006, with State Street Global Markets (SSGM) managing the process on behalf of BWC. The transition is complete (with a few clean-up assets of approximately $18 million comprised of 44 fixed income issues which are anticipated to be liquidated by end of May, 2006.) The final report detailing the $15.5 billion transition was included in the material for the April 27, 2006 WCOC/IC meeting. In summary, BWC's transition was completed on time with actual costs well below the anticipated estimates.

In addition, annual cash income was anticipated to increase by an additional $100 million as a result of the restructured portfolio comprised of nearly 100% fixed income assets. As of March 31, 2006, the additional interest Income was achieved of $100.3 M favourable versus last year.

Strategic Initiative Two
Bruce Dunn, CFA was named BWC's permanent CIO and will begin on May 22, 2006.

Training continued for the two newest members of the Investment Division. Job interviews continue for the remaining two unfilled investment manager positions. Job recruitment activities (job ads, interviews, offers) will continue until a minimum of four new investment personnel are hired (two completed through April, 2006). Anticipated completion of hiring the additional two investment personnel is a high priority in the Investment Division.

Finally, the additional temporary accountant continued to reconcile all private equity capital calls, distributions and partnership valuations and to document the procedures going forward for BWC's private equity management process.

Strategic Initiative Three – Previously Completed (See March CIO report)

Strategic Initiative Four
The WCOC/IC approved a new Investment Policy at the April 27, 2006 meeting. BWC Investments division continues to establish policies and procedures for the management of the 68 private equity funds as well as the new bond index fund , performance reporting and other investment activities to support the new Investment Policy.

Strategic Initiative Five
A new investment accounting process will be explored and finalized by March, 2007. The Investment Division has continued to meet with IT for the initial prioritizing of support and development for the project plan.

Private Equity
On March 9, 2006, The Columbus Dispatch filed a Writ of Mandamus against BWC seeking the release of the Ennis Knupp Report under the public records law. The AG filed an answer and counterclaim, and filed answers to some of the investment funds counterclaims in the original declaratory judgment action (BWC v. Behrman Capital). The AG also filed a motion for summary judgment in the Berhman Capital case, and is setting up meetings with the funds to discuss issues. Some Funds are in default (did not answer the complaint), so the AG is preparing a position statement on what to do with the defaulting funds, due by May 1, 2006.

The Investment Committee directed the BWC staff to issue an RFP to explore the selling of the private equity funds currently in BWC's portfolio at the March 30, 2006 WCOC/IC meeting. An RFP draft and timetable was presented to the WCOC/IC at the April 27, 2006 and approved for issuance.

The Investment Division continued to catalogue descriptively all of the imaged private equity documents.

Asset/Liability Implementation

Mercer conducted an actuarial education session for the WCOC and staff on April 24, 2006 at the BWC William Green Building in Columbus, Ohio. The goal was to ensure that all interested parties have an accurate picture of how the fund operates from an actuarial perspective. Topics addressed were historical review of reserves and surplus, rates and trends; ratio analysis; discounting methodology and premium calculations. This meeting served as a building block for the Asset-Liability Valuation (ALV) to be presented by Wilshire in May to the IC and in June to the WCOC.

Legislative Updates/HB66 Compliance

SB 151 (Dann)
This legislation would require the Ohio Retirement Study Council to oversee investment of funds under the Workers' Compensation Law and approve contracts entered into concerning the investment of those funds, to change the investment authority of the Administrator of Workers' Compensation, to establish restrictions concerning contracts for the investment of those funds, to require that criminal records checks be conducted on persons involved with the investment of those funds, to prohibit the Administrator from awarding a contract for the investment of those funds to an investment manager or business entity who has made specified campaign contributions, and to prohibit certain state officials from soliciting or accepting campaign contributions from those investment managers or business entities.

Currently in Senate Insurance, Commerce & Labor Committee
No hearings scheduled at this time

SB 282 (Fingerhut)
This legislation was introduced on March 7, 2006. According to the draft he sent to WCOC members, the legislation would:

- Establish the WCOC as an independent body, with its own professional and clerical staff;
- Empower the WCOC to assess the BWC and IC for fees to pay for professional and clerical assistance for an amount up to one half of one percent of the BWC and IC budgets - but not more than $2 million;
- Require that excess funds not used by the WCOC for staffing purposes be returned to employers;
- Require the WCOC to promulgate administrative rules codifying into state law its investment oversight policies and procedures.

This bill has not yet been assigned to a committee
No hearings scheduled at this time

HB 354 (Patton)
This legislation would require that any state agency with the authority to invest state funds to report on those investments using the global investment performance standards.

Currently in House State Government Committee
No hearings scheduled at this time

HB 376 (Patton)
This legislation would create the Workers' Compensation Investment Board and would transfer the Workers' Compensation Oversight Commission's powers and duties regarding the investment program of the Bureau of Workers' Compensation to the Investment Board.

Currently in House State Government Committee
No hearings scheduled at this time

HB66 Compliance
Emily Hicks (BWC Legislative Liaison) is working with Cathy Moseley (BWC Chief of Staff) to ensure compliance to all related HB66 requirements.

SB 7 (Cates)
This legislation is often referred to as the "workers' compensation reform" bill. This would make necessary administrative changes to the workers' compensation system.
This billed passed. The only change is that a referendum petition was filed on Thursday, April 6, 2006. The group will need to attain 194,000 signatures to make it on the Nov. 7, 2006 ballot. Please see the attached referendum petition.

NOTE: Although HB 376 (Patton) and SB 282 (Fingerhut) are similar, both bills would require different action by BWC. They would both be debated and voted on in their respective chambers and then passed along to the opposite chamber for consideration. At this point, neither of the bills is scheduled for a hearing, which is the first step in the process.

- HB 376 would create the Workers' Compensation Investment Board and transfers to the Board the Workers' Compensation Oversight Commission's powers and duties regarding the Bureau of Workers' Compensation investment program.

- SB 282 would require the Workers' Compensation Oversight Commission to employ its own professional and clerical staff rather than use staff provided by the Administrator of Workers' Compensation, and to require the Oversight Commission to adopt rules to establish the objectives, policies, and criteria for the investment program of the Bureau of Workers' Compensation.

MRT Action Plan

Many MRT action items were completed upon the approval of the new Investment Policy at the April 27, 2006 WCOC/IC meeting. In addition, the Administrator continues to explore with the Chairman of the WCOC the creation of an actuary committee. A final BWC response document is being drafted by the CIO (Dunn) and Chief of Staff (Moseley) and is expected to be released by June, 2006. The Investment Committee and WCOC will continue to address the pending actions/plans for the remaining outstanding MRTs at their respective upcoming monthly WCOC/IC Committee meetings. The committees' respective final action plans will be reflected in the response document slated for June, 2006.

Investigative/Lawsuit

Support continues in providing supporting documentation for the following legal/investigative activity:

Coin Liquidation
MDL
Private Equity Declaratory Judgement
AOL/Time Warner
Inspector General, et al

Request for Proposal Process for Selection of Independent Auditor

1. Request for Proposal (RFP) has been prepared and is scheduled to be issued on Tuesday, May 30, 2006. BWC has requested that the Auditor of State send the RFP to 9 firms.

2. A pre-proposal conference for interested firms is scheduled for Wednesday June 7, 2006 at 3:00 pm. The pre-proposal conference allows interested firms to ask questions about BWC before preparing proposal.

3. Proposals are due to the Auditor of State by June 21, 2006 at 1:00 pm.

4. BWC will review and grade technical proposals and submit grading sheets to the Auditor of State by Friday June 30. The Auditor of State will also perform grading of proposals.

5. Auditor of State will provide the cost proposals to BWC the week of July 3rd.

6. BWC will make final decision on firm and submit decision letter to the Auditor of State by July 10, 2006.

7. Work begins on FY 2005 and 2006 audits upon completion of contract – target date is July 21st.

8. Fiscal year 2005 and 2006 audits to be completed and reports finalized by November 30th.

JPMorganChase

Worldwide Security Services
Institutional Investor Group
Richard P. Hartzell
Public Funds Practice Leader
1111 Polaris Parkway, Suite 2-N
Columbus, Ohio 43240

May 24, 2006

C. Lee Damsel
Assistant Chief Investment Officer
Ohio Bureau of Workers' Compensation
30 West Spring Street, L 27
Columbus, Ohio 43215

Re: March, 2006 Portfolio Performance Reporting

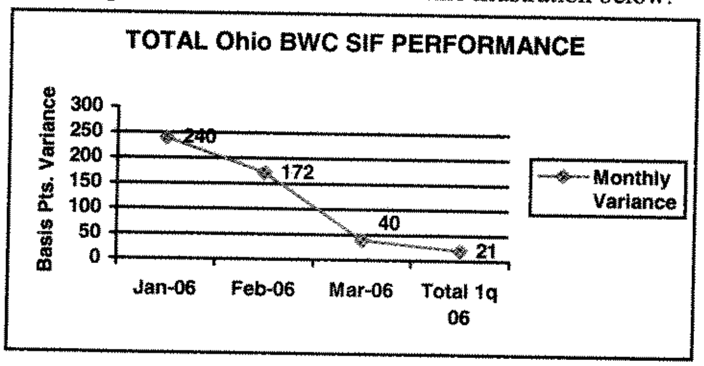
Dear Lee,

As follow-up to my correspondence dated April 26, 2006, I am providing this letter as an update and explanation on the difference between JPMorgan's investment performance reporting, and that provided by Wilshire Associates.

You will recall that the performance numbers provided by both firms for the month of January 2006 were significantly different. Because of this variance, Wilshire Associates and JPMorgan conducted an exhaustive reconciliation exercise. As a result, I reported to you in my April 26th letter, that these differences were attributable to three factors. First, the categorization of certain investment portfolios was different. Second, Wilshire Associates utilized our settlement date information, verses Trade date information used by JPMorgan. Third, and most significantly, JPMorgan utilized a "bottom-up" composite construction methodology; where-as Wilshire utilized a "Top-down" perspective.

Regarding the third factor, mentioned above, JPMorgan concluded that neither Wilshire nor JPMorgan was incorrect. Wilshire's net cash flow approach had the advantage of smoothing out the enormous cash flow anomalies, by viewing the entire portfolio from beginning to end. JPMorgan's bottom-up approach recognizes more profoundly the migration of assets intra-month. I further reported to you that these variances would contract over February, and March, but would not likely be eliminated in their entirety.

As predicted, the variances at the composite level between Wilshire and JPMorgan have become less significant over the following two months. See the trend line illustration below:



Commencing in April 2006, I expect that any difference in the return calculations between Wilshire and JPMorgan will be narrow. However, even though my expectation is for minimal variance going forward, I do not expect the cumulative variance (e.g. 21 basis points in the above illustration), to disappear. I expect further reduction in April, however, most if not all of the remaining variance is simply the result of differing methodologies, which will not be self-correcting with more time.

Thank you for the opportunity to explain our calculation of performance information. Please do not hesitate to call upon my office for further assistance.

Sincerely,

Richard P. Hartzell
JPMorgan Worldwide Security Services
Public Funds Practice Leader

Cc: Michael Gillooley, JPMorgan