



**Investment Committee**

**Michael C. Koettters**, Chairman  
Retired Chief Investment Officer,  
Wellpoint, Inc.

**William E. Sopko**  
President,  
STAMCO Industries

**Edwin McCausland, CFA**  
President,  
Investment Perspectives LLC

**Denise M. Farkas, CFA**  
Senior Vice President,  
Spero Smith Investment Advisers

**Investment Committee**

**Agenda**  
**August 24, 2006**  
**William Green Building, Second Floor, Room 2**  
**8:45 a.m.**

Chairman's comments..... Mike Koettters

**Old business**

Approval of previous meeting minutes ..... Mike Koettters

Insurance coverage - fiduciary insurance, update ..... James Barnes

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**New business**

Wilshire June 2006 Monthly Performance Flash Report ..... Mark Brubaker

Wilshire 2006 Quarterly Performance Reports ..... Mark Brubaker

Private Equity Placement Agent RFP Process Summary ..... Bruce Dunn

Private Equity Placement Agent Recommendation .....  
..... Bruce Dunn and Marc Friedberg

Finalist Presentation, request recommendation for endorsement

Investment Division Table of Organization ..... Bruce Dunn

CIO Monthly Report – July 2006..... Bruce Dunn

Compliance Discussion  
RFP Updates

Investment Policy Recommendation (*corrective/clarification changes to investment policy*), possible vote ..... John Williams and Bruce Dunn

Adjourn ..... Mike Koettters

\*Note: Written reports provided – no prepared presentation

- JP Morgan June 2006 Monthly Performance Report
- Investment Expenses - Manager & Operational Fees
- Investment Division Departmental Budget
- Investment Policy dated July 20, 2006



# Ohio Bureau of Workers' Compensation

## Private Equity Sell-Side Advisor Selection Process

**Mark Brubaker, CFA**  
*Managing Director*

**Marc Friedberg, CFA**  
*Managing Director*

**Michael Patalsky, CFA**  
*Senior Associate*

August 24, 2006

# Private Equity Sell-Side Advisor Selection Process

- A very thorough process was utilized in examining and scoring potential candidates for this mandate
- Steps in the process:
  - Drafting of the RFP
  - Evaluation and review of the RFP responses
  - Interview of finalist candidates
  - On site due-diligence with recommended candidate
  - Consultation with Ohio BWC staff throughout the process
- Wilshire worked in conjunction with the Ohio BWC staff in all aspects of the selection process

# RFP Issuance and Scoring

- A request for proposal (RFP) was publicly issued on May 16, 2006 seeking the services of firms who perform secondary sales services for the private equity market
- Four firms responded to the RFP:
  - Lehman
  - NYPPE
  - Triago
  - UBS
- RFP responses were independently scored by the Ohio BWC CIO, the Ohio BWC Director of Investments, two members of the BWC staff, and Wilshire according to an established scoring methodology
  - Each firm was scored on Organization and Structure, Experience, Process and Strategy, Fees and General Information
- A conference call was held to discuss the responses and scoring rationale and select three interview candidates

# Finalists Interviews

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- There was unanimous consensus following the RFP scoring and conference call to invite three finalists to present:
  - Lehman
  - NYPPE
  - UBS
- Each of the three finalists had a 90 minute interview session on July 13
  - Finalists were provided with a list of questions to be answered in the interview that were specific to each respective firm
- Each finalist was independently graded by the by the Ohio BWC CIO, the Ohio BWC Director of Investments, two members of the BWC staff, and Wilshire according to an established scoring methodology
- A conference call was held to discuss the responses and scoring rationale

# Finalist Grading and On-Site Due Diligence

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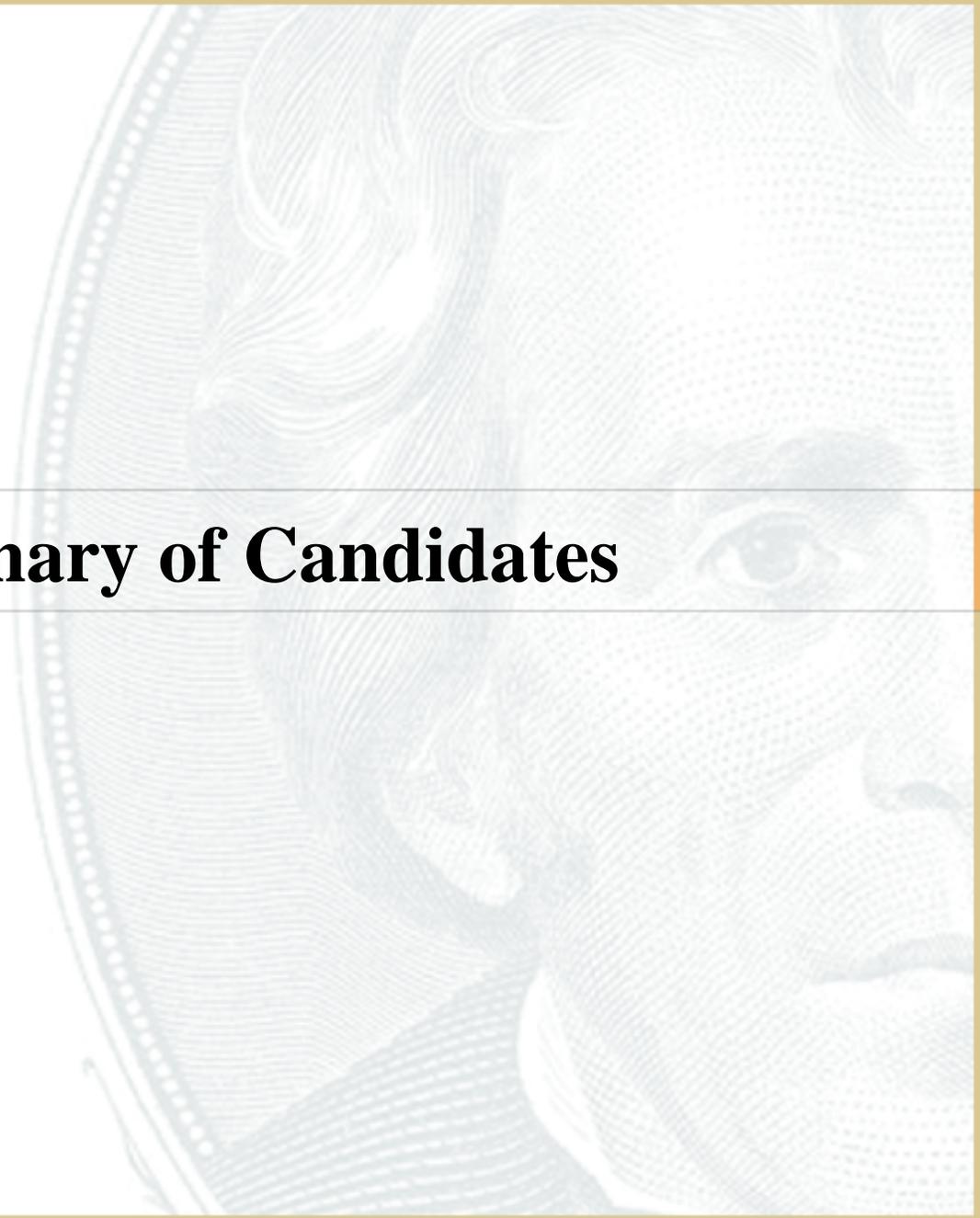
- There was again unanimous consensus following the finalists scoring and conference call to continue the process with one firm: **UBS**
- An on-site due diligence meeting was held with UBS in their New York office on August 10
  - Meeting was attended by the BWC CIO, a member of the BWC staff, and a representative from Wilshire
  - Met with members of the UBS team who would be directly involved in the project; further discussed various areas related to the project, including the UBS organization, role of team members, process that would be employed in the transaction, and timeframe for the transaction

# Wilshire Recommendation

- Wilshire recommends that the Ohio Bureau of Workers' Compensation retains UBS as a sell side advisor for the potential liquidation of their private equity portfolio
- Wilshire believes that UBS clearly demonstrated that they were the most capable firm in providing the services outlined in this mandate
  - UBS has an experienced team, led by Nigel Dawn, and is further supported by the broad resources of the UBS organization
  - The team displayed an in-depth understanding of the issues specific to the potential Ohio BWC mandate
  - UBS outlined a detailed process and timeline for the potential services they would provide, at a cost that is competitive with the other potential candidates and industry norms



# **Appendix – Summary of Candidates**



# Candidate Summary

|   | Lehman   | NYPPE   | Triago   | UBS   |
|---|--|---|--|---|
| Firm Location   | New York   | New York  | Paris  | New York  |
| Year private equity secondary sales group founded           | 2003   | 1998  | 2004   | Group was officially founded in 2004; has been part of UBS since 2001 |
| Team Leader   | Brian Talbot   | Laurence Allen  | Bruno Lafleur  | Nigel Dawn  |
| Team Leader's Secondary Sales Experience (in years)         | 15 years of private equity experience, primarily on the purchase of partnerships                               | 8   | 4  | 5.5   |
| Total Number of Members on Primary Execution Team           | 5  | 6   | 5  | 8   |
| Team is Dedicated to Secondary Sales Function               | No   | Yes   | Yes  | Yes   |
| Previous Sales Engagements (Total number of interests sold) | 177  | 220   | 197  | 232   |
| Previous Sales Engagements (Total in \$\$)                  | \$2.4 billion*   | NA  | \$842 MM   | \$4 billion   |
| Additional Comments   | Team came over to Lehman from Deutsche Bank following the liquidation of DB's \$2.4 B private equity portfolio | Firm's primary focus is on smaller-size transactions. Firm is recognized as a Qualified Matching Service (QMS) by the IRS | Previous experience is with smaller sized transactions | Team has experience on multiple large-sized transactions              |

\*Sale occurred while team was part of Deutsche Bank



# Memo

To: Ohio Bureau of Workers' Compensation Investment Committee  
From: Marc Friedberg, CFA -Wilshire Associates  
CC: C. Bruce Dunn, CIO, Ohio Bureau of Workers' Compensation  
Date: August 16, 2006  
Re: Recommendation of Sell-Side Advisor

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## Executive Summary

Wilshire believes the process used in selecting a sell-side advisor for the potential liquidation of Ohio Bureau of Workers' Compensation private equity portfolio was thorough and comprehensive. Wilshire Associates worked in conjunction with the Ohio BWC staff throughout the process, which included the following elements:

- Drafting of the RFP
- Evaluation and review of the RFP responses
- Interview of finalist candidates
- On site due-diligence with recommended candidate
- Consultation with Ohio BWC staff throughout the process

Of the candidates who responded to the RFP, Wilshire believes that UBS clearly demonstrated that they were the most capable firm in providing the services outlined in this mandate. We believe that UBS has an experienced team, led by Nigel Dawn, and is further supported by the broad resources of the UBS organization. The team displayed an in-depth understanding of the issues specific to the potential Ohio BWC mandate. UBS outlined a detailed process and timeline for the potential services they would provide, at a cost that is competitive with the other potential candidates and industry norms. Wilshire recommends that the Ohio Bureau of Workers' Compensation retains UBS as a sell side advisor for the potential liquidation of their private equity portfolio.



# Ohio Bureau of Workers' Compensation

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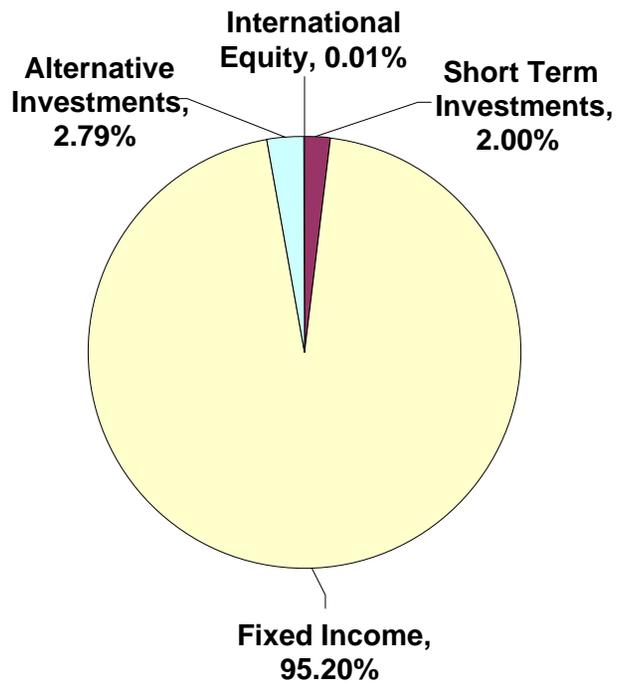
June 2006 Monthly Performance Flash Report



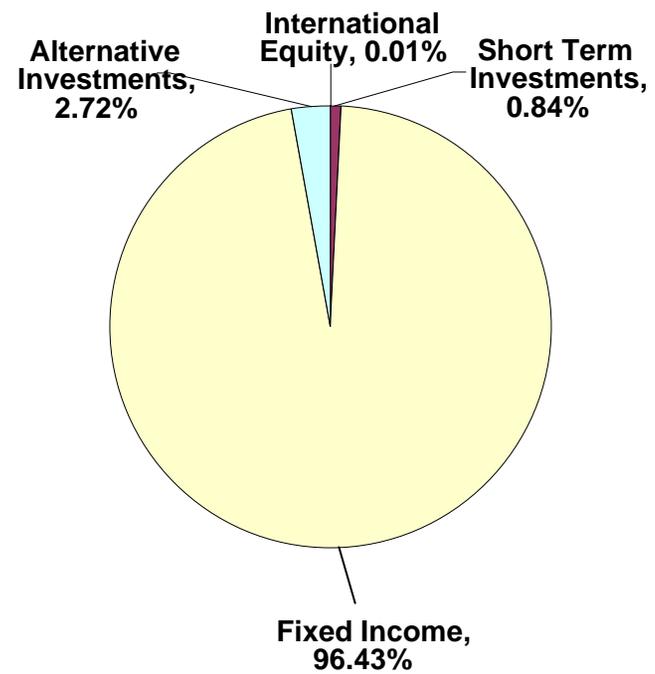
# Asset Allocation – State Insurance Fund

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**As of May 31, 2006**



**As of June 30, 2006**



Ohio Bureau of Workers' Compensation  
 Monthly Performance and Market Value Summary  
 Periods Ended 6/30/06



| Manager                             | Returns |             |       |          |       |        | Market Value |         |
|-------------------------------------|---------|-------------|-------|----------|-------|--------|--------------|---------|
|                                     | Month   | Prior Month | QTD   | 3 Months | YTD   | 1 Year | \$(000)      | Percent |
| <b>Ohio BWC Total Fund</b>          | -0.06   | -0.12       | -0.33 | -0.33    | 1.07  | 5.72   | 16,220,659   | 100.00  |
| Total Fund Policy                   | 0.21    | -0.11       | -0.08 | -0.08    | 0.68  | 3.97   |              |         |
| <b>State Insurance Fund</b>         | -0.09   | -0.12       | -0.35 | -0.35    | 1.17  | 6.13   | 14,874,568   | 100.00  |
| SIF Custom Policy                   | 0.21    | -0.11       | -0.08 | -0.08    | 0.68  | 3.97   |              |         |
| <b>SSgA Passive Agg Bond SI CTF</b> | 0.20    | -0.12       | -0.06 | -0.06    |       |        | 14,284,905   | 88.07   |
| Lehman Aggregate                    | 0.21    | -0.11       | -0.08 | -0.08    |       |        |              |         |
| <b>Ancillary Composite</b>          | 0.25    | -0.13       | -0.02 | -0.02    | -0.09 | 1.06   | 1,346,091    | 8.30    |
| Lehman Aggregate                    | 0.21    | -0.11       | -0.08 | -0.08    | -0.72 | -0.81  |              |         |
| <b>Black Lung 2000</b>              | 0.21    | -0.12       | -0.05 | -0.05    | -0.26 | 1.65   | 221,889      | 1.37    |
| <b>Diabled Workers Retirement</b>   | 0.24    | -0.15       | -0.04 | -0.04    | -0.11 | 0.85   | 1,056,545    | 6.51    |
| <b>Marine 2005</b>                  | 0.22    | -0.11       | -0.03 | -0.03    | -0.21 | 2.08   | 14,515       | 0.09    |
| <b>Public Workers Relief Fund</b>   | 0.26    | -0.09       | 0.03  | 0.03     | -0.43 | 1.01   | 20,195       | 0.12    |
| <b>Self Insured Bond Fund 200</b>   | 0.55    | 0.25        | 1.20  | 1.20     | 2.29  | 4.18   | 32,947       | 0.20    |
| <b>Indices</b>                      |         |             |       |          |       |        |              |         |
| 91 Day T-Bill Index                 | 0.38    | 0.39        | 1.15  | 1.15     | 2.20  | 3.97   |              |         |
| Lehman Aggregate                    | 0.21    | -0.11       | -0.08 | -0.08    | -0.72 | -0.81  |              |         |
| Standard & Poor's 500               | 0.14    | -2.87       | -1.43 | -1.43    | 2.71  | 8.63   |              |         |
| DJ Wilshire 5000                    | 0.18    | -3.21       | -1.96 | -1.96    | 3.38  | 9.92   |              |         |
| MSCI EAFE Index (N)                 | -0.01   | -3.88       | 0.70  | 0.70     | 10.16 | 26.55  |              |         |

Returns are preliminary and subject to change.

Ohio Bureau of Workers' Compensation  
 Monthly Performance and Market Value Summary  
 Periods Ended 6/30/06



| Manager                                  | Returns |             |        |          |       |        | Market Value |         |
|--|---------|-------------|--------|----------|-------|--------|--------------|---------|
|  | Month   | Prior Month | QTD    | 3 Months | YTD   | 1 Year | \$(000)      | Percent |
| <b>Cash Composite</b>                    | 0.71    | -0.07       | 1.06   | 1.06     | 2.26  | 4.19   | 136,348      | 0.84    |
| 91-Day Treasury Bill                     | 0.39    | 0.39        | 1.15   | 1.15     | 2.19  | 3.98   |              |         |
| <b>Cash Account</b>                      | 0.71    | -0.07       | 1.06   | 1.06     |       |        | 136,348      | 0.84    |
| <b>Alternative Investments Composite</b> | -8.88   | N/A         | -8.88  | -8.88    | 5.68  |        | 440,651      | 2.72    |
| <b>Restricted Stock - Liquidation</b>    | -7.94   | -15.21      | -24.22 | -24.22   |       |        | 1,257        | 0.01    |
| <b>Tranche #3</b>                        |         |             |        |          |       |        | 11,392       | 0.07    |
| <b>Tranche #4 - International Equity</b> |         |             |        |          |       |        | 15           | 0.00    |
| <b>Indices</b>                           |         |             |        |          |       |        |              |         |
| 91 Day T-Bill Index                      | 0.38    | 0.39        | 1.15   | 1.15     | 2.20  | 3.97   |              |         |
| Lehman Aggregate                         | 0.21    | -0.11       | -0.08  | -0.08    | -0.72 | -0.81  |              |         |
| Standard & Poor's 500                    | 0.14    | -2.87       | -1.43  | -1.43    | 2.71  | 8.63   |              |         |
| DJ Wilshire 5000                         | 0.18    | -3.21       | -1.96  | -1.96    | 3.38  | 9.92   |              |         |
| MSCI EAFE Index (N)                      | -0.01   | -3.88       | 0.70   | 0.70     | 10.16 | 26.55  |              |         |

Returns are preliminary and subject to change.

# Custom Policy Benchmark Transition – State Insurance Fund

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| <b>SIF Policy Benchmark Transition</b> |            |                |                       |
|--|------------|----------------|-----------------------|
| <b>Start</b>                           | <b>End</b> | <b>Percent</b> | <b>Description</b>    |
| 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      |

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

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

|  |
|--|
| <b>Accounts outside of transition:</b> |
| BWC - Index Fund 1010                  |
| SSgA Passive Bond Market               |



# Ohio Bureau of Workers' Compensation

Executive Summary of Investment Performance  
Quarter Ending June 30, 2006



**Ohio Bureau of Workers' Compensation**

# Market Review (Periods Ending June 30, 2006)

## *Market Observations*

The Fed made two more ¼ - point hikes, bringing the Fed Funds rate to 5.25%. The Federal Reserve has raised the key Fed Funds rate 17 times since its bottom at 1% in 2004.

First Quarter GDP was finalized at 5.6%, which did little to alleviate market fears that the Federal Reserve will continue to raise interest rates to contain inflation. Oil prices rose almost 11% during the quarter (21% YTD) to finish around \$74.

The Consumer Price Index was up markedly in May, at more than 4% on an annual basis, with the volatile energy and transportation components contributing heavily to the increase.

Job creation slowed in May as the 75K jobs created came in under the consensus expectation of 170K. Consumer confidence was higher than expected according to the index released by the Conference Board, but still down to 105.7 in June from 107.2 in March.

The increase in the Fed Funds rate has pushed the average rate on a 30 year mortgage to 6.78%, while mortgage applications for purchases and refinancing were down 31% from one year ago.

## *US Stock Market*

Equity markets around the world saw volatility increase dramatically, particularly in May, before dropping in June. Many markets gave back a large portion of their gains for the year, and a few like the NASDAQ, actually went negative YTD during the quarter before running up in the final few days of June. The Dow Jones Wilshire 5000 was down 1.96% to pare the gains for the year to 3.38%. The market has been vacillating between hopes for a pause in the Federal Reserve's rate-hiking cycle and fears of inflation. There is little consensus on how much higher interest rates are going to affect the economy and this dampened bullish sentiment markedly in the 2<sup>nd</sup> quarter.

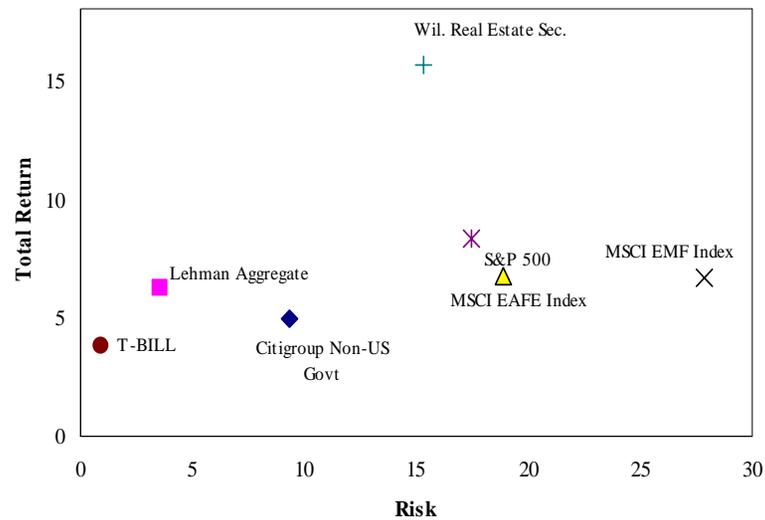
Investors rotated out of small capitalization stocks during the 2<sup>nd</sup> quarter (down 4.29%) to reduce their large gains for the year to 7.81%. Large cap stocks were also lower (down 1.53%), but not nearly as severely as small caps. Micro-cap stocks were hit the hardest of all (down 6.42%). Value outperformed growth across the capitalization spectrum as investors sought safe haven from the heavy selling in equity markets. Of note, large cap value was the only segment to post mildly positive returns during the period. Energy and Utilities were the best performing sectors during the quarter, returning 4.07% and 5.36%, respectively. Healthcare lagged the overall market, down 5.33%, while information technology stocks lost 9.40%.

# Capital Markets Review (Periods Ending June 30, 2006)

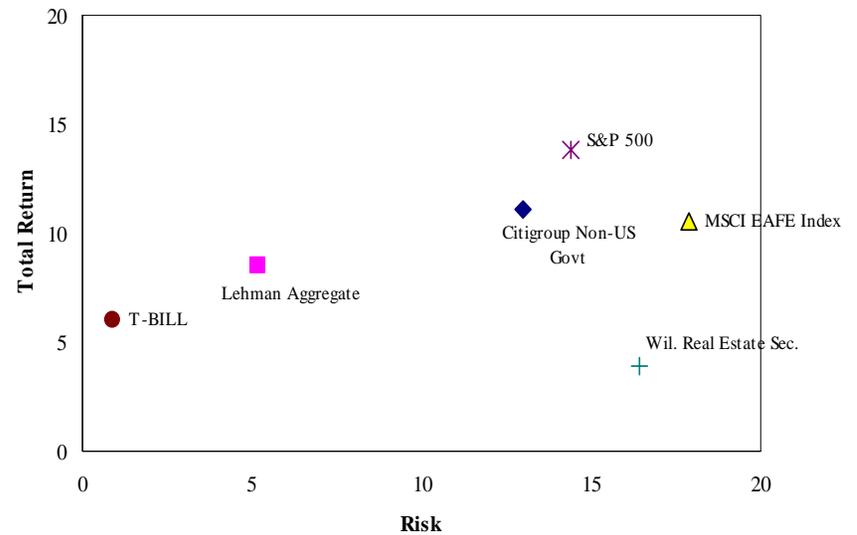
## Major Asset Class Returns (%)

|   | QTR  | YTD  | 1 yr | 3 yr | 5 yr | 10yr |
|---|------|------|------|------|------|------|
| <b>Equity</b>                               |      |      |      |      |      |      |
| Dow Jones - Wilshire 5000                   | -2.0 | 3.4  | 9.9  | 13.0 | 4.0  | 8.5  |
| Standard and Poor's 500                     | -1.4 | 2.7  | 8.6  | 11.2 | 2.5  | 8.3  |
| International Stock (MSCI EAFE)(USD)        | 0.7  | 10.2 | 26.5 | 23.9 | 10.0 | 6.4  |
| Emerging Markets (MSCI EMF)(USD)            | -4.3 | 7.3  | 35.9 | 34.8 | 21.5 | 6.7  |
| Dow Jones - Wilshire Real Estate Securities | -1.0 | 14.2 | 21.9 | 28.4 | 19.9 | 15.6 |
| <b>Fixed Income</b>                         |      |      |      |      |      |      |
| Lehman Aggregate Bond                       | -0.1 | -0.7 | -0.8 | 2.1  | 5.0  | 6.2  |
| First Boston High Yield                     | 0.4  | 3.5  | 5.0  | 8.9  | 9.7  | 7.1  |
| International Bonds (Citigroup Non-US)      | 4.0  | 3.9  | 0.0  | 5.0  | 9.6  | 4.9  |
| Treasury Bills (91 Day)                     | 1.2  | 2.2  | 4.0  | 2.3  | 2.2  | 3.8  |
| <b>Consumer Price Index</b>                 |      |      |      |      |      |      |
|   | 1.7  | 3.2  | 4.4  | 3.4  | 2.7  | 2.6  |

Risk versus Return (6/30/96 - 6/30/06)



Risk versus Return (6/30/86 - 6/30/96)

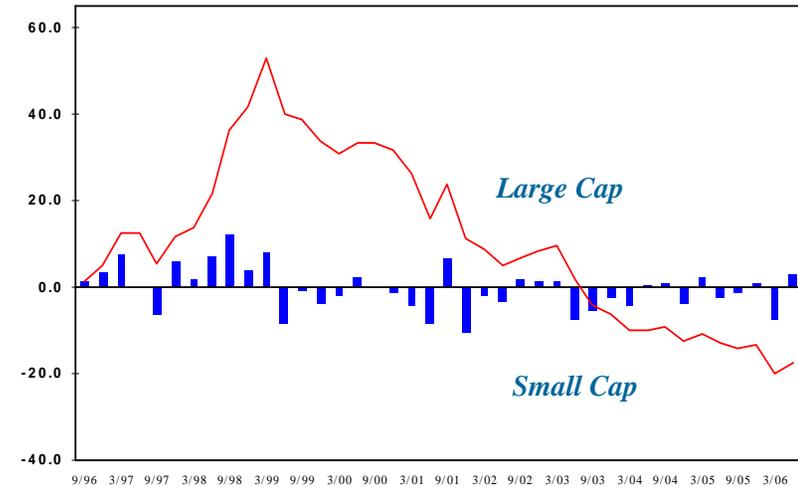


# Domestic Equity Markets (Periods Ending June 30, 2006)

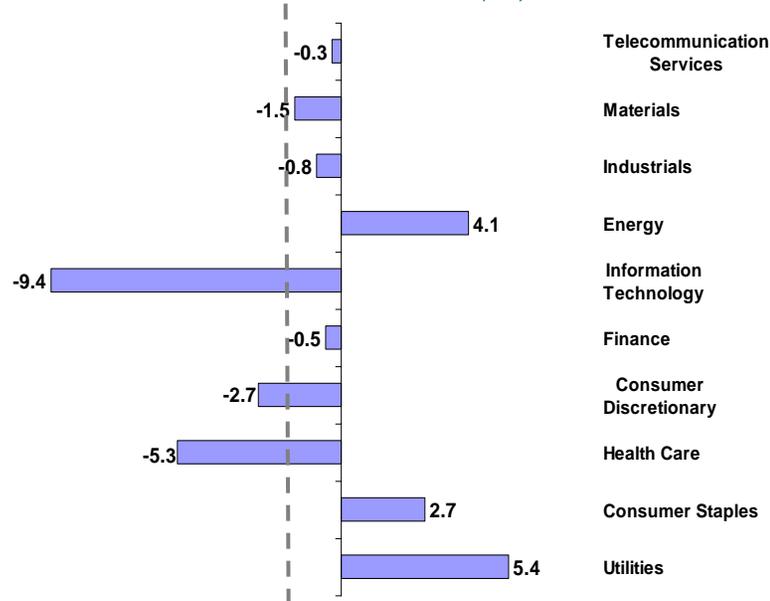
## US Equity Returns (%)

|                            | QTR  | YTD  | 1 yr | 3 yr | 5 yr | 10yr |
|----------------------------|------|------|------|------|------|------|
| DJ Wilshire 4500           | -3.7 | 5.5  | 14.0 | 18.8 | 8.9  | 9.3  |
| DJ Wilshire 5000           | -2.0 | 3.4  | 9.9  | 13.0 | 4.0  | 8.5  |
| DJ Wilshire Real Est. Secs | -1.0 | 14.2 | 21.9 | 28.4 | 19.9 | 15.6 |
| DJ Wilshire Large Cap      | -1.5 | 2.7  | 9.1  | 12.0 | 3.1  | 8.4  |
| DJ Wilshire Mid Cap        | -3.9 | 4.4  | 13.3 | 18.7 | 9.5  | 11.2 |
| DJ Wilshire Small Cap      | -4.3 | 7.8  | 15.3 | 20.0 | 10.4 | 10.5 |
| DJ Wilshire Micro Cap      | -6.4 | 6.6  | 15.1 | 20.5 | 16.9 | 13.3 |
| DJ Wilshire Large Growth   | -3.8 | -0.4 | 7.9  | 9.9  | -0.2 | 6.4  |
| DJ Wilshire Large Value    | 0.6  | 5.6  | 10.2 | 14.1 | 6.6  | 10.0 |
| DJ Wilshire Mid Growth     | -5.3 | 3.7  | 15.9 | 20.3 | 7.9  | 7.6  |
| DJ Wilshire Mid Value      | -2.3 | 5.3  | 11.0 | 17.0 | 10.1 | 13.2 |
| DJ Wilshire Small Growth   | -6.6 | 6.5  | 15.7 | 19.8 | 6.9  | 6.8  |
| DJ Wilshire Small Value    | -2.1 | 9.1  | 15.0 | 20.1 | 13.6 | 13.5 |

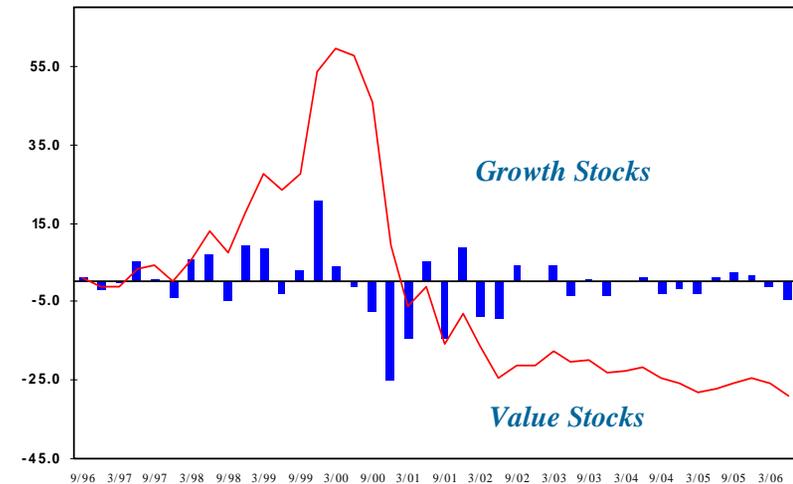
## Large Cap Vs. Small Cap



## DJ Wilshire 5000 Sector Returns (%)



## Growth Stocks Vs. Value Stocks



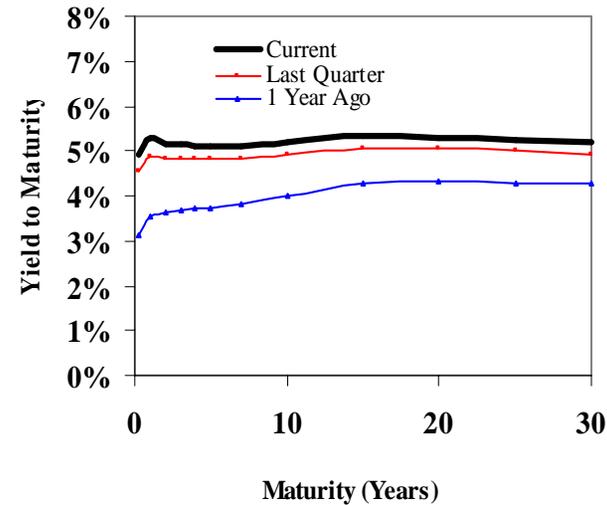
-- -- Represents DJ Wilshire 5000 Quarterly Return

# Domestic Fixed Income Markets (Periods Ending June 30, 2006)

## US Fixed Income Returns (%)

|                               | QTR  | YTD  | 1 yr | 3 yr | 5 yr | 10yr |
|-------------------------------|------|------|------|------|------|------|
| Lehman Aggregate              | -0.1 | -0.7 | -0.8 | 2.1  | 5.0  | 6.2  |
| Lehman ABS                    | 0.4  | 0.7  | 1.2  | 2.1  | 4.7  | 6.0  |
| Lehman Credit                 | -0.4 | -1.6 | -2.1 | 2.0  | 5.7  | 6.5  |
| Lehman Gov't                  | 0.0  | -0.9 | -1.2 | 1.3  | 4.7  | 6.0  |
| Lehman Gov / Credit           | -0.1 | -1.2 | -1.5 | 1.6  | 5.1  | 6.3  |
| Lehman Long Treasury          | -1.2 | -4.8 | -6.3 | 1.7  | 6.5  | 7.6  |
| Lehman Mortgage               | 0.0  | -0.1 | 0.4  | 2.9  | 4.7  | 6.1  |
| Lehman Agency                 | 0.2  | 0.0  | 0.1  | 1.6  | 4.8  | 6.1  |
| First Boston High Yield       | 0.4  | 3.5  | 5.0  | 8.9  | 9.7  | 7.1  |
| Salomon Bros World Gov't Bond | 3.2  | 2.7  | -0.4 | 4.3  | 8.5  | 5.4  |
| Salomon Bros Non-US Bond      | 4.0  | 3.9  | 0.0  | 5.0  | 9.6  | 4.9  |
| Lehman US TIPS                | 0.5  | -1.8 | -1.7 | 3.8  | 7.0  |      |

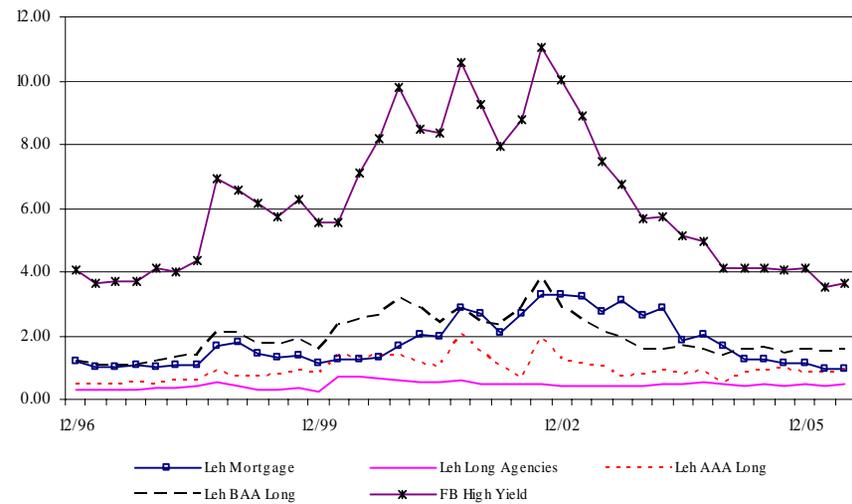
## Treasury Yield Curve



## Market Commentary

The Federal Reserve continued to dominate the headlines in the 2<sup>nd</sup> quarter and pushed the Federal Funds rate to 5.25% at the end of June. The long end of the yield curve, however, did not increase nearly as much as the short end and the yield curve remained extremely flat during the quarter. All segments of the capital market are currently looking at the Federal Reserve statements to glean some sense of where short term rates are headed. During the second quarter, long bonds continued to underperform as the Lehman Long Term Treasury index was down 1.19%, bringing the YTD performance to -4.76%. Overall, the credit markets were down slightly, even as high yield continued to hold up with a mildly positive return of 0.39%.

## Historical Yield Spread Comparison to Treasuries



# International Equity Markets (Periods Ending June 30, 2006)

## International Index Returns (%)

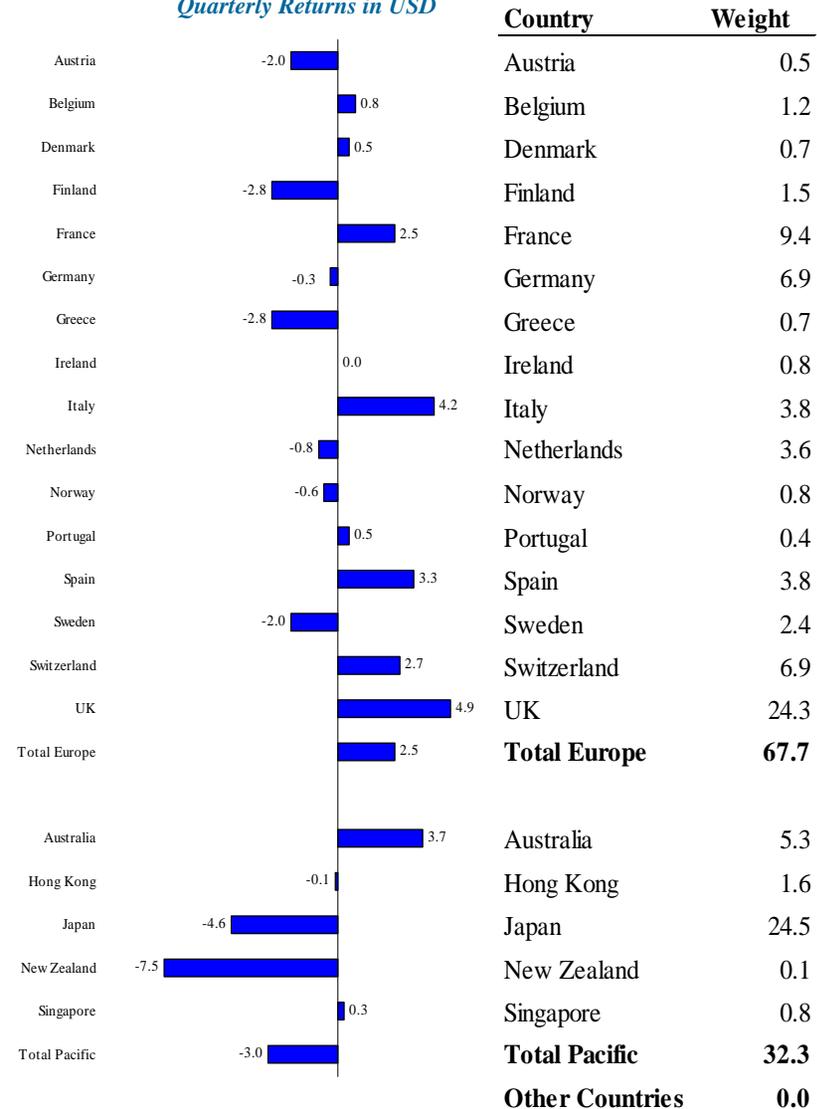
| Equity (in U.S. \$)          | QTR  | YTD  | 1 yr | 3 yr | 5 yr | 10yr |
|------------------------------|------|------|------|------|------|------|
| Non U.S. (ACWI X U.S)        | 0.2  | 10.0 | 28.4 | 25.8 | 11.9 | 7.2  |
| Developed (EAFE)             | 0.7  | 10.2 | 26.5 | 23.9 | 10.0 | 6.4  |
| Emerging (EMF)               | -4.3 | 7.3  | 35.9 | 34.8 | 21.5 | 6.7  |
| Europe                       | 2.5  | 13.6 | 24.8 | 23.4 | 10.5 | 10.1 |
| Pacific                      | -3.0 | 3.5  | 30.9 | 25.4 | 9.0  | 1.2  |
| France                       | 2.5  | 16.1 | 27.0 | 24.0 | 9.8  | 10.7 |
| Germany                      | -0.3 | 13.4 | 30.0 | 25.3 | 7.7  | 7.8  |
| Japan                        | -4.6 | 1.9  | 35.9 | 25.1 | 6.8  | -0.1 |
| United Kingdom               | 4.9  | 13.6 | 20.9 | 21.3 | 10.0 | 9.6  |
| <b>Currencies (% change)</b> |      |      |      |      |      |      |
| Euro vs Dollar               | 5.7  | 8.4  | 5.6  | 3.7  | 8.6  | --   |
| Yen vs Dollar                | 3.2  | 3.3  | -3.1 | 1.7  | 1.8  | -0.4 |
| Pound vs Dollar              | 6.6  | 7.7  | 3.2  | 3.9  | 5.6  | 1.8  |

## Market Commentary

Non-U.S. equity markets were not immune to the volatility experienced in the U.S. Similar to the U.S., many sectors of the non-U.S. equity markets gave back a substantial proportion of their gains for the year. Of particular note, emerging markets declined 2.95% in local terms (4.34% in USD) and gave back a substantial amount of the run-up seen in the 1<sup>st</sup> quarter as risk-averse investors fled the asset class in droves. Japan was down 7.53% for the quarter and 1.30% for the year locally after the large gains of 2005 as Japanese central bankers continued to drain liquidity from the system. Currency had a mixed impact on the markets; although, on the whole, the weakening of U.S. dollar helped as the MSCI AC World-ex U.S. index was flat in USD even while being down 4.06% in local terms.

## MSCI EAFE Index

### Quarterly Returns in USD



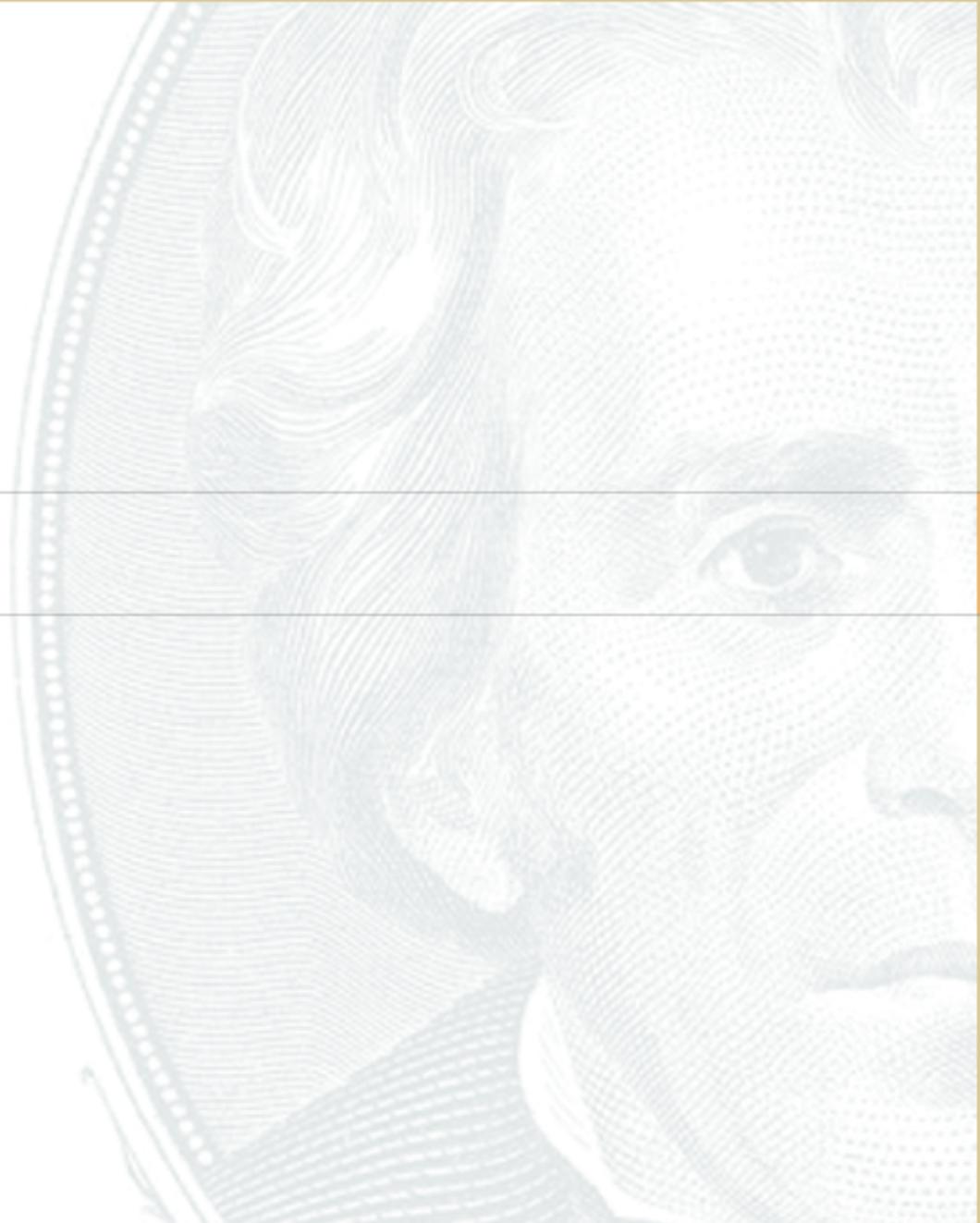
# Total Fund Results Summary

|   | \$'000            | Qtr<br>%    | YTD<br>%    | 1 Year<br>% | 3 Years<br>% | 5 Years<br>% | Inception<br>% |
|---|-------------------|-------------|-------------|-------------|--------------|--------------|----------------|
| <b>Ohio BWC Total Fund (6/30/05)</b>                | <b>16,220,659</b> | <b>-0.3</b> | <b>1.1</b>  | <b>5.7</b>  | <b>--</b>    | <b>--</b>    | <b>5.7</b>     |
| <i>Total Fund Custom Policy</i>                     |                   | <i>-0.1</i> | <i>0.7</i>  | <i>4.0</i>  | <i>--</i>    | <i>--</i>    | <i>4.0</i>     |
| <b>State Insurance Fund (6/30/05)</b>               | <b>14,874,568</b> | <b>-0.4</b> | <b>1.2</b>  | <b>6.1</b>  | <b>--</b>    | <b>--</b>    | <b>6.1</b>     |
| <i>SIF Custom Policy</i>                            |                   | <i>-0.1</i> | <i>0.7</i>  | <i>4.0</i>  | <i>--</i>    | <i>--</i>    | <i>4.0</i>     |
| <b>Fixed Income Composite (3/31/06)</b>             | <b>14,284,905</b> | <b>-0.1</b> | <b>--</b>   | <b>--</b>   | <b>--</b>    | <b>--</b>    | <b>-0.1</b>    |
| <i>Lehman Aggregate</i>                             |                   | <i>-0.1</i> | <i>--</i>   | <i>--</i>   | <i>--</i>    | <i>--</i>    | <i>-0.1</i>    |
| SSgA Passive Aggregate Bond SI CTF (3/31/06)        | 14,284,905        | -0.1        | --          | --          | --           | --           | -0.1           |
| <i>Lehman Aggregate</i>                             |                   | <i>-0.1</i> | <i>--</i>   | <i>--</i>   | <i>--</i>    | <i>--</i>    | <i>-0.1</i>    |
| <b>Cash Composite (6/30/05)</b>                     | <b>136,348</b>    | <b>1.1</b>  | <b>2.3</b>  | <b>4.2</b>  | <b>--</b>    | <b>--</b>    | <b>4.2</b>     |
| <i>91 Day T-Bill</i>                                |                   | <i>1.2</i>  | <i>2.2</i>  | <i>4.0</i>  | <i>--</i>    | <i>--</i>    | <i>4.0</i>     |
| Cash Account (3/31/06)                              | 136,348           | 1.1         | --          | --          | --           | --           | 1.1            |
| <b>Alternative Investments Composite (12/31/05)</b> | <b>440,651</b>    | <b>-8.9</b> | <b>5.7</b>  | <b>--</b>   | <b>--</b>    | <b>--</b>    | <b>5.7</b>     |
| <b>Other Composite</b>                              | <b>12,664</b>     | <b>--</b>   | <b>--</b>   | <b>--</b>   | <b>--</b>    | <b>--</b>    | <b>--</b>      |
| Restricted Stock - Liquidation (3/31/06)            | 1,257             | -24.2       | --          | --          | --           | --           | -24.2          |
| Tranche #3 (12/31/05)                               | 11,392            | --          | --          | --          | --           | --           | --             |
| Tranche #4 (12/31/05)                               | 15                | --          | --          | --          | --           | --           | --             |
| <b>Ancillary Composite (6/30/05)</b>                | <b>1,346,091</b>  | <b>0.0</b>  | <b>-0.1</b> | <b>1.1</b>  | <b>--</b>    | <b>--</b>    | <b>1.1</b>     |
| <i>Lehman Aggregate</i>                             |                   | <i>-0.1</i> | <i>-0.7</i> | <i>-0.8</i> | <i>--</i>    | <i>--</i>    | <i>-0.8</i>    |
| Black Lung 2000 (6/30/05)                           | 221,889           | -0.1        | -0.3        | 1.7         | --           | --           | 1.7            |
| Disabled Workers Retirement (6/30/05)               | 1,056,545         | 0.0         | -0.1        | 0.9         | --           | --           | 0.9            |
| Marine 2005 (6/30/05)                               | 14,515            | 0.0         | -0.2        | 2.1         | --           | --           | 2.1            |
| Public Workers Relief Fund (6/30/05)                | 20,195            | 0.0         | -0.4        | 1.0         | --           | --           | 1.0            |
| Self Insured Bond Fund 200 (6/30/05)                | 32,947            | 1.2         | 2.3         | 4.2         | --           | --           | 4.2            |



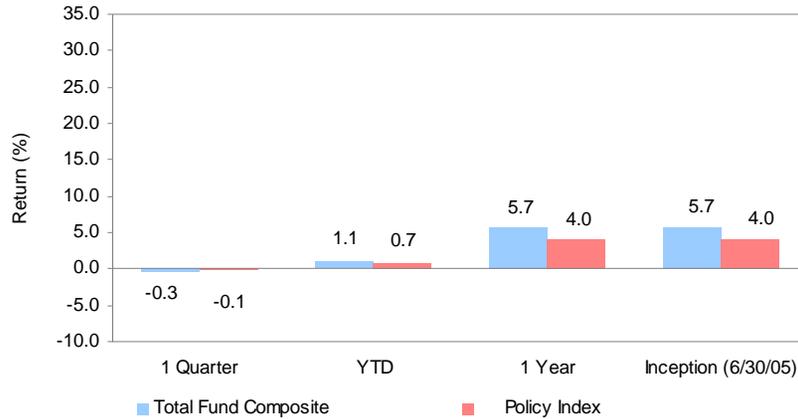
## **Composite Results**

- **Ohio BWC Total Fund**
- **State Insurance Fund**
- **Ancillary Total Fund**

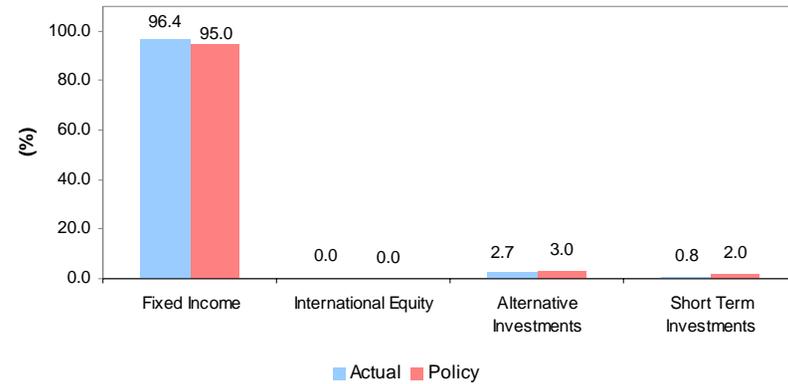


# Total Fund Results

## Investment Performance



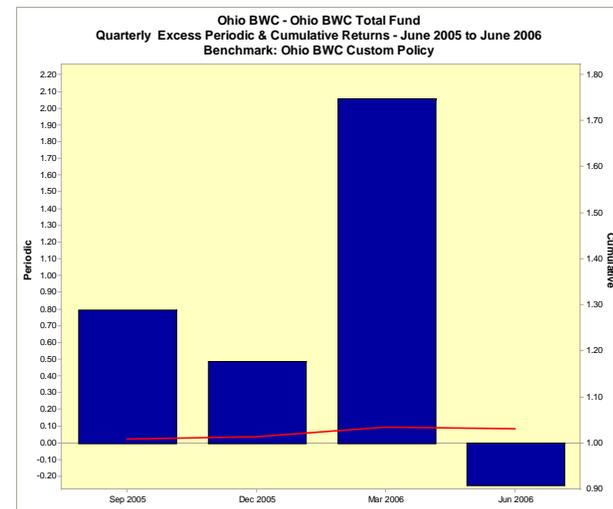
## Asset Allocation vs. Policy



## Quarter Results (\$'000)

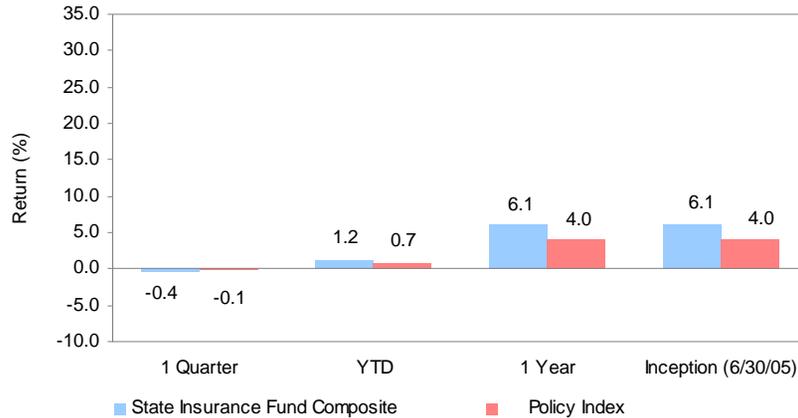
| Quarter Results (Composites) | Ancillary Composite | State Insurance Fund | Total Composite |
|------------------------------|---------------------|----------------------|-----------------|
| Beginning Value              | \$1,339,348         | \$15,099,225         | \$16,438,573    |
| Cash Flow                    | \$6,021             | \$305,440            | \$311,461       |
| Gains/Losses                 | \$722               | (\$530,096)          | (\$529,374)     |
| Ending Value                 | \$1,346,091         | \$14,874,568         | \$16,220,659    |

## Value Added Analysis

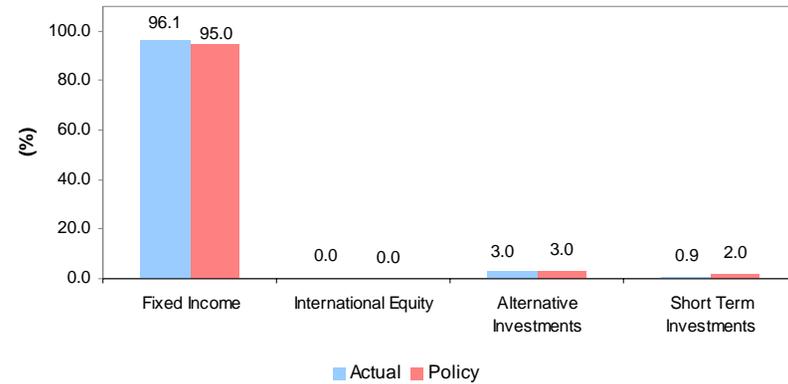


# State Insurance Fund Results

## Investment Performance



## Asset Allocation vs. Policy

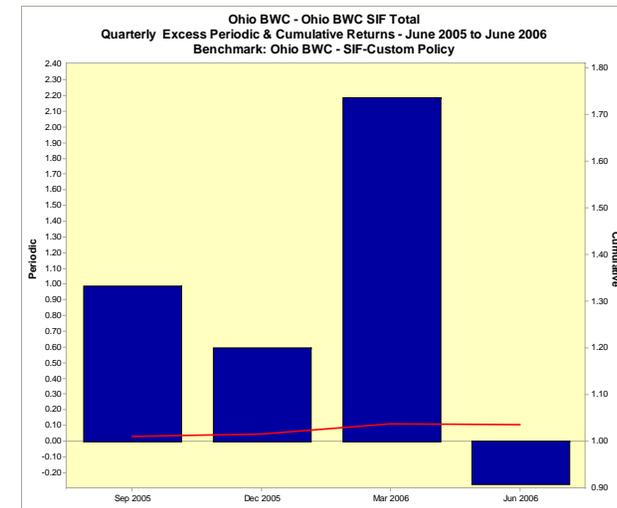


## Quarter Results (\$'000)

| Quarter Results (Composites) | Fixed Income Composite | Alternative Investments | Cash Composite | Other Composite* | State Insurance Fund |
|------------------------------|------------------------|-------------------------|----------------|------------------|----------------------|
| Beginning Value              | \$0                    | \$458,321               | \$345,929      | \$14,294,975     | \$15,099,225         |
| Cash Flow                    | \$14,405,958           | \$24,248                | (\$214,262)    | (\$13,910,502)   | \$305,440            |
| Gains/Losses                 | (\$121,052)            | (\$41,919)              | \$4,682        | (\$371,806)      | (\$530,096)          |
| Ending Value                 | \$14,284,905           | \$440,651               | \$136,348      | \$12,664         | \$14,874,568         |

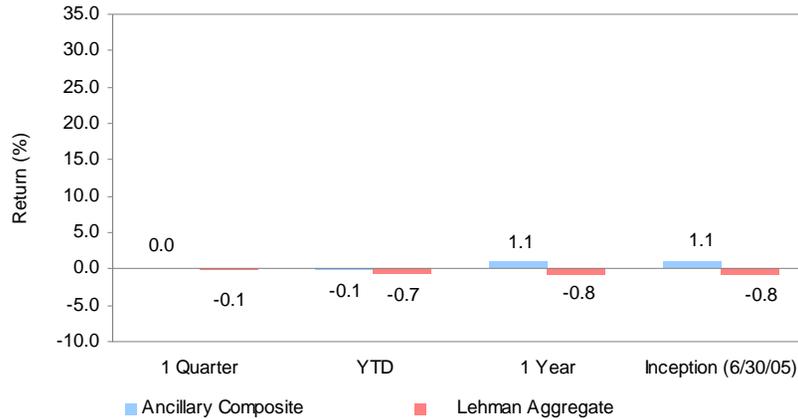
\* This composite includes Restricted Stock, and residual monies left in Tranches 1-6

## Value Added Analysis

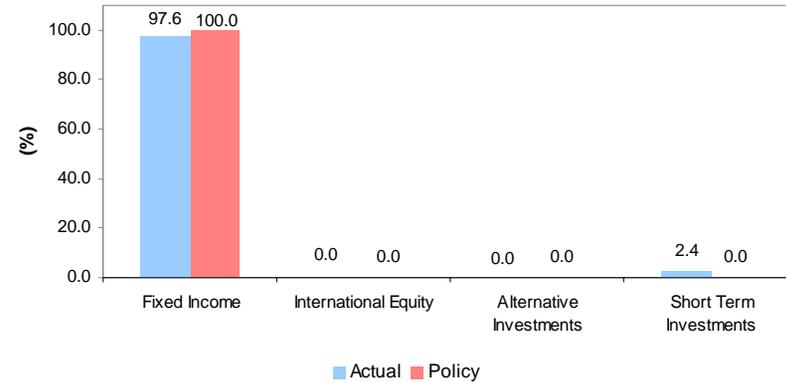


# Ancillary Composite

## Investment Performance



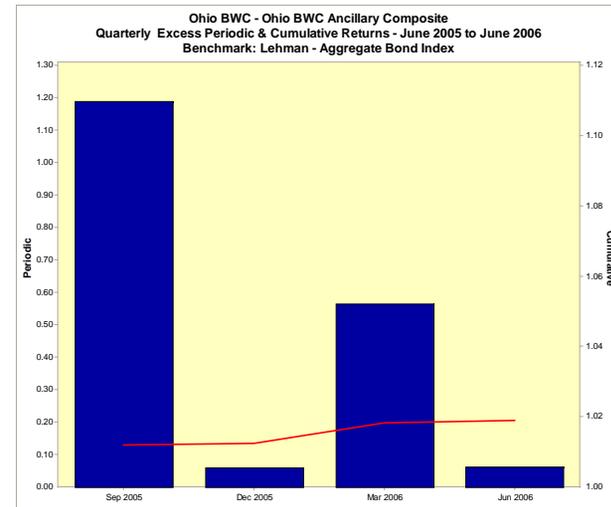
## Asset Allocation vs. Policy



## Quarter Results (\$'000)

| Quarter Results (Composites) | Black Lung 2000 | Disabled Workers Retirement | Marine 2005 | Public Workers Relief Fund | Self Insured Bond Fund 200 | Ancillary Composite |
|------------------------------|-----------------|-----------------------------|-------------|----------------------------|----------------------------|---------------------|
| Beginning Value              | \$222,161       | \$1,058,966                 | \$14,519    | \$20,108                   | \$23,594                   | \$1,339,348         |
| Cash Flow                    | \$2,226         | \$13,767                    | \$124       | \$256                      | \$9,001                    | \$25,374            |
| Gains/Losses                 | (\$2,497)       | (\$16,188)                  | (\$128)     | (\$168)                    | \$352                      | (\$18,630)          |
| Ending Value                 | \$221,889       | \$1,056,545                 | \$14,515    | \$20,195                   | \$32,947                   | \$1,346,091         |

## Value Added Analysis



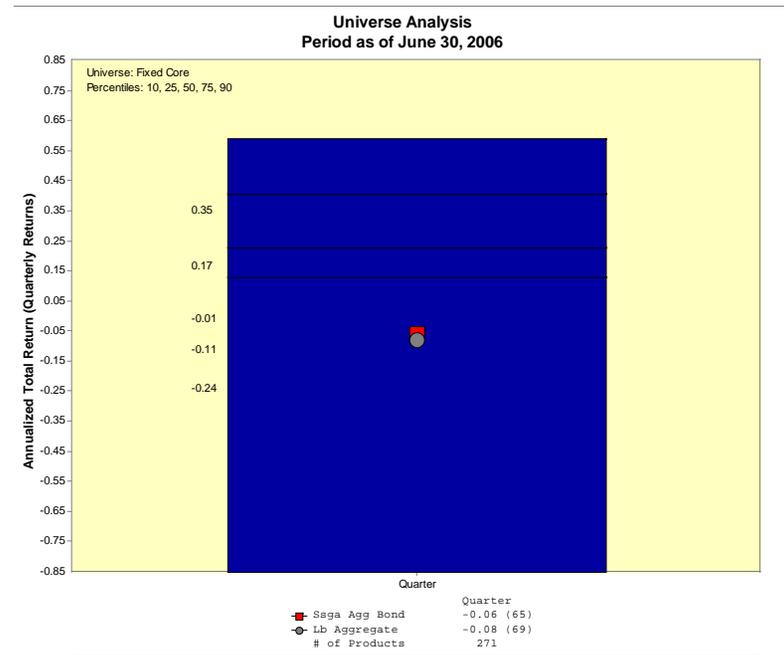
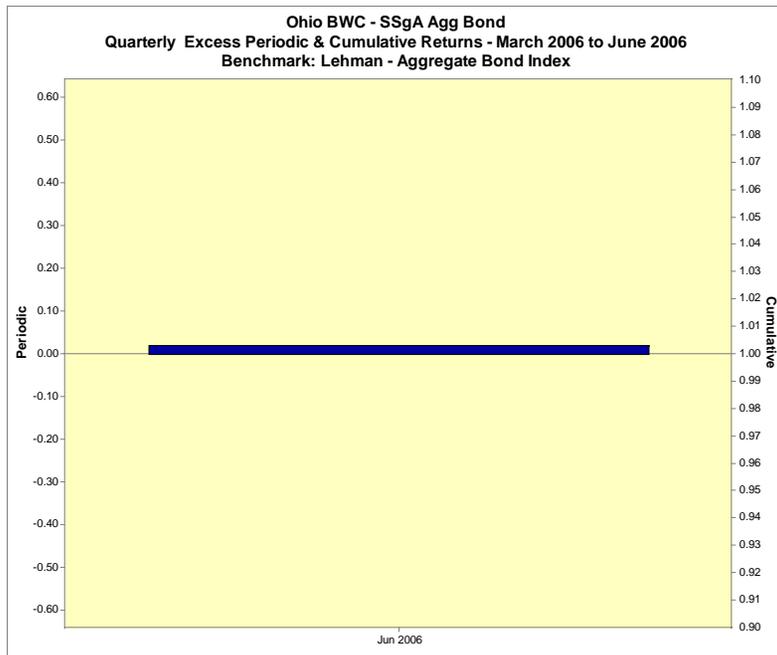


## **Manager Results**

- **SSgA Passive Bond Fund**



# SSgA Passive Aggregate Bond SI CTF



# SSgA Passive Aggregate Bond SI CTF Characteristics

## Characteristics

| Manager                             | Number of Issues | Avg Life | Avg Yield to Worst | YTM  | Current Yield | Average Convexity | Modified Adjusted Duration | Avg Price | Avg Coupon | Avg Quality | Beta |
|-------------------------------------|------------------|----------|--------------------|------|---------------|-------------------|----------------------------|-----------|------------|-------------|------|
| <i>SSgA Passive Bond Mkt SL CTF</i> | 2355             | 7.11     | 5.76               | 5.78 | 5.32          | 0.09              | 4.82                       | 98.44     | 5.26       | AA2         | 1.0  |
| <i>Lehman Aggregate Index</i>       | 6837             | 7.12     | 5.79               | 5.81 | 5.37          | 0.13              | 4.80                       | 98.50     | 5.29       | AA2         | --   |

## Quality Breakdown

| Manager                             | AAA   | AA   | A    | BAA  | >BAA | NR   |
|-------------------------------------|-------|------|------|------|------|------|
| <i>SSgA Passive Bond Mkt SL CTF</i> | 80.53 | 5.46 | 7.27 | 6.74 | 0.00 | 0.00 |
| <i>Lehman Aggregate Index</i>       | 78.92 | 5.34 | 8.26 | 7.49 | 0.00 | 0.00 |

## Maturity Distribution

| Manager                             | 0-1 Year | 1-2 Years | 2-3 Years | 3-5 Years | 5-7 Years | 7-10 Years | 10-15 Years | 15-20 Years | 20-30 Years | 30+ Years |
|-------------------------------------|----------|-----------|-----------|-----------|-----------|------------|-------------|-------------|-------------|-----------|
| <i>SSgA Passive Bond Mkt SL CTF</i> | 0.52     | 11.72     | 9.54      | 16.09     | 15.42     | 36.05      | 2.28        | 2.45        | 5.80        | 0.12      |
| <i>Lehman Aggregate Index</i>       | 0.01     | 12.55     | 8.75      | 20.29     | 12.50     | 34.24      | 3.14        | 2.42        | 5.85        | 0.26      |

## Economic Sectors

| Manager                             | Treasury | Agency | Finance | Industrial | Utility | Non-US Credit | MBS   | ABS  | CMBS | Cash |
|-------------------------------------|----------|--------|---------|------------|---------|---------------|-------|------|------|------|
| <i>SSgA Passive Bond Mkt SL CTF</i> | 27.09    | 11.64  | 7.84    | 8.84       | 1.59    | 3.13          | 34.92 | 0.61 | 3.96 | 0.39 |
| <i>Lehman Aggregate Index</i>       | 25.03    | 11.32  | 8.22    | 9.15       | 1.84    | 3.84          | 34.94 | 1.23 | 4.44 | 0.00 |



**Private Equity**  
**March 31, 2006**



# Fund Summary

- As of March 31, 2006, the Ohio Bureau of Worker's Compensation total private equity portfolio has an estimated internal rate of return (IRR) of 4.7%. This return is above the median IRR of -4.9%<sup>1</sup> reported by VentureXpert (formerly Venture Economics) for all private equity funds with vintage years of 1999 to 2005.
- Ohio BWC's buyout fund composite IRR as of March 31 is 11.5%, which outperforms the 6.7%<sup>1</sup> median IRR for buyout funds with similar vintage years.
- Ohio BWC's fund-of-fund composite IRR as of March 31 is 3.2%, which is above the -2.9%<sup>1</sup> median IRR for fund-of-funds with similar vintage years.
- BWC's mezzanine fund composite IRR as of March 31 is 15.6%, which outperforms the 2.7%<sup>1</sup> median IRR for fund-of-funds with similar vintage years.
- BWC's venture capital partnerships have an overall composite level IRR of -6.6%, which is slightly better than the -7.3%<sup>1</sup> median IRR for venture capital funds with similar vintage years.

<sup>1</sup> VentureXpert's performance data used in this report is as of December 31, 2005, which is the most recent available time period.

# Composite Level Totals

| Fund Type                    | BWC Commitment       | BWC Contributions to Date <sup>1</sup> | Distributions        | Market Value as of 3/31/06 <sup>2</sup> | Net Annualized IRR | Upper Quartile <sup>3</sup> | Median        | Lower Quartile |
|------------------------------|----------------------|--|----------------------|---|--------------------|-----------------------------|---------------|----------------|
| <b>Buyout Fund Total</b>     | <b>\$285,000,000</b> | <b>\$173,767,818</b>                   | <b>\$69,468,995</b>  | <b>\$151,569,171</b>                    | <b>11.53%</b>      | 15.70%                      | 6.70%         | -2.30%         |
| <b>Fund-of Funds Total</b>   | <b>\$100,000,000</b> | <b>\$68,036,098</b>                    | <b>\$19,433,926</b>  | <b>\$53,333,716</b>                     | <b>3.19%</b>       | 5.50%                       | -2.90%        | -10.50%        |
| <b>Mezzanine Total</b>       | <b>\$60,000,000</b>  | <b>\$58,935,169</b>                    | <b>\$32,448,494</b>  | <b>\$52,623,495</b>                     | <b>15.63%</b>      | 9.00%                       | 2.70%         | -8.80%         |
| <b>Venture Capital Total</b> | <b>\$368,450,000</b> | <b>\$220,438,973</b>                   | <b>\$36,643,369</b>  | <b>\$158,756,517</b>                    | <b>-6.56%</b>      | -0.40%                      | -7.30%        | -12.60%        |
| <b>Total</b>                 | <b>\$813,450,000</b> | <b>\$521,178,059</b>                   | <b>\$157,994,784</b> | <b>\$416,282,899</b>                    | <b>4.74%</b>       | <b>6.00%</b>                | <b>-4.90%</b> | <b>-15.10%</b> |

<sup>1</sup> 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.

<sup>2</sup> Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of March 31, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to March 31, accounting for contributions and distributions during the interim time period.

<sup>3</sup> As a benchmarking measure, the upper quartile, median, and lower quartile of IRRs at the composite level is presented for each fund category as taken from Venture Economics. Data is as of December 31, 2005, which is the most recent available time period. Venture Economics' returns are representative of the following periods:

- Buyout Funds: 1999-2005
- Fund-of-Funds: 2000-2005
- Mezzanine Funds: 1998-2005
- Venture Capital: 2000-2005
- Total Private Equity: 1999-2005

# Buyout Funds

| Fund Type                         | Fund Name                                     | Type   | Vintage Year | BWC Commitment       | BWC Contributions to Date <sup>1</sup> | Distributions       | Market Value as of 3/31/06 <sup>2</sup> | Net Annualized IRR | Last Reported Market Value Received from General Partner |
|-----------------------------------|---|--------|--------------|----------------------|--|---------------------|---|--------------------|--|
| <b>Buyout Fund Total</b>          |   |        |              | <b>\$285,000,000</b> | <b>\$173,767,818</b>                   | <b>\$69,468,995</b> | <b>\$151,569,171</b>                    | <b>11.53%</b>      |  |
| Brantley Partners                 | Brantley Partners IV, LP                      | Buyout | 1999         | \$15,000,000         | \$14,184,411                           | \$6,260,069         | \$11,669,182                            | 6.22%              | Mar-06   |
| ABS Capital Partners              | ABS Capital Partners IV, LP                   | Buyout | 2000         | \$15,000,000         | \$13,258,024                           | \$5,664,437         | \$12,089,976                            | 13.99%             | Mar-06   |
| Behrman Capital                   | Behrman Capital III, LP                       | Buyout | 2000         | \$20,000,000         | \$15,241,687                           | \$2,531,198         | \$13,260,403                            | 2.17%              | Dec-05   |
| Blue Point Capital Partners       | Blue Point Capital Partners, LP               | Buyout | 2000         | \$10,000,000         | \$7,787,253                            | \$5,752,902         | \$5,563,235                             | 12.68%             | Mar-06   |
| Carlyle Group                     | Carlyle Partners III, LP                      | Buyout | 2000         | \$15,000,000         | \$15,740,763                           | \$11,007,865        | \$13,608,394                            | 18.72%             | Sep-05   |
| Fremont Partners                  | Fremont Partners III, LP                      | Buyout | 2000         | \$15,000,000         | \$7,807,069                            | \$6,683,372         | \$3,483,062                             | 16.86%             | Sep-05   |
| Halpern, Denney & Co.             | Halpern Denny Fund III, LP                    | Buyout | 2000         | \$20,000,000         | \$17,800,000                           | \$9,447,130         | \$12,490,874                            | 6.57%              | Mar-06   |
| Rosemont Investment Partners      | Rosemont Partners I, LP                       | Buyout | 2000         | \$5,000,000          | \$4,522,709                            | \$1,352,283         | \$3,084,997                             | -0.60%             | Mar-05   |
| Quad C Advisors                   | Quad-C Partners VI, LP                        | Buyout | 2001         | \$15,000,000         | \$10,545,557                           | \$6,095,647         | \$16,366,174                            | 41.40%             | Sep-05   |
| Castle Harlan Inc.                | Castle Harlan Partners IV, LP                 | Buyout | 2002         | \$15,000,000         | \$10,768,241                           | \$4,435,661         | \$7,097,573                             | 6.71%              | Dec-05   |
| Wind Point Partners               | Wind Point Partners V, LP                     | Buyout | 2002         | \$10,000,000         | \$7,988,617                            | \$2,250,200         | \$6,820,412                             | 7.77%              | Mar-06   |
| Freeman Spogli & Co.              | FS Equity Partners V, LP                      | Buyout | 2003         | \$15,000,000         | \$5,710,951                            | \$1,432,938         | \$4,288,530                             | 0.18%              | Mar-06   |
| Kirtland Capital Corporation      | Kirtland Capital Partners IV, LP              | Buyout | 2003         | \$5,000,000          | \$2,454,742                            | \$218,180           | \$2,267,632                             | 1.21%              | Mar-06   |
| Levine Leichtman Capital Partners | Levine Leichtman Capital Partners III, LP     | Buyout | 2003         | \$15,000,000         | \$5,067,352                            | \$1,843,398         | \$4,353,926                             | 13.60%             | Mar-06   |
| Sterling Partners                 | Sterling Capital Partners, LP                 | Buyout | 2003         | \$15,000,000         | \$10,331,360                           | \$2,877,580         | \$9,313,258                             | 11.37%             | Mar-06   |
| Thayer Capital Partners           | Thayer Equity Investors V, L.P.               | Buyout | 2003         | \$15,000,000         | \$11,331,756                           | \$911,328           | \$13,399,989                            | 18.49%             | Mar-06   |
| Carlyle Group                     | Carlyle Partners IV, LP                       | Buyout | 2004         | \$20,000,000         | \$5,725,678                            | \$0                 | \$5,723,193                             | -0.14%             | Sep-05   |
| MCM Capital Partners              | MCM Capital Partners II, LP                   | Buyout | 2004         | \$5,000,000          | \$977,170                              | \$0                 | \$808,451                               | -35.31%            | Dec-05   |
| Rosemont Investment Partners      | Rosemont Partners II, LP                      | Buyout | 2004         | \$10,000,000         | \$2,192,369                            | \$249,407           | \$1,589,051                             | -25.81%            | Sep-05   |
| ABS Capital Partners              | ABS Capital Partners V, LP                    | Buyout | 2005         | \$20,000,000         | \$1,482,110                            | \$0                 | \$1,302,323                             | -29.14%            | Mar-06   |
| Harbourvest Partners              | HarbourVest Partners VII - Buyout Partnership | Buyout | 2003-2005    | \$10,000,000         | \$2,850,000                            | \$455,400           | \$2,988,536                             | 19.31%             | Mar-06   |

<sup>1</sup> 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.

<sup>2</sup> Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of March 31, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to March 31, accounting for contributions and distributions during the interim time period.

# Fund-of-Funds and Mezzanine Funds

| Fund Type                        | Fund Name                                      | Type          | Vintage Year | BWC Commitment       | BWC Contributions to Date <sup>1</sup> | Distributions       | Market Value as of 3/31/06 <sup>2</sup> | Net Annualized IRR | Last Reported Market Value Received from General Partner |
|----------------------------------|--|---------------|--------------|----------------------|--|---------------------|---|--------------------|--|
| <b>Fund-of Funds Total</b>       |  |               |              | <b>\$100,000,000</b> | <b>\$68,036,098</b>                    | <b>\$19,433,926</b> | <b>\$53,333,716</b>                     | <b>3.19%</b>       |  |
| INVESCO Private Capital          | Chancellor V, LP                               | Fund of Funds | 2000         | \$20,000,000         | \$16,938,541                           | \$3,801,711         | \$7,827,529                             | -12.01%            | Dec-05   |
| Lexington Partners               | Lexington Capital Partners V, LP               | Fund of Funds | 2002         | \$20,000,000         | \$16,843,396                           | \$8,981,186         | \$14,633,406                            | 26.80%             | Sep-05   |
| Peppertree Partners              | The Peppertree Fund, LP                        | Fund of Funds | 2000-2001    | \$10,000,000         | \$7,913,674                            | \$2,813,000         | \$6,267,084                             | 6.51%              | Sep-05   |
| Fort Washington Capital Partners | Fort Washington Private Equity Investors III   | Fund of Funds | 2000-2003    | \$15,000,000         | \$11,273,858                           | \$2,114,772         | \$9,474,012                             | 0.89%              | Mar-06   |
| INVESCO Private Capital          | INVESCO Venture Partnership Fund III, LP       | Fund of Funds | 2000-2004    | \$12,000,000         | \$7,397,721                            | \$914,169           | \$5,803,125                             | -3.77%             | Sep-05   |
| INVESCO Private Capital          | INVESCO US Buyout & Expansion Capital Fund III | Fund of Funds | 2001-2003    | \$8,000,000          | \$3,318,393                            | \$809,088           | \$4,690,552                             | 19.92%             | Sep-05   |
| Fort Washington Capital Partners | Fort Washington Private Equity Investors IV    | Fund of Funds | 2003-2005    | \$15,000,000         | \$4,350,515                            | \$0                 | \$4,638,008                             | 11.14%             | Dec-05   |
| <b>Mezzanine Total</b>           |  |               |              | <b>\$60,000,000</b>  | <b>\$58,935,169</b>                    | <b>\$32,448,494</b> | <b>\$52,623,495</b>                     | <b>15.63%</b>      |  |
| Smith Whiley & Company           | SW Pelham Fund II, L.P.                        | Mezzanine     | 1998         | \$10,000,000         | \$7,623,221                            | \$2,727,156         | \$6,219,953                             | 11.38%             | Mar-05   |
| ABRY Partners                    | ABRY Mezzanine Partners, LP                    | Mezzanine     | 2001         | \$5,000,000          | \$6,540,146                            | \$2,944,670         | \$4,326,096                             | 15.25%             | Mar-06   |
| TCW/Crescent Mezzanine           | TCW/Crescent Mezzanine Partners III, LP        | Mezzanine     | 2001         | \$15,000,000         | \$14,192,188                           | \$16,288,468        | \$9,718,600                             | 38.77%             | Mar-06   |
| Babson Capital Management, LLC   | Tower Square Capital Partners, LP              | Mezzanine     | 2002         | \$10,000,000         | \$9,545,957                            | \$4,058,375         | \$6,936,190                             | 10.83%             | Mar-06   |
| Smith Whiley & Company           | SW Pelham Fund, L.P.                           | Mezzanine     | 2003         | \$20,000,000         | \$21,033,657                           | \$6,429,824         | \$25,422,656                            | 10.53%             | Sep-05   |

<sup>1</sup> 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.

<sup>2</sup> Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of March 31, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to March 31, accounting for contributions and distributions during the interim time period.

# Venture Capital Funds

| Fund Type                        | Fund Name                                | Type    | Vintage Year | BWC Commitment       | BWC Contributions to Date <sup>1</sup> | Distributions       | Market Value as of 3/31/06 <sup>2</sup> | Net Annualized IRR | Last Reported Market Value Received from General Partner |
|----------------------------------|--|---------|--------------|----------------------|--|---------------------|---|--------------------|--|
| <b>Venture Capital Total</b>     |  |         |              | <b>\$368,450,000</b> | <b>\$220,438,973</b>                   | <b>\$36,643,369</b> | <b>\$158,756,517</b>                    | <b>-6.56%</b>      |  |
| Athenian Venture Partners        | Athenian Venture Partners II, LP         | Venture | 2000         | \$17,500,000         | \$15,795,166                           | \$6,280,197         | \$5,407,426                             | -13.30%            | Dec-05   |
| Blue Chip Venture Company        | Blue Chip IV, LP                         | Venture | 2000         | \$20,000,000         | \$17,400,000                           | \$1,376,152         | \$11,112,434                            | -15.29%            | Mar-06   |
| Meritech Capital Partners        | Meritech Capital Partners II, LP         | Venture | 2000         | \$11,250,000         | \$9,318,750                            | \$1,098,058         | \$7,116,887                             | -5.38%             | Sep-05   |
| Perseus-Soros Management Company | Perseus-Soros Biopharmaceutical Fund, LP | Venture | 2000         | \$5,000,000          | \$3,901,321                            | \$2,660,534         | \$3,722,085                             | 22.65%             | Mar-06   |
| Pharos Capital Group             | Pharos Capital Partners, LP              | Venture | 2000         | \$5,000,000          | \$4,700,000                            | \$653,204           | \$4,390,479                             | 1.86%              | Mar-06   |
| Primus Venture Partners          | Primus Capital Fund V, LP                | Venture | 2000         | \$20,000,000         | \$15,270,000                           | \$5,510,000         | \$8,955,473                             | -2.09%             | Dec-05   |
| Technology Venture Partners      | Technology Venture Partners, L.P.        | Venture | 2000         | \$16,000,000         | \$7,975,000                            | \$578,885           | \$4,789,051                             | -41.79%            | Mar-06   |
| Ascend Venture Group             | Ascend Ventures, LP                      | Venture | 2001         | \$5,000,000          | \$4,860,352                            | \$1,174,992         | \$1,314,840                             | -24.20%            | Mar-06   |
| 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         | \$28,248,540                           | \$11,187,654        | \$17,646,052                            | 1.28%              | Sep-05   |
| Edgewater Funds                  | Edgewater Growth Capital Partners, LP    | Venture | 2001         | \$10,000,000         | \$10,500,000                           | \$2,466,949         | \$10,166,916                            | 14.57%             | Dec-05   |
| Meritage Private Equity Funds    | Meritage Private Equity II, LP           | Venture | 2001         | \$15,000,000         | \$9,005,322                            | \$798,041           | \$6,545,488                             | -8.79%             | Sep-05   |
| Adena Ventures                   | Adena Ventures, LP                       | Venture | 2002         | \$500,000            | \$400,000                              | \$0                 | \$248,506                               | -25.73%            | Dec-05   |
| Apex Venture Partners            | Apex Investment Fund V, LP               | Venture | 2002         | \$10,000,000         | \$7,844,158                            | \$364,993           | \$8,089,279                             | 4.20%              | Dec-05   |
| Early Stage Partners             | Early Stage Partners, LP                 | Venture | 2002         | \$9,000,000          | \$6,745,172                            | \$0                 | \$5,040,763                             | -15.33%            | Mar-06   |
| Edison Venture Fund              | Edison Venture Fund V, LP                | Venture | 2002         | \$15,000,000         | \$10,200,000                           | \$0                 | \$10,927,949                            | 3.41%              | Mar-06   |
| Buerk, Dale & Victor             | Northwest Opportunity Fund, LP           | Venture | 2002         | \$20,000,000         | \$12,000,000                           | \$35,386            | \$10,038,265                            | -10.21%            | Sep-05   |
| Prospector Equity Capital        | Prospector Equity Capital, LP            | Venture | 2002         | \$15,000,000         | \$8,883,730                            | \$0                 | \$5,632,612                             | -25.50%            | Mar-06   |
| River Cities Capital Funds       | River Cities Capital Fund III, LP        | Venture | 2002         | \$5,000,000          | \$3,681,526                            | \$699,683           | \$2,482,422                             | -8.74%             | Mar-06   |
| Adams Street Partners            | Adams Street V, LP                       | Venture | 2003         | \$8,000,000          | \$4,800,000                            | \$0                 | \$4,695,171                             | -1.69%             | Mar-06   |
| Athenian Venture Partners        | AVP Ohio Technology I, LP                | Venture | 2003         | \$10,000,000         | \$4,455,581                            | \$0                 | \$3,712,179                             | -13.72%            | Jun-05   |
| Athenian Venture Partners        | AVP Technology II, LP                    | Venture | 2003         | \$2,200,000          | \$2,200,000                            | \$0                 | \$716,297                               | -34.36%            | Jun-05   |
| MK Capital Management            | MK Capital, LP                           | Venture | 2003         | \$10,000,000         | \$2,500,000                            | \$0                 | \$1,934,881                             | -13.64%            | Dec-05   |
| MWV Pinnacle Management Co.      | MWV Pinnacle Capital Fund, LP            | Venture | 2003         | \$2,000,000          | \$809,025                              | \$0                 | \$786,022                               | -2.24%             | Mar-05   |
| Reservoir Venture Partners       | Reservoir Venture Partners, LP           | Venture | 2003         | \$5,000,000          | \$1,915,213                            | \$252,833           | \$1,329,183                             | -10.32%            | Jun-05   |
| Ascend Venture Group             | Ascend Ventures II, LP                   | Venture | 2004         | \$7,500,000          | \$2,161,839                            | \$0                 | \$1,669,930                             | -29.29%            | Mar-06   |
| Athenian Venture Partners        | Athenian Venture Partners III, LP        | Venture | 2004         | \$25,000,000         | \$5,447,224                            | \$0                 | \$4,790,536                             | -17.79%            | NA   |
| Charter Life Sciences            | Charter Life Sciences, LP                | Venture | 2004         | \$5,000,000          | \$1,075,669                            | \$0                 | \$823,840                               | -27.99%            | Mar-06   |
| Draper Triangle Ventures         | Draper Triangle Ventures II, LP          | Venture | 2004         | \$5,000,000          | \$718,707                              | \$0                 | \$597,356                               | -30.15%            | Mar-06   |
| EDF Ventures                     | EDF Ventures III, LP                     | Venture | 2004         | \$10,000,000         | \$1,179,411                            | \$0                 | \$2,430,146                             | -12.11%            | Mar-06   |
| Seneca Partners                  | Seneca Health Partners, LP I             | Venture | 2004         | \$1,500,000          | \$555,000                              | \$0                 | \$434,671                               | -20.97%            | Mar-06   |
| Triathlon Medical Ventures       | Triathlon Medical Ventures Fund, LP      | Venture | 2004         | \$5,000,000          | \$1,461,188                            | \$0                 | \$873,485                               | -33.24%            | Mar-06   |
| Edgewater Funds                  | Edgewater Growth Capital Partners II, LP | Venture | 2005         | \$25,000,000         | \$2,000,000                            | \$0                 | \$1,784,801                             | -52.38%            | Jun-06   |
| Harbourvest Partners             | HarbourVest Partners VII - Venture       | Venture | 2003-2005    | \$15,000,000         | \$4,425,000                            | \$222,750           | \$4,360,201                             | 3.69%              | Mar-06   |
| Sema4 Inc.                       | Midwest Economic Opportunity Fund, LP    | Venture | N/A          | \$5,000,000          | \$5,504,730                            | \$563,637           | \$4,190,890                             | -3.81%             | NA   |

<sup>1</sup> 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.

<sup>2</sup> Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of March 31, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to March 31, accounting for contributions and distributions during the interim time period.

# Notes to Performance Report

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- Market Values as of March 31, 2006 are unaudited market values provided by the manager, when available. In the instances when managers did not provide market values as of March 31, 2006, estimates were calculated using actual market values as of September 30<sup>th</sup> rolled forward to March 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 the few instances where general partners would not submit data or submitted incomplete data, information from Ohio Bureau of Workers' Compensation QED accounting system is utilized

# Glossary

| <b><u>Total Fund Policy</u></b> | <b><u>Date</u></b> | <b><u>%</u></b> | <b><u>Description</u></b> |
|---------------------------------|--------------------|-----------------|---------------------------|
|                                 | 7/05-1/06          | 29.0            | Standard & Poor's 500     |
|                                 |                    | 11.0            | MSCI EAFE Index (N)       |
|                                 |                    | 57.0            | Lehman Aggregate          |
|                                 |                    | 3.0             | 91 Day T-Bill             |
|                                 | 1/06-2/06          | 14.5            | Standard & Poor's 500     |
|                                 |                    | 5.5             | MSCI EAFE Index (N)       |
|                                 |                    | 78.5            | Lehman Aggregate          |
|                                 |                    | 1.5             | 91 Day T-Bill             |
|                                 | 2/06-Present       | 100.0           | Lehman Aggregate          |

| <b><u>SIF Policy</u></b> | <b><u>Date</u></b> | <b><u>%</u></b> | <b><u>Description</u></b> |
|--------------------------|--------------------|-----------------|---------------------------|
|                          | 7/05-1/06          | 29.0            | Standard & Poor's 500     |
|                          |                    | 11.0            | MSCI EAFE Index (N)       |
|                          |                    | 57.0            | Lehman Aggregate          |
|                          |                    | 3.0             | 91 Day T-Bill             |
|                          | 1/06-2/06          | 14.5            | Standard & Poor's 500     |
|                          |                    | 5.5             | MSCI EAFE Index (N)       |
|                          |                    | 78.5            | Lehman Aggregate          |
|                          |                    | 1.5             | 91 Day T-Bill             |
|                          | 2/06-Present       | 100.0           | Lehman Aggregate          |

**WORKERS' COMPENSATION OVERSIGHT COMMISSION  
INVESTMENT COMMITTEE**

**FRIDAY JULY 20, 2006, 8:00 A.M.  
WILLIAM GREEN BUILDING  
THE NEIL SCHULTZ CONFERENCE CENTER  
30 WEST SPRING ST., 2<sup>nd</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215**

Members Present: Michael Koettters, Chairman  
Denise Farkas  
Edwin McCausland  
Bill Sopko

Other Oversight Commission Members Present:  
Thomas Bainbridge, Jr.  
Mary Beth Carroll

Members Absent: None

Others in attendance at the invitation of the Committee:  
William Mabe, Administrator  
Kay Goodman, Administrative Assistant, BWC Administrator  
Cathy Moseley, Chief of Staff  
Valarie Sansom-Davy, Administrative Assistant, Chief of Staff  
Joe Bell, Chief Internal Auditor  
Keith Elliott, Director, Internal Audit  
Tracy Valentino, Chief Financial Officer  
Liz Bravender, Actuarial Director  
Barb Ingram, Manager, Financial Reporting  
Bruce Dunn, Chief Investment Officer  
Lee Damsel, Director of Investments  
Amy Blateri, Project Manager, Investments  
Jeremy Jackson, Chief Marketing Officer  
John Williams, Esq., Assistant Attorney General  
Karen Huey, Esq., Liaison to the Governor's Office  
James Barnes, Esq., Chief Legal Officer  
Emily Hicks, Legislative Liaison  
Tom Sico, Esq., Director of Legal Operations  
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting  
Mark E. Brubaker, Wilshire Consulting  
Rich Hartzell, JPMorgan Chase  
Jeff Scott, Mercer Oliver Wyman

Public Meeting – Others in attendance not recorded

## **ROLL CALL**

Mr. Koettters called the meeting to order and reported that there was a quorum of the Investment Committee.

## **OLD BUSINESS**

### **MINUTES OF JUNE 16, 2006**

After discussion, motion, and second, the minutes of the meeting of June 16, 2006, were unanimously approved.

## **WILSHIRE MAY 2006 MONTHLY FLASH REPORT**

Mark Brubaker provided the Wilshire Consulting monthly flash report for May. BWC took its transition actions at the correct time. The equities were sold in a rising market and investment in fixed income came at the beginning of a rising interest rates.

Mr. McCausland requested that the reports of Wilshire and JPMorgan Chase be reconciled by Wilshire. Mr. Brubaker replied that the difference between the reports is that Wilshire has a one quarter lag on reporting private equity results, whereas JPMorgan has no lag. Also, March was a big month for transactions and Wilshire needs to work with JPMorgan on reconciliation. Wilshire will produce a reconciliation for the Investment Committee going forward.

Mr. Koettters asked if Wilshire can provide a more current report at Investment Committee meetings. Mr. Brubaker replied that the provision of a report depends on the time of the month of the Oversight Commission meeting. If the meeting is later, then the most current report will be available.

## **INSURANCE COVERAGE – LIABILITY**

James Barnes, Chief Legal Officer, reported that the provision of fidelity bond will depend on the fiduciary review report. Seven carriers have declined to provide quotes. The carrier for the directors and officers coverage (D & O) has stated that the only issue will be the amount of the premiums. The Oversight Commission will be notified when coverage is complete.

## **NEW BUSINESS**

### **BWC FISCAL YEAR 2007 PROJECTIONS**

Tracy Valentino, Chief Financial Officer, reported on the projected budget for fiscal year 2007.

### **INVESTMENT POLICY RECOMMENDATION - WILSHIRE**

Mr. Brubaker presented the Asset Allocation Policy. The policy is revised from the June version by including dividend payments. Wilshire recommends investing 20% in equities, 79% in fixed income, and 1% in cash. There are further equity divisions between large cap, mid and small cap, and foreign investments. Wilshire has also projected expected results for one year through ten years and provided peer comparisons. For the short-term, the mid and small cap category is the umbrella for the private equities.

Mr. Sopko asked for explanation on the variances. Bruce Dunn, Chief Investment Officer, stated that the explanation of variances would be made in a later report.

### **FIXED INCOME BENCHMARK DURATION**

Mr. Brubaker further reported that Wilshire recommends adopting the Lehman Long-Term Government/Corporate Index for the performance benchmark. The Lehman fits the income stream of BWC well.

### **STATE INSURANCE FUND (SIF) DIVIDEND POLICY ANALYSIS**

Concerning a dividend policy, Mr. Brubaker remarked that the granting of dividends limits growth of surplus; keeps high premiums and reserves for claims. Three models for granting dividends are provided: no dividends; granting dividends when the surplus is at least 1.5 times next year's premiums; or granting dividends when the surplus is at least 1.0 times next year's premiums. Wilshire observes, first, that dividends are likely to be paid only in top quartile market environments over the next ten years regardless of the asset mix. Second, dividends are highly unlikely to be paid in year 1, regardless of the dividend policy or asset mix. Third, issuing dividends under either surplus policy introduces only modest additional downside risk in the short and intermediate term. Finally, the 1.5 times policy results in lower expected dividends in years one to five, but higher potential dividends in years six through ten.

Mr. Dunn stated that he completely endorsed the asset allocation in the long-term. Treasury Inflation-Protected Securities (TIPS) are high yield, but high yield investments are not favorable investments for the short-run. TIPS are also not practical because of their scarcity. They are small in number and have little turnover. It would be difficult to invest \$3 billion in long-term fixed income investments.

Mr. Koettters asked what is the schedule to invest. Mr. Dunn cautioned against being too aggressive. The first priority is to select of the transition manager. The RFP responses are due today and will be graded during the week of July 24. BWC will present the final candidate to the Investment Committee next month.

Mr. Koettters asked what is the timing of implementation. Mr. Dunn replied that BWC will need a transition manager and index manger and will need about six months to implement the allocation. There will be continuous monitoring of change. Mr. Koettters emphasized the need to answer to stakeholders.

Mr. Dunn the actual investment percentages will differ from the policy. The policy need variances to allow for changes in equity market rates. The equity market will start at 10% of the State Insurance Fund.

Mr. McCausland emphasized that the dividend policy needs to be part of the investment policy.

### **INVESTMENT POLICY ON ANCILLARY FUNDS**

Mr. Brubaker reported that Wilshire had made no recommendation concerning investment of the ancillary funds such as the Black Lung and Marine Industry Funds. Historically, they were invested in fixed income securities. Wilshire will address this later. Mr. Koettters requested that Wilshire report on this at the August meeting.

### **INVESTMENT POLICY AND GUIDELINES**

John Williams, Assistant Attorney General, reviewed changes in the Statement of Investment Policy and Guidelines to be presented to the Oversight Commission for approval.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve and adopt the asset allocations and other amendments to the Bureau of Workers' Compensation Statement of Investment Policy and Guidelines that are shown on the attached schedule, which is incorporated herein. Ms. Farkas seconded and the motion was approved by unanimous roll call vote.

### **INDEPENDENT ACTUARY, REQUEST FOR PROPOSAL**

Mr. Mabe reported that BWC had selected an independent actuary to review claims adequacy. All that remains is signing the contract.

Mr. Sopko asked if the scope of the work can be amended. Mr. Mabe replied that it was too late. BWC needs a second opinion on reserves now and needs to confirm the work of Mercer Oliver Wyman. BWC cannot include other issues which the Oversight Commission would request. BWC is open to extending another RFP for those issues.

Mr. Sopko asked that the Oversight Commission be able to question the independent actuary and its report on issues such as business modeling and to request more information.

Mr. McCausland asked what is the completion date for the report of the independent actuary. Ms. Bravender replied that the second opinion on reserves is due September 29.

### **TRANSITION MANAGER REQUEST FOR PROPOSAL**

Mr. Dunn reported that BWC had met with the five finalists for position of transition manager. Next, BWC will make site visits. All candidates are well qualified.

### **ADJOURNMENT**

There was a motion and second to adjourn and Mr. Koettters adjourned the meeting.

Prepared by: Larry Rhodebeck, BWC Attorney  
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July 26, 2006



# Ohio Bureau of Workers' Compensation

Transition Manager RFP

August 24, 2006

# Transition Management RFP Process

All qualified Respondents were graded on the following four categories to determine the Interview Finalists:

- Organization and Structure
- Experience
- Process and Strategy
- Fees

Interview Finalists were graded on firm specific questions related to their RFP responses for finalist determination.

# Transition Manager RFP

## Revised Timeline

### **RFP ACTION ITEM**

#### **OVERSIGHT COMMISSION MEETING**

Send RFP Advertisement to Newspapers/Journal

Issue RFP

Open period for respondent's questions via email

Respond to questions via website

#### **OVERSIGHT COMMISSION MEETING**

#### **DEADLINE FOR RFP PROPOSALS (2:00 PM)**

BWC/Consultant Evaluation Committee review of proposals

Finalist Interviews (3 – 4 Candidates) – Increased to 6 Candidates

Grade finalists interviews / notify final candidates

#### **OVERSIGHT COMMISSION MEETING**

On-Site visits of finalists

WCOC Packet Deadline

#### **OVERSIGHT COMMISSION MEETING (Dayton) – Approval of Finalists**

### **TIMELINE**

#### ***June 16 – Complete***

June 16 – Complete

June 23 – Revised June 30 – Complete

June 30 - July 6 – Complete

July 7 - July 14 – Complete

#### ***July 20 – Complete***

**July 25 – Revised July 20 – Complete**

July 25 - Aug 7 – Revised July 21 - Aug 7 – Complete

August 8 – Revised August 8 - 9 – Complete

August 10 – Revised August 24

#### ***August 24***

August 11-14 – Revised August 28 - September 18

September 20

#### ***September 28***

# Transition Manager RFP Evaluation Committee

## Composition:

Five member Evaluation Committee

BWC CIO

Three BWC Investment Staff Members

Wilshire Consultant

## Advertising:

Wall Street Journal

Barron's

Pensions and Investments

## Dates

June 27, 2006 Page D4

June 28, 2006 Page D7

June 29, 2006 Page D6

June 26 – July 2

June 26 – July 24



# Ohio Bureau of Workers' Compensation

Private Equity RFP Update  
August 24, 2006

# Private Equity RFP Process

All qualified Respondents were graded on the following four categories to determine the Interview Finalists:

- Organization and Structure
- Experience
- Process and Strategy
- Fees

Interview Finalists were graded on firm specific questions related to their RFP responses for finalist selection.

# Private Equity RFP Update Timeline

## **RFP ACTION ITEM**

### **OVERSIGHT COMMISSION MEETING**

Send RFP Advertisement to Newspapers/Journal  
Issue RFP  
Open period for respondent's questions via email  
Respond to questions via website

### **OVERSIGHT COMMISSION MEETING**

#### **DEADLINE FOR RFP PROPOSALS (2:00 PM)**

BWC staff initial review of proposals

### **OVERSIGHT COMMISSION MEETING**

Evaluation Committee review / finalists identified  
Finalist Interviews  
Regrade finalists / Notify final candidate

### **OVERSIGHT COMMISSION MEETING**

On-Site visit of finalist

WCOC MEETING PACKET DEADLINE

### **OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist**

## **TIMELINE**

### **APRIL 27**

APRIL 27 - Complete

MAY 16 - Complete

MAY 16 - 19 - Complete

MAY 22 - 26 - Complete

**MAY 25** - Complete

**JUNE 15 - Complete**

JUNE 16 - 26 - Complete

**JUNE 16** - Complete

JUNE 27-JULY 10 - Complete

JULY 13 - Complete

JULY 17 - Complete

**JULY 20** - Complete

JULY 25 – Revised AUGUST 10 - Complete

AUGUST 16 - Complete

**AUGUST 24**

# Private Equity RFP Evaluation Committee

## Composition:

Five member Evaluation Committee

BWC CIO

Three BWC Investment Staff Members

Wilshire Consultant

## Advertising:

Wall Street Journal (The Mart)

Barron's

Private Equity Week (Thompson Financial)

Pensions and Investments

## Dates

May 16,17,18

May 22 - 28

May 22 - June 11

May 15 - June 11



# Ohio Bureau of Workers' Compensation

Index Manager RFP

August 24, 2006

# Index Manager RFP Process

All qualified Respondents will be graded on the following four categories to determine the Interview Finalists:

- Organization and Structure
- Experience
- Process and Strategy
- Fees

Interview Finalists will be graded on firm specific questions related to their RFP responses for finalist selection.

# Index Manager RFP Timeline

## **RFP ACTION ITEM**

### **OVERSIGHT COMMISSION MEETING**

Send RFP Advertisement to Newspapers/Journal

Issue RFP

Open period for respondent's questions via email

Respond to questions via website

### **OVERSIGHT COMMISSION MEETING**

#### **DEADLINE FOR RFP PROPOSALS (2:00 PM)**

BWC staff initial review of proposals

Evaluation Committee review / finalists identified

Finalist Interviews

Regrade finalists / Notify final candidate

On-Site visit of finalist

WCOC MEETING PACKET DEADLINE

### **OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist**

## **TIMELINE**

### **AUGUST 24**

AUGUST 28

SEPTEMBER 13

SEPTEMBER 18 - 20

SEPTEMBER 25 - 27

### **SEPTEMBER 28**

**OCTOBER 3**

OCTOBER 4 - 9

OCTOBER 10

OCTOBER 18 - 19

OCTOBER 23

OCTOBER 24 - NOVEMBER 3

NOVEMBER 8

### **NOVEMBER 16**

# Index Manager RFP Evaluation Committee

## Composition:

Six member Evaluation Committee

BWC CIO

Four BWC Investment Staff Members

Wilshire Consultant

## Advertising:

Wall Street Journal (The Mart)

Barron's

Pensions and Investments (Bi-weekly)

## Dates

September TBD (Week of Sept 4 – 8)

September TBD (Week of Sept 4 – 8)

Issue of September 4 - 18

DATE: August 16, 2006

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Private Equity Investment Placement Agent RFP Process (2006)**

The Private Equity Investment Placement Agent process began with the preparation of an advertisement circulated to alert potentially interested parties that a Private Equity Investment Placement Agent RFP from the BWC will be forthcoming. Such advertisement was placed in issues of the Wall Street Journal, Barron's, Private Equity Week, and Pensions and Investments.

With input from the BWC Investment Consultant, Wilshire Associates, the Investment Division of BWC prepared and issued an RFP for the services of an Investment Placement Agent for the sale of its private equity portfolio. This RFP was issued on May 16, 2006 which specified all of the qualifications and requirements for a potential respondent to satisfy. This RFP asked for responses to a number of specific questions involving (1) Organization and Structure, (2) Experience, (3) Process and Strategy, and (4) Fees and General Information.

The Investment Division responded to questions asked by potential respondents regarding the RFP process over the BWC website during the week of May 22. BWC received qualified responses from four firms (Lehman Brothers, NYPPE Holdings, Triago, UBS) on the June 15 deadline for proposals. These four responses were then carefully evaluated and graded for each RFP question by each member of the Private Equity RFP Evaluation Committee. This Evaluation Committee consisted of the BWC Chief Investment Officer, BWC Director of Investments, two BWC staff investment managers, and a representative of Wilshire Associates. The composite scores for each Evaluation Committee member were weighted equally (20% each).

The Evaluation Committee met on June 29 to review the results of the four RFP respondents and made the decision to invite each of the three highest rated score respondents (Finalists) to 90-minute interview sessions with all members of the Evaluation Committee on July 13 at the BWC William Green Building. The BWC CIO communicated directly with each of the four respondents on June 30 and provided invitations to interview to the three Finalists (Lehman Brothers, NYPPE Holdings, UBS) on that date. In addition, each Finalist was provided a list of questions in writing tailored specifically to each Finalist. The responses to these specific questions were agreed by the Evaluation Committee as being very important in the determination of the leading Finalist candidate. Each Finalist was interviewed, as scheduled, on July 13 by the Evaluation Committee. Each Finalist was subsequently graded accordingly by the Evaluation Committee.

The Evaluation Committee met on July 17 to discuss the Finalist grading results and made the decision to continue discussions with the leading score Finalist as to potential engagement. It was the unanimous opinion of the Evaluation Committee that the leading Finalist clearly separated itself from the other two Finalists during the interview sessions held on July 13. Additional due diligence discussions involving the leading Finalist was scheduled for August 10 at their offices in New York City. The BWC CIO, BWC Senior Investment Manager (Vincent Thomas), and Wilshire Associates representative (Mike Patafsky) participated in this on-site due diligence meeting. This visit included an extensive engagement with all the Finalist senior team members who would be most involved in this private equity sale engagement.

It is recommended by both the BWC Investment Division and Wilshire Associates that the leading Finalist candidate, UBS Securities LLC, be engaged as Agent by BWC in the sale of some or all private equity partnerships of BWC. A separate recommendation letter from Wilshire Associates regarding UBS is also provided herein.

A draft of the proposed contract of Agreement between BWC and UBS is provided herein as well.



# Ohio Bureau of Workers' Compensation

## Private Equity Sell-Side Advisor Selection Process

**Mark Brubaker, CFA**  
*Managing Director*

**Marc Friedberg, CFA**  
*Managing Director*

**Michael Patalsky, CFA**  
*Senior Associate*

August 24, 2006

# Private Equity Sell-Side Advisor Selection Process

- A very thorough process was utilized in examining and scoring potential candidates for this mandate
- Steps in the process:
  - Drafting of the RFP
  - Evaluation and review of the RFP responses
  - Interview of finalist candidates
  - On site due-diligence with recommended candidate
  - Consultation with Ohio BWC staff throughout the process
- Wilshire worked in conjunction with the Ohio BWC staff in all aspects of the selection process

# RFP Issuance and Scoring

- A request for proposal (RFP) was publicly issued on May 16, 2006 seeking the services of firms who perform secondary sales services for the private equity market
- Four firms responded to the RFP:
  - Lehman
  - NYPPE
  - Triago
  - UBS
- RFP responses were independently scored by the Ohio BWC CIO, the Ohio BWC Director of Investments, two members of the BWC staff, and Wilshire according to an established scoring methodology
  - Each firm was scored on Organization and Structure, Experience, Process and Strategy, Fees and General Information
- A conference call was held to discuss the responses and scoring rationale and select three interview candidates

# Finalists Interviews

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- There was unanimous consensus following the RFP scoring and conference call to invite three finalists to present:
  - Lehman
  - NYPPE
  - UBS
- Each of the three finalists had a 90 minute interview session on July 13
  - Finalists were provided with a list of questions to be answered in the interview that were specific to each respective firm
- Each finalist was independently graded by the by the Ohio BWC CIO, the Ohio BWC Director of Investments, two members of the BWC staff, and Wilshire according to an established scoring methodology
- A conference call was held to discuss the responses and scoring rationale

# Finalist Grading and On-Site Due Diligence

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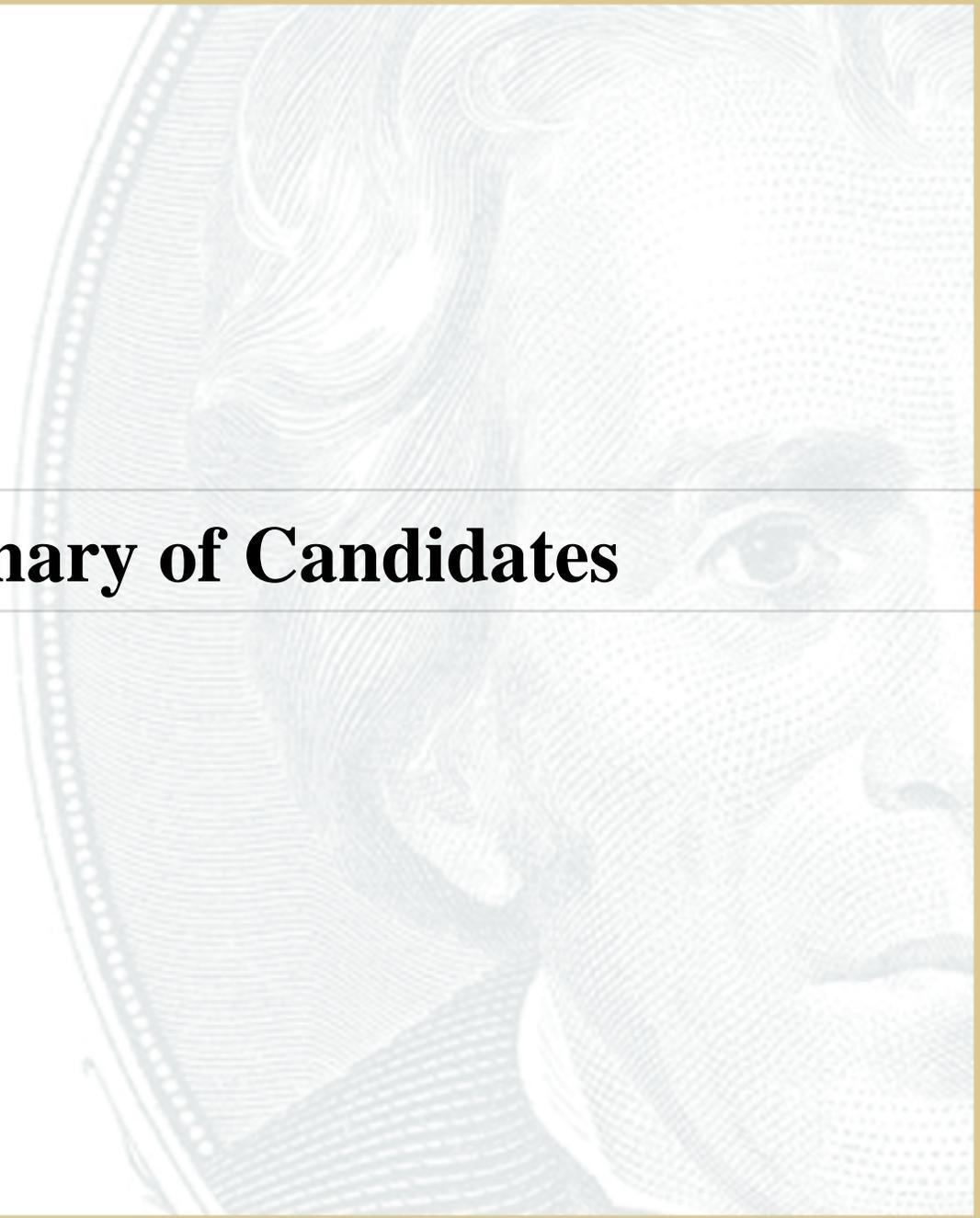
- There was again unanimous consensus following the finalists scoring and conference call to continue the process with one firm: **UBS**
- An on-site due diligence meeting was held with UBS in their New York office on August 10
  - Meeting was attended by the BWC CIO, a member of the BWC staff, and a representative from Wilshire
  - Met with members of the UBS team who would be directly involved in the project; further discussed various areas related to the project, including the UBS organization, role of team members, process that would be employed in the transaction, and timeframe for the transaction

# Wilshire Recommendation

- Wilshire recommends that the Ohio Bureau of Workers' Compensation retains UBS as a sell side advisor for the potential liquidation of their private equity portfolio
- Wilshire believes that UBS clearly demonstrated that they were the most capable firm in providing the services outlined in this mandate
  - UBS has an experienced team, led by Nigel Dawn, and is further supported by the broad resources of the UBS organization
  - The team displayed an in-depth understanding of the issues specific to the potential Ohio BWC mandate
  - UBS outlined a detailed process and timeline for the potential services they would provide, at a cost that is competitive with the other potential candidates and industry norms



# **Appendix – Summary of Candidates**



# Candidate Summary

|   | Lehman   | NYPPE   | Triago   | UBS   |
|---|--|---|--|---|
| Firm Location   | New York   | New York  | Paris  | New York  |
| Year private equity secondary sales group founded           | 2003   | 1998  | 2004   | Group was officially founded in 2004; has been part of UBS since 2001 |
| Team Leader   | Brian Talbot   | Laurence Allen  | Bruno Lafleur  | Nigel Dawn  |
| Team Leader's Secondary Sales Experience (in years)         | 15 years of private equity experience, primarily on the purchase of partnerships                               | 8   | 4  | 5.5   |
| Total Number of Members on Primary Execution Team           | 5  | 6   | 5  | 8   |
| Team is Dedicated to Secondary Sales Function               | No   | Yes   | Yes  | Yes   |
| Previous Sales Engagements (Total number of interests sold) | 177  | 220   | 197  | 232   |
| Previous Sales Engagements (Total in \$\$)                  | \$2.4 billion*   | NA  | \$842 MM   | \$4 billion   |
| Additional Comments   | Team came over to Lehman from Deutsche Bank following the liquidation of DB's \$2.4 B private equity portfolio | Firm's primary focus is on smaller-size transactions. Firm is recognized as a Qualified Matching Service (QMS) by the IRS | Previous experience is with smaller sized transactions | Team has experience on multiple large-sized transactions              |

\*Sale occurred while team was part of Deutsche Bank

# OHIO BUREAU OF WORKERS' COMPENSATION

## TOTAL FUND

June, 2006

### Executive Summary

#### Domestic Fixed Income Overview:

Overall, most economic reports released in the second quarter point to an ongoing moderation in the pace of economic activity. Labor market conditions softened substantially with payrolls averaging a meager 101,000 in the April-May period bringing down the 3-month average to 125,000. The unemployment rate edged down to 4.6% in May marking a new cycle-low for the series. Rising gas prices took a toll on consumer confidence, with the Conference Board Consumer Confidence index falling to 105.7 by the end of June from 107.5 in March. The University of Michigan confidence gauge also weakened, dropping to 84.9 from 88.9 at the end of the first quarter. The manufacturing sector, on the other hand, remained healthy throughout the quarter, with both regional and national surveys holding up at respectable levels.

Housing market data released in the last three months point to the prospect of at least a temporary stabilization of the housing market. Sales of existing homes, although noisy, account for roughly 85% of the housing market and have only declined modestly since the beginning of the year. The purchase component of the weekly index of new mortgage applications has also shown signs of leveling out.

On the inflation front, consumer prices accelerated throughout the course of the quarter with the core CPI increasing by 0.3% for three consecutive months since March and now up 2.4% on a year-on-year basis. The core PCE deflator, following two consecutive 0.2% increases, is still up 2.1% year-on-year.

The Treasury yield curve inverted more over the quarter, as the spread between two- and five-year Treasury notes ended June at -6 basis points (bps), down from -1 bp at the end of March. The six-month bill showed the greatest change in yield, rising 43 bps to end at 5.23%.

# Ohio Bureau of Workers' Compensation

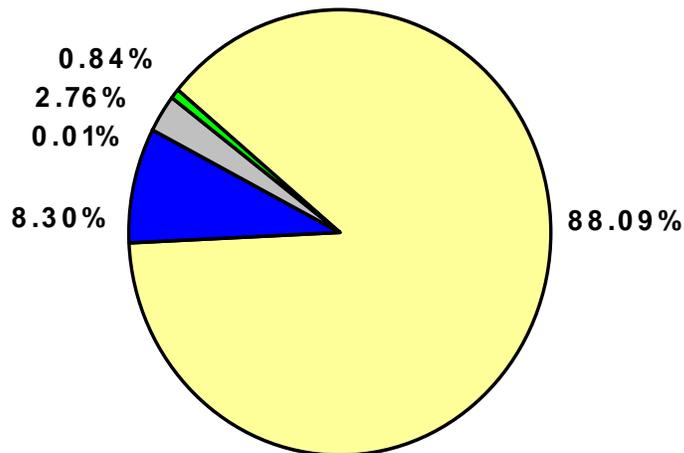
## TOTAL FUND

### Portfolio Market Value & Asset Allocation

#### June, 2006

#### Portfolio Balances

| Portfolio                  | Market Value            | Percent of Total Assets |
|----------------------------|-------------------------|-------------------------|
| SIF Bond Total             | 14,294,540,945          | 88.09%                  |
| Non-SIF Bond Total         | \$1,346,090,773         | 8.30%                   |
| International Stock Total* | \$1,770,868             | 0.01%                   |
| Alternative Asset Total    | \$447,707,507           | 2.76%                   |
| Cash Reserve Total         | \$136,348,307           | 0.84%                   |
| <b>GRAND TOTAL</b>         | <b>\$16,226,458,400</b> |                         |



SIF Bond
  Non-SIF Bond
  Int'l Stock
  Alternative
  Cash

\*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

# Ohio Bureau of Workers' Compensation

## TOTAL FUND

### Performance Measures

### For the Month Ending June, 2006

|   | BWC<br>Investment<br>Returns<br>Monthly<br>(Net of Fees) | Benchmark<br>Returns<br>Monthly | Benchmark<br>Variance | BWC<br>Investment<br>Returns 3<br>Month Trailing<br>(Net of Fees) | Benchmark<br>Returns 3<br>Month Trailing | Benchmark<br>Variance |
|---|--|---------------------------------|-----------------------|---|--|-----------------------|
| BWC Total Fund Investments  | 0.21%  | 0.21%                           | 0.00%                 | 0.05%   | -0.08%                                   | 0.13%                 |
| Non-SIF Bonds   | 0.25%  | 0.21%                           | 0.04%                 | -0.01%  | -0.08%                                   | 0.07%                 |
| SIF Bonds   | 0.20%  | 0.21%                           | -0.01%                | -0.06%  | -0.08%                                   | 0.02%                 |
| International Stocks  | 0.88%  | N/A                             | N/A                   | 4.79%   | N/A                                      | N/A                   |
| Alternative   | 0.56%  | N/A                             | N/A                   | 4.44%   | N/A                                      | N/A                   |
| Cash  | 0.71%  | 0.38%                           | 0.33%                 | 1.01%   | 1.16%                                    | -0.15%                |
| Tranche #3 - TM   | -5.14%   | 0.21%                           | -5.35%                | -7.07%  | -0.08%                                   | -6.99%                |
| <b>BENCHMARK INFORMATION:</b>   |  |                                 |                       |   |  |                       |
| <ul style="list-style-type: none"> <li>•Lehman Brothers Aggregate Index</li> <li>•M.L. 3 Month US T-Bill</li> </ul> |  |                                 |                       |   |  |                       |

#### **Summary of Investment Manager Fee Impact:**

•Investment Manager fees dampened the Total Performance for the period by .01%

# Ohio Bureau of Workers' Compensation

## TOTAL FUND

### Performance Measures

### For the Month Ending June, 2006

|                            | BWC<br>Investment<br>Returns<br>Monthly<br>(Gross of Fees) | Benchmark<br>Returns<br>Monthly | Benchmark<br>Variance | BWC<br>Investment<br>Returns 3<br>Month Trailing<br>(Gross of Fees) | Benchmark<br>Returns 3<br>Month Trailing | Benchmark<br>Variance |
|----------------------------|--|---------------------------------|-----------------------|---|--|-----------------------|
| BWC Total Fund Investments | 0.22%  | 0.21%                           | 0.01%                 | 0.06%   | -0.08%                                   | 0.14%                 |
| Non-SIF Bonds              | 0.25%  | 0.21%                           | 0.04%                 | -0.01%  | -0.08%                                   | 0.07%                 |
| SIF Bonds                  | 0.20%  | 0.21%                           | -0.01%                | -0.06%  | -0.08%                                   | 0.02%                 |
| International Stocks       | 0.88%  | N/A                             | N/A                   | 4.79%   | N/A                                      | N/A                   |
| Alternative                | 0.56%  | N/A                             | N/A                   | 4.45%   | N/A                                      | N/A                   |
| Cash                       | 0.87%  | 0.38%                           | 0.49%                 | 1.22%   | 1.16%                                    | 0.06%                 |
| Tranche #3 - TM            | -5.14%   | 0.21%                           | -5.35%                | -7.07%  | -0.08%                                   | -6.99%                |

**BENCHMARK INFORMATION:**

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

#### **Summary of Monthly Performance Attribution:**

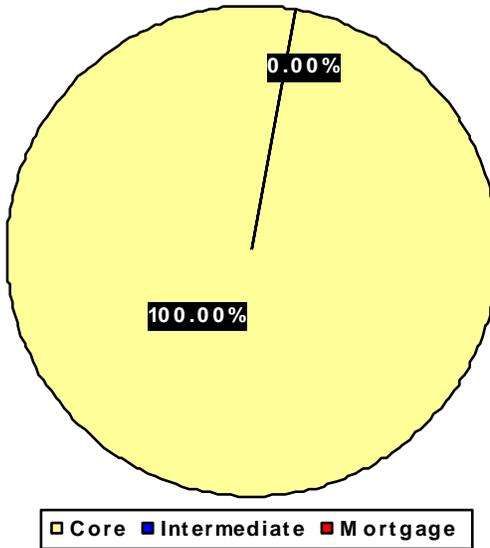
•BWC's Total Fund outperformed its' Benchmark by 0.01% for the period.

#### **•Performance Relative to Benchmark Performance:**

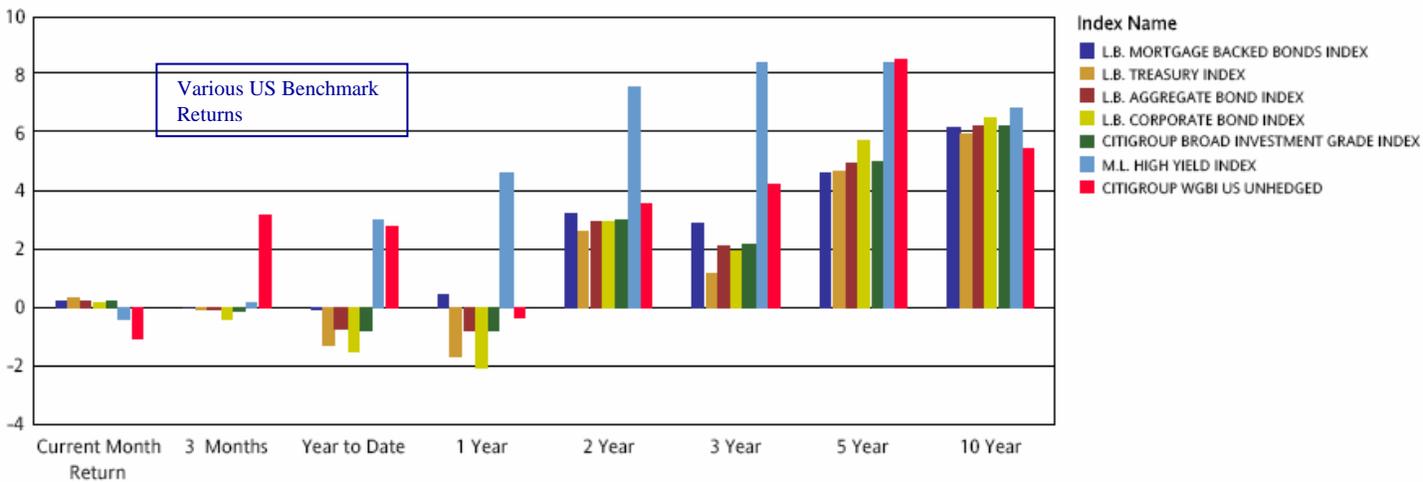
- (+) BWC's Non-SIF Bond Portfolio outperformed its' Benchmark for the current period.
- (-) BWC's SIF Bond Portfolio underperformed its' Benchmark for the current period.
- (+) BWC's Cash Portfolio outperformed its' Benchmark for the current period.

# Ohio Bureau of Workers' Compensation TOTAL FUND

## Fixed Income Allocation & Returns June, 2006

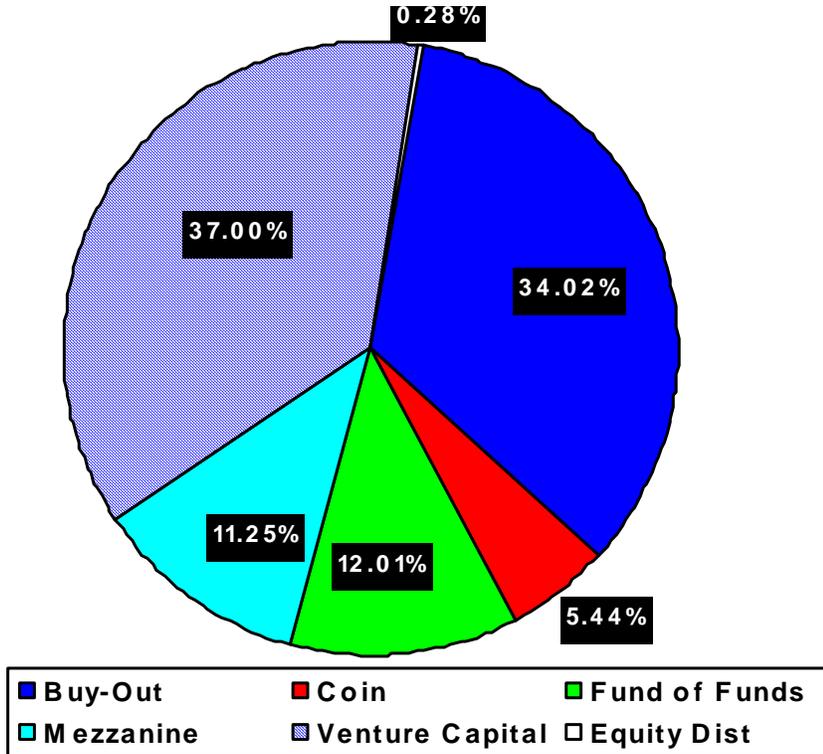


Fixed Income Returns  
As of June 2006



\*Style classification does not consider fixed income assets contained in the Transition Management Accounts

**Ohio Bureau of Workers' Compensation**  
**TOTAL FUND**  
Alternative Asset Allocation  
June, 2006



# Ohio Bureau of Workers' Compensation

## TOTAL FUND

Fees Paid in the month of  
June, 2006

| Manager  | Type   | Fees Paid           | Period Paid for |
|--|--------|---------------------|-----------------|
| Alliance Capital                                 | Bond   | \$113,498.00        | 4th Qt 2005     |
| Lazard Asset Management                          | Equity | \$26,078.01         | 4th Qt 2005     |
| Advent Capital Management                        | Bond   | \$10,298.26         | 1st Qt 2006     |
| Alliance Capital                                 | Bond   | \$39,274.00         | 1st Qt 2006     |
| LM Capital Group, LLC                            | Bond   | \$31,147.25         | 1st Qt 2006     |
| Morgan Stanley Investments LP                    | Bond   | \$113,191.00        | 1st Qt 2006     |
| OHIO MARINE INDUSTRY FUND                        | Bond   | \$7.25              | 1st Qt 2006     |
| Smith Graham Management                          | Bond   | \$31,275.00         | 1st Qt 2006     |
| SSGA COAL WORKERS PNEUMOCONIOSIS BLACK LUNG FUND | Bond   | \$112.00            | 1st Qt 2006     |
| SSGA OHIO DISABLED WORKERS RETIREMENT FUND       | Bond   | \$534.23            | 1st Qt 2006     |
| SSGA OHIO PUBLIC WORKERS RELIEF FUND             | Bond   | \$10.22             | 1st Qt 2006     |
| <b>Total Fees Paid</b>                           |        | <b>\$365,425.22</b> |                 |

# OHIO BUREAU OF WORKERS' COMPENSATION

## State Insurance Fund

June, 2006

### Executive Summary

#### Domestic Fixed Income Overview:

Overall, most economic reports released in the second quarter point to an ongoing moderation in the pace of economic activity. Labor market conditions softened substantially with payrolls averaging a meager 101,000 in the April-May period bringing down the 3-month average to 125,000. The unemployment rate edged down to 4.6% in May marking a new cycle-low for the series. Rising gas prices took a toll on consumer confidence, with the Conference Board Consumer Confidence index falling to 105.7 by the end of June from 107.5 in March. The University of Michigan confidence gauge also weakened, dropping to 84.9 from 88.9 at the end of the first quarter. The manufacturing sector, on the other hand, remained healthy throughout the quarter, with both regional and national surveys holding up at respectable levels.

Housing market data released in the last three months point to the prospect of at least a temporary stabilization of the housing market. Sales of existing homes, although noisy, account for roughly 85% of the housing market and have only declined modestly since the beginning of the year. The purchase component of the weekly index of new mortgage applications has also shown signs of leveling out.

On the inflation front, consumer prices accelerated throughout the course of the quarter with the core CPI increasing by 0.3% for three consecutive months since March and now up 2.4% on a year-on-year basis. The core PCE deflator, following two consecutive 0.2% increases, is still up 2.1% year-on-year.

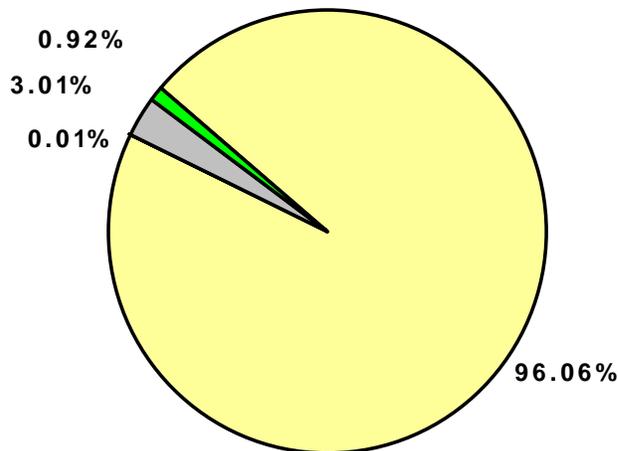
The Treasury yield curve inverted more over the quarter, as the spread between two- and five-year Treasury notes ended June at -6 basis points (bps), down from -1 bp at the end of March. The six-month bill showed the greatest change in yield, rising 43 bps to end at 5.23%.

# Ohio Bureau of Workers' Compensation State Insurance Fund

## Portfolio Market Value & Asset Allocation June, 2006

### Portfolio Balances

| Portfolio                  | Market Value            | Percent of Total Assets |
|----------------------------|-------------------------|-------------------------|
| SIF Bond Total             | \$14,294,540,945        | 96.06%                  |
| International Stock Total* | \$1,770,868             | 0.01%                   |
| Alternative Asset Total    | \$447,707,507           | 3.01%                   |
| Cash Reserve Total         | \$136,348,307           | 0.92%                   |
| <b>GRAND TOTAL</b>         | <b>\$14,880,367,627</b> |                         |



SIF Bond
  Stock
  Int'l Stock
  Alternative
  Cash

\*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

# Ohio Bureau of Workers' Compensation State Insurance Fund

## Performance Measures For the Month Ending June, 2006

|                           | BWC<br>Investment<br>Returns<br>Monthly<br>(Net of Fees) | Benchmark<br>Returns<br>Monthly | Benchmark<br>Variance | BWC<br>Investment<br>Returns 3<br>Month Trailing<br>(Net of Fees) | Benchmark<br>Returns 3<br>Month Trailing | Benchmark<br>Variance |
|---------------------------|--|---------------------------------|-----------------------|---|--|-----------------------|
| BWC Total SIF Investments | 0.21%  | 0.21%                           | 0.00%                 | 0.05%   | -0.08%                                   | 0.13%                 |
| SIF Bonds                 | 0.20%  | 0.21%                           | -0.01%                | -0.06%  | -0.08%                                   | 0.02%                 |
| International Stocks      | 0.88%  | N/A                             | N/A                   | 4.79%   | N/A                                      | N/A                   |
| Alternative               | 0.56%  | N/A                             | N/A                   | 4.44%   | N/A                                      | N/A                   |
| Cash                      | 0.71%  | 0.38%                           | 0.33%                 | 1.01%   | 1.16%                                    | -0.15%                |
| Tranche #3 - TM           | -5.14%   | 0.21%                           | -5.35%                | -7.07%  | -0.08%                                   | -6.99%                |

**BENCHMARK INFORMATION:**

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

### **Summary of Investment Manager Fee Impact:**

- Investment Manager fees did not dampen Total Performance for the period

# Ohio Bureau of Workers' Compensation State Insurance Fund

## Performance Measures For the Month Ending June, 2006

|                                  | BWC<br>Investment<br>Returns<br>Monthly<br>(Gross of Fees) | Benchmark<br>Returns<br>Monthly | Benchmark<br>Variance | BWC<br>Investment<br>Returns 3<br>Month Trailing<br>(Gross of Fees) | Benchmark<br>Returns 3<br>Month Trailing | Benchmark<br>Variance |
|----------------------------------|--|---------------------------------|-----------------------|---|--|-----------------------|
| BWC Total SIF<br>Investments     | 0.21%  | 0.21%                           | 0.00%                 | 0.07%   | -0.08%                                   | 0.15%                 |
| SIF Bonds                        | 0.20%  | 0.21%                           | -0.01%                | -0.06%  | -0.08%                                   | 0.02%                 |
| International Stocks             | 0.88%  | N/A                             | N/A                   | 4.79%   | N/A                                      | N/A                   |
| Alternative                      | 0.56%  | N/A                             | N/A                   | 4.45%   | N/A                                      | N/A                   |
| Cash                             | 0.87%  | 0.38%                           | 0.49%                 | 1.22%   | 1.16%                                    | 0.06%                 |
| Tranche #3 - TM                  | -5.14%   | 0.21%                           | -5.35%                | -7.07%  | -0.08%                                   | -6.99%                |
| BENCHMARK INFORMATION:           |  |                                 |                       |   |  |                       |
| •Lehman Brothers Aggregate Index |  |                                 |                       |   |  |                       |
| •M.L. 3 Month US T-Bill          |  |                                 |                       |   |  |                       |

### **Summary of Monthly Performance Attribution:**

•BWC's Total SIF performed comparably with its' Benchmark for the period.

### **•Performance Relative to Benchmark Performance:**

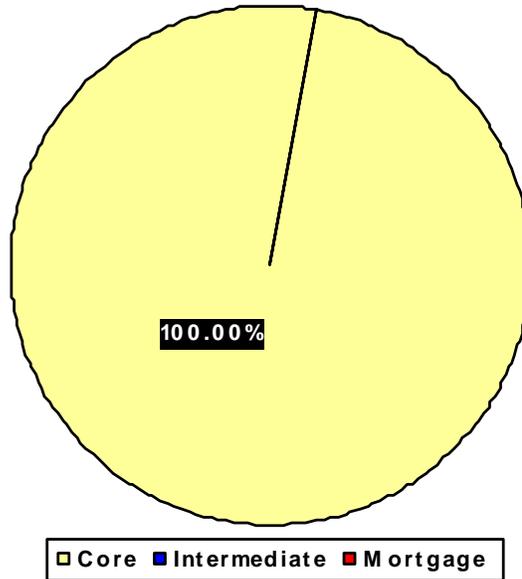
(-) BWC's SIF Bond Portfolio underperformed its' Benchmark for the current period.

(+) BWC's Cash Portfolio outperformed its' Benchmark for the current period.

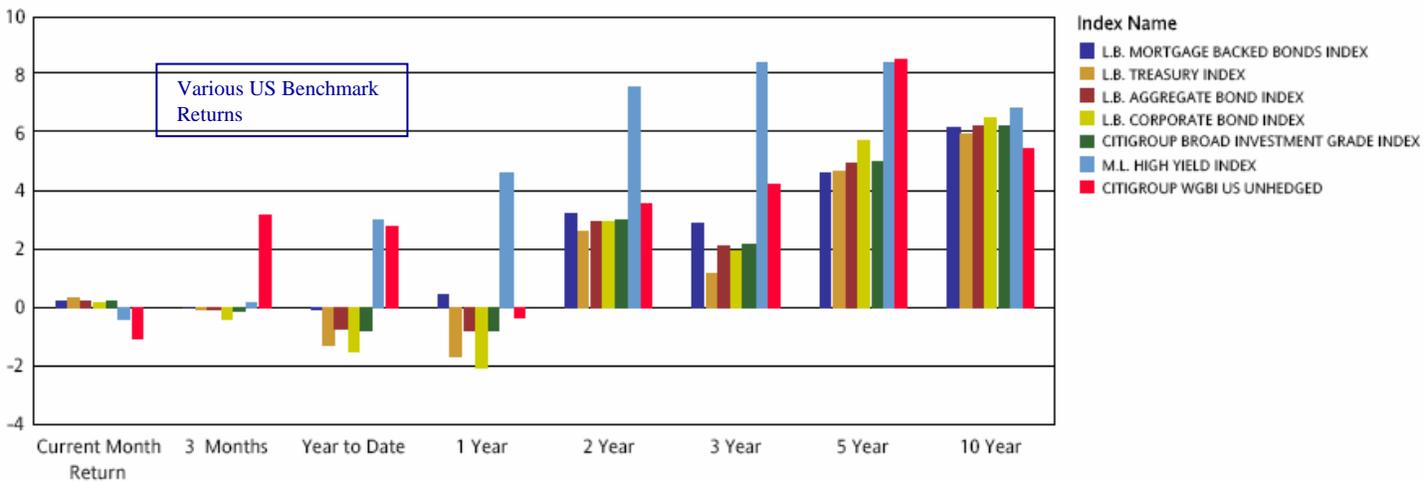
# Ohio Bureau of Workers' Compensation State Insurance Fund

## Fixed Income Allocation & Returns

June, 2006

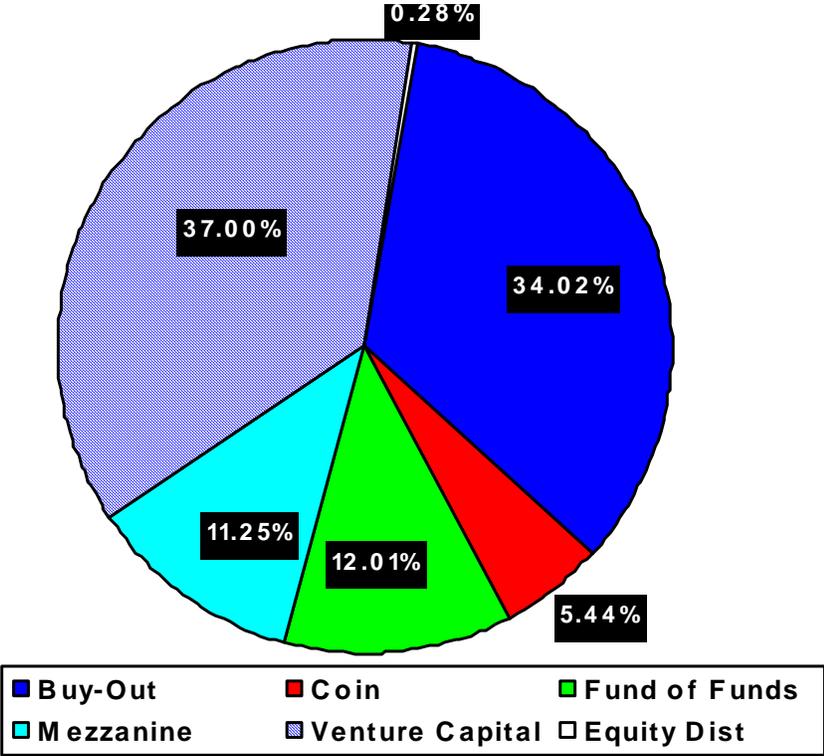


**Fixed Income Returns**  
As of June 2006



\*Style classification does not consider fixed income assets contained in the Transition Management Accounts

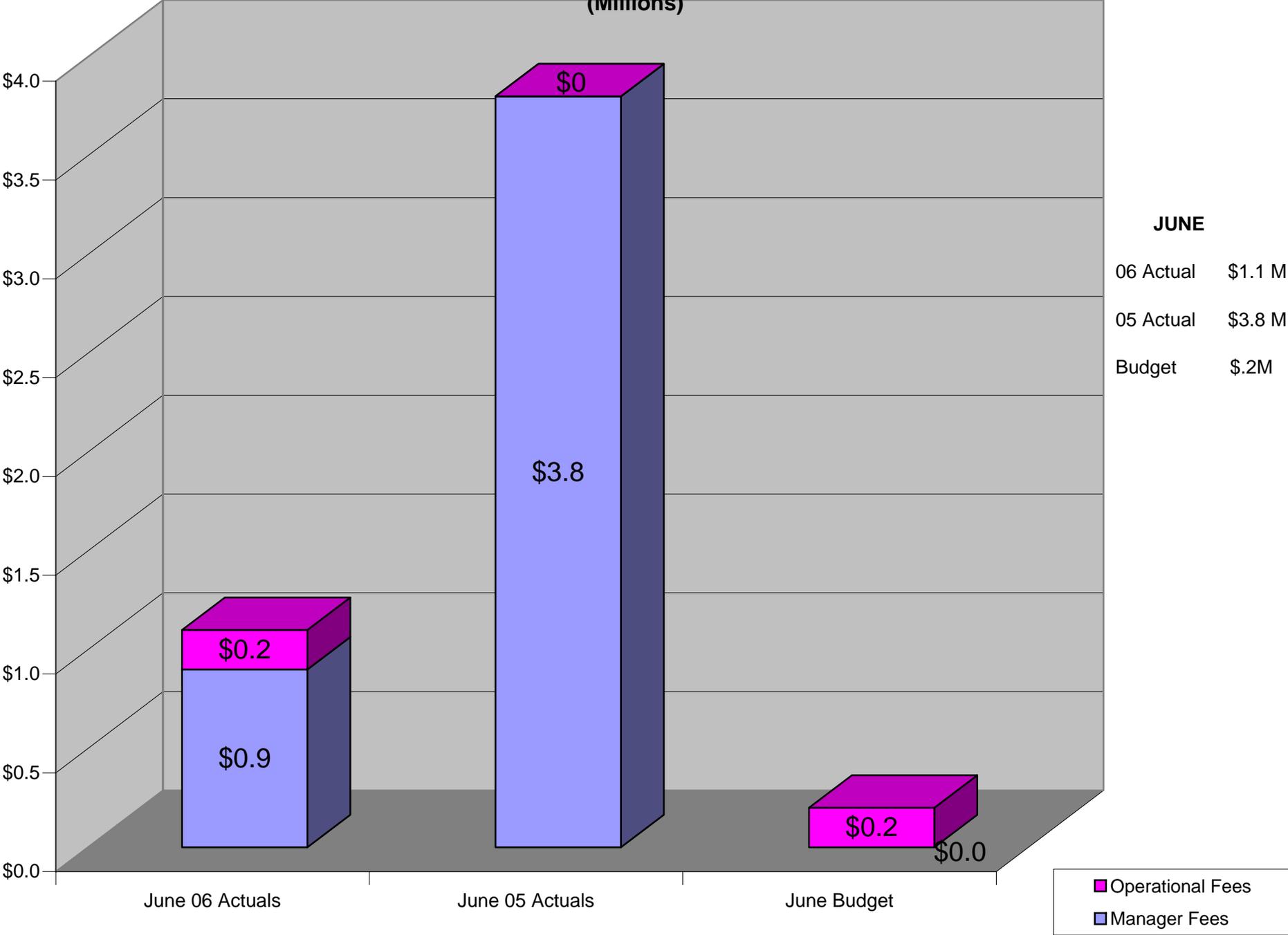
**Ohio Bureau of Workers' Compensation  
State Insurance Fund  
Alternative Asset Allocation  
June, 2006**



**Ohio Bureau of Workers' Compensation**  
**State Insurance Fund**  
 Fees Paid in the month of  
 June, 2006

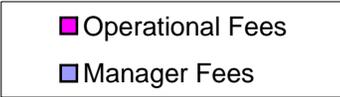
| Manager  | Type   | Fees Paid           | Period Paid for |
|--|--------|---------------------|-----------------|
| Alliance Capital                                 | Bond   | \$113,498.00        | 4th Qt 2005     |
| Lazard Asset Management                          | Equity | \$26,078.01         | 4th Qt 2005     |
| Advent Capital Management                        | Bond   | \$10,298.26         | 1st Qt 2006     |
| Alliance Capital                                 | Bond   | \$39,274.00         | 1st Qt 2006     |
| LM Capital Group, LLC                            | Bond   | \$31,147.25         | 1st Qt 2006     |
| Morgan Stanley Investments LP                    | Bond   | \$113,191.00        | 1st Qt 2006     |
| OHIO MARINE INDUSTRY FUND                        | Bond   | \$7.25              | 1st Qt 2006     |
| Smith Graham Management                          | Bond   | \$31,275.00         | 1st Qt 2006     |
| SSGA COAL WORKERS PNEUMOCONIOSIS BLACK LUNG FUND | Bond   | \$112.00            | 1st Qt 2006     |
| SSGA OHIO DISABLED WORKERS RETIREMENT FUND       | Bond   | \$534.23            | 1st Qt 2006     |
| SSGA OHIO PUBLIC WORKERS RELIEF FUND             | Bond   | \$10.22             | 1st Qt 2006     |
| <b>Total Fees Paid</b>                           |        | <b>\$365,425.22</b> |                 |

**Investment Division**  
**Investment Expenses - Manager & Operational Fees**  
**June, 2006**  
**(Millions)**

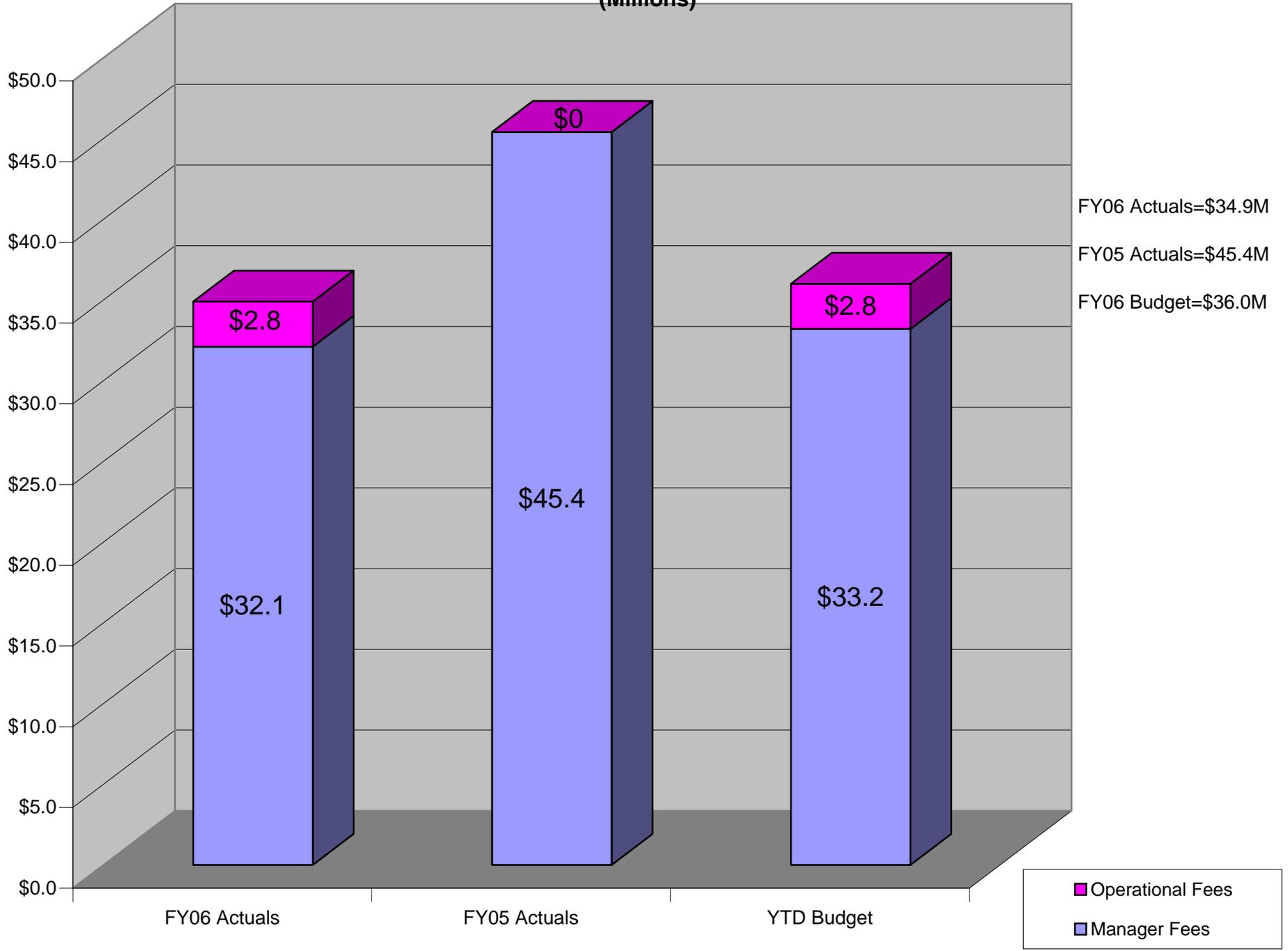


**JUNE**

|           |         |
|-----------|---------|
| 06 Actual | \$1.1 M |
| 05 Actual | \$3.8 M |
| Budget    | \$0.2M  |



**Investment Division**  
**Investment Expenses - Manager & Operational Fees**  
**FY06 YTD June 30, 2006**  
**(Millions)**



**Statement of Investment Income - July, 2005 - June, 2006**

Manager and Operational Fees - 7/05 - 6/06

| Actual        | Projected    | Variance     |
|---------------|--------------|--------------|
| \$ 34,817,615 | \$36,005,515 | \$ 1,187,900 |

| FY05 Actual   | FY06 Actual  | Variance        |
|---------------|--------------|-----------------|
| \$ 45,421,639 | \$34,817,615 | \$ (10,604,024) |

**7/05-6/06**

|                | Actual              | Projected            | Variance            | Reason  |
|----------------|---------------------|----------------------|---------------------|---|
| Public Fees    | \$32,076,168        | \$ 33,283,803        | \$ 1,207,635        | Variance due to timeliness of receiving and processing OIM Invoices       |
| Index          | \$ -                | \$ 22,222            | \$ 22,222           | Have not received a bill for April or May                                 |
| Bloomberg      | \$ 170,706          | \$ 194,997           | \$ 24,291           | Variance due to timeliness of receiving and processing payment            |
| Bridge Trading | \$ 44,010           |                      |                     |   |
| Callan         | \$ 84,750           | \$ 84,750            | \$ -                |   |
| Ennis Knupp    | \$ 1,564,477        | \$ 1,564,477         | \$ -                |   |
| FIS*           | \$ 12,000           | \$ 12,000            | \$ -                | FIS was paid out of Public Fees instead of an Administrative Fee          |
| Gray & Co      | \$ -                | \$ -                 | \$ -                |   |
| Groom          | \$ 190,017          | \$ 146,497           | \$ (43,520)         |   |
| ISS            | \$ 34,582           | \$ -                 | \$ (34,582)         | Bill previously paid out of soft dollars and was not aware of the service |
| JPMorgan       | \$ -                | \$ 132,000           | \$ 132,000          | Have not received a bill for the month of March, April, May and June      |
| Lusiads        | \$ 134,200          | \$ 134,200           | \$ -                |   |
| Moody's        | \$ 1,750            | \$ 1,750             | \$ -                |   |
| QED            | \$ 198,955          | \$ 163,819           | \$ (35,136)         |   |
| Wilshire       | \$ 318,000          | \$ 265,000           | \$ (53,000)         | Variance due to timeliness of processing payment                          |
| <b>Total</b>   | <b>\$34,829,615</b> | <b>\$ 36,005,515</b> | <b>\$ 1,219,910</b> |   |

\*Payment reflected in manager fees

**FY05 vs FY06 - 7/05 - 6/06**

|                | FY05                | FY06                 | Variance               | Reason  |
|----------------|---------------------|----------------------|------------------------|---|
| Public Fees    | \$45,421,639        | \$ 32,076,168        | \$ (13,345,471)        | 140 Investment Managers in FY05 versus 85 in FY06 |
| Index          | \$ -                | \$ -                 | \$ -                   |   |
| Bloomberg      | \$ -                | \$ 170,706           | \$ 170,706             | Bill paid through Soft Dollars in FY05            |
| Bridge Trading | \$ -                | \$ 44,010            |                        |   |
| Callan         | \$ -                | \$ 84,750            | \$ 84,750              |   |
| Ennis Knupp    | \$ -                | \$ 1,564,477         | \$ 1,564,477           | Private Equity Evaluation, Report on Performance  |
| FIS*           | \$ -                | \$ 12,000            | \$ 12,000              | Bill paid through Soft Dollars in FY05            |
| Gray & Co      | \$ -                | \$ -                 | \$ -                   |   |
| Groom          | \$ -                | \$ 190,017           | \$ 190,017             | Investment Investigation - Fiduciary Council      |
| ISS            | \$ -                | \$ 34,582            | \$ 34,582              | Bill paid through Soft Dollars in FY05            |
| JPMorgan       | \$ -                | \$ -                 | \$ -                   |   |
| Lusiads        | \$ -                | \$ 134,200           | \$ 134,200             | Consultant hired to assist with Consultant RFP    |
| Moody's        | \$ -                | \$ 1,750             | \$ 1,750               | Bill paid through Soft Dollars in FY05            |
| QED            | \$ -                | \$ 198,955           | \$ 198,955             | Bill paid through Soft Dollars in FY05            |
| Wilshire       | \$ -                | \$ 318,000           | \$ 318,000             | Wilshire was not a consultant in FY05             |
| <b>Total</b>   | <b>\$45,421,639</b> | <b>\$ 34,829,615</b> | <b>\$ (10,636,034)</b> |   |

**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: Bruce Dunn, Chief Investment Officer

DATE: August 16, 2006

SUBJECT: CIO Report for July, 2006

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The Investment Division in July, 2006 continued to work on many important 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 the 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 by a stated goal of \$100 million. | 12/31/06   | TRANSITION COMPLETED |
| 2. | Establish a new BWC internal investment organization for restructured portfolio  | 12/31/06*  |                      |
| 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   | 12/31/06** |                      |

\*extended from 6/01/06  
\*\*advanced from 3/31/07

**Strategic Initiative One- TRANSITION COMPLETED**

The transition of BWC's actively managed portfolios to the State Street Lehman Aggregate passive fixed income index commenced on January 9, 2006, with State Street Global Markets (SSGM) managing the process on behalf of BWC. This transition has been completed with only a few clean-up assets still being retained. The final report detailing the \$15.5 billion transition was included in the material for the April 27, 2006 WCOC/IC meeting. BWC's transition was completed on time with actual costs well below the anticipated estimates. Progress continued in July on the disposal of miscellaneous assets.

Annual cash income was anticipated to increase by a stated goal of an additional \$100 million as a result of the restructured portfolio comprised of nearly 100% fixed income assets. The additional interest income earned calendar

2006 YTD ending June 30 was \$100.0 million higher for 2006 versus 2005, thus achieving this calendar year 2006 target in the first six months of 2006.

### **Strategic Initiative Two**

Training continues for the two newest senior and assistant investment managers of the Investment Division. Two other investment managers, with six and five years of tenure within the Investment Division, were reassigned to other Divisions within BWC effective May 30, 2006. These reassigned investment managers have now been replaced with the hiring of two new investment managers, Doug Walouke (Senior Investment Manager) and Greg Stought (Assistant Investment Manager), who both joined the Investment Division team on August 7, 2006. A brief biographical sketch for both Doug and Greg is included in the tab providing the updated BWC Investment Division Table of Organization that reflects these staff changes. Further additions to staff will occur during the remainder of 2006, as the Investment Division executes the new Investment Policy approved last month.

Temporary personnel continues to focus on assisting in the organization of the private equity files and in fulfilling both internal and external requests for additional information on past investment and trading activities. The imaging of all the private equity files and documents is near completion in preparation for the process of selling the private equity funds.

### **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. This Investment Policy was amended at the July 20, 2006 meeting with respect to the State Insurance Fund, allowing for both active equity and passive equity managed investments as well as new fixed income asset sectors to be managed with a combination of active and passive managers. The Internal Audit Division will be providing guidance and assistance in the further improvement of proper procedures and controls for the Investment Division. This will be important as the Investment Division selects and very closely monitors many new investment managers who will manage specific mandates reflected from the new Investment Policy approved last month.

The Investment Division continues to improve internal procedures for the management of the 68 private equity funds as well as the bond index fund, performance reporting, and other investment activities to support the new Investment Policy.

### **Strategic Initiative Five**

Increase priority is now being given to the review and possible selection of a new investment accounting system. The higher importance of an improved investment accounting system is a result of the approval of the new Investment Policy at the July 20, 2006 meeting. The project plan for the possible selection and purchase of a new investment accounting system is being accelerated with the anticipation that a RFP on this matter will be issued by no later than October, 2006. The Investment Division will be involved with Financial Reporting/Accounting, IT and Internal Audit for the support and development of the project plan.

As manager of the Ohio Passive Bond Market Index Fund for BWC, State Street Global Advisors has purchased TBA (“to be announced”) Mortgage Backed Securities for the Fund. There is some question as to whether TBAs, as used by State Street, are considered to be a derivative investment and also a form of leverage. Derivative investments are currently not permissible under the current BWC Investment Policy (as defined) other than for CMO and ABS investments meeting defined criteria. State Street is of the firm opinion that they are in full compliance with the BWC Investment Policy with regards to their management of the Fund and have indicated this position in writing.

The BWC CIO has communicated this information in detail to each of the members of the Investment Committee and the subject matter will be discussed and addressed at the August 24, 2006 meeting. A brief summary of this subject matter is provided with this report.

In addition, there will be a brief mention and discussion on the securities lending program and activities of State Street in the management of the Fund at the August 24, 2006 meeting. A specific report addressing securities lending and its continued use is expected to be forthcoming by Wilshire and the BWC Investment Division at the scheduled September 28, 2006 WCOC meeting.

### **Private Equity RFP Update**

An RFP on the sale of up to all private equity funds owned by BWC was approved for issuance by the WCOC/IC at the April 27, 2006 meetings. This RFP was issued on May 16, 2006 with a stated deadline of June 15, 2006 for submissions of proposals. BWC received four submissions of proposals and selected three finalists who were interviewed on July 13, 2006. A selection has now been made of the first choice finalist. This finalist is being presented for recommendation and approval by the IC/WCOC at the scheduled August 24, 2006 meetings. See RFP Update tab for timeline update.

### **Transition Manager RFP Update**

A Transition Manager RFP timeline was presented to the IC/WCOC at the June 16, 2006 meetings. This RFP was issued on June 30, 2006 with a stated deadline of July 20, 2006 for submissions of proposals. BWC received ten qualified submissions for proposals and selected six finalists who were each interviewed on August 8 and 9, 2006. The six finalists will be narrowed down further but it is anticipated that multiple Transition Managers will be recommended for approval by the WCOC. At the present time, it is anticipated that such recommendations for approval will be made at the scheduled September 28, 2006 WCOC meeting. See RFP Update tab for timeline update.

### **Index Manager RFP Update**

An initial Index Manager RFP timeline was presented to the IC/WCOC at the June 16, 2006 meetings. The initial timeline was predicated on the presentation/approval of the Consultant’s (Wilshire) asset liability study/proposal at the June, 2006 meetings. The anticipated approval vote at the June meeting was delayed one month to the July 20, 2006 WCOC/IC meeting. This necessitated a delay in the initial timeline for the index manager search. The asset allocation approved at the July 20, 2006 meeting was further recommended by the Consultant (Wilshire) as to the mandate and percentage requirements for index management. See RFP update tab for the revised timeline reflecting the use of additional index managers as per the new investment policy.

### **Declaratory Judgement Private Equity Action Update**

The consolidated BWC v. Behrman declaratory judgment action and the Dispatch v. BWC public records case are scheduled for trial on September 14 and September 15, 2006. Judge Frye has indicated that he does not want summary judgment motions, so there will be a bench trial. Judge Frye said that he would accept amicus briefs but that he is not encouraging them if they are duplicative. The Defendants selected an expert for the trial, Mark Heesen, President of the National Venture Capital Association, who submitted his expert report to the court and the Dispatch in early August, 2006. The funds provided the Dispatch with copies of the limited partnership agreements, and their basis for claiming confidentiality. The Dispatch named its experts, Fred Vorys of Aegis Advisors, LLC, and Heinz Ickert, of Rea Strategic Solutions, whose expert reports are due by August 18, 2006. All discovery is to be completed by September 8, 2006. Post trial briefs from the parties are due September 18, 2006.

## **Legislative Updates/HB66 Compliance**

### **SCR 21 (Dann)**

This resolution would require the return of all political contributions made by Thomas Noe.

This resolution has not been assigned to a committee

### **SB 151 (Dann)**

This bill 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 bill was introduced on March 7, 2006. This bill would require the WCOC to employ its own professional and clerical staff rather than use staff provided by the Administrator of Workers' Compensation, and to require the WCOC to adopt rules to establish the objectives, policies, and criteria for the investment program of the BWC.

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

### **HB 354 (Patton)**

This bill would require that any state agency with the authority to invest state funds to report on those investments using the Global Investment Performance Standards established by the CFA Institute.

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

### **HB 376 (Patton)**

This bill 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

HCR 23 (Redfern)

This resolution would establish a committee to investigate BWC malfeasance.

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

HB 66 Compliance

BWC has continued to work with all parties to ensure that HB 66 is fully implemented throughout BWC.

SB 7 (Cates)

SB 7 took effect June 30, 2006; however, half of the provisions are subject to the referendum effort spearheaded by the Committee to Protect Injured Workers, Widows and Orphans. On June 29, 2006, the Committee to Protect Injured Workers, Widows and Orphans filed 230,415 signatures (194,000 were required) with the Secretary of State (SOS). The SOS Office will be sending the group a letter to verify the number of valid signatures. If the group has not attained the correct amount, a 10 day time period will be given to attain remaining signatures. The letter has not been sent due to various protests filed by the referendum group to the SOS.

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

# Summary Attachment

## STATE STREET PASSIVE INDEX MANAGER OHIO PASSIVE BOND MARKET INDEX SL FUND (“OPBMI”)

### Subject

State Street index manager’s use of TBA Mortgage Backed Securities (MBS) in OPBMI.

### Definition

TBAs are “to be announced” MBS pools not specifically identified until two days before delivery (settlement) date.

### Question/Concern

Are TBAs derivatives and/or a form of leverage?

- Derivatives and leverage are prohibited in the current (July 20, 2006) BWC Investment Policy per Section IV.C.ix, Derivatives:

*...with the exception of collateralized mortgage obligations (CMOs) and asset backed securities (ABS) in accordance with the restrictions outlined below...*

### Action

BWC CIO examined and researched the exposure to TBAs in the OPBMI. In a detailed review on July 18, 2006, it was noted that the TBA position in OPBMI was approximately \$1.4 billion, comprised of GNMA, FNMA, FHLMC, 15 and 30 year pools (current TBA position is approximately \$1.1 billion).

Upon further investigation and subsequent discussion with State Street, the BWC CIO learned:

- TBAs are the most liquid form of investment in the large MBS market
- Most, if not all, large bond index fund managers purchase TBAs
- State Street takes delivery of some TBAs, but typically rolls many TBAs to the next delivery month

State Street confirmed to BWC that OPBMI is in compliance with the current BWC Investment Policy. Also, State Street confirmed that no leverage is being used in their TBA strategy as sufficient cash balances are always in place matching each TBA position.

If State Street is forced to liquidate all current TBA positions, State Street has stated they would violate their fiduciary ‘standard of care’ conduct requirement and may need indemnification by BWC for this action.

TBAs not settled on original delivery date but extended to the next month's delivery date can be defined as derivatives under accounting conventions. An accounting liability is created for TBA contracts extended or rolled to the future month's settlement.

BWC CIO confirms that no economic leverage has been employed by State Street under BWC's current mandate in their TBA management execution.

### **Recommendation**

BWC CIO recommends State Street's continuing use of TBAs in OPBMI due to:

- no economic leverage created with their use
- serves as an effective effective and efficient proxy for MBS exposure
- being the most liquid security in the MBS asset class (which will benefit BWC as OPBMI is liquidated)

BWC CIO recommends to the IC/WCOC to continue to allow TBA investments (GNMA, FNMA, FHLMC) to be an acceptable investment asset for BWC and that TBAs be made as an approved exception to the derivatives definition in BWC's Investment Guidelines, Section IV.C.ix, Derivatives. Such approval will apply only to TBAs using no economic leverage.



# Ohio Bureau of Workers' Compensation

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## Private Equity Sale Advisor Engagement Finalist Presentation

August 24, 2006

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SECTION 1

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# Executive Summary

# Executive Summary

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- ◆ The State of Ohio Bureau of Workers' Compensation (the "BWC") is considering the sale of a large, diversified portfolio of private equity funds (the "BWC Portfolio")
- ◆ The BWC Portfolio currently consists of 68 funds, comprising 55 fund managers and represents approximately \$393 million in market value as of December 31, 2005
- ◆ UBS believes that current market conditions are favorable for sellers. Attractive results can be achieved by sellers that are well positioned through a robust auction process
- ◆ UBS has deep experience in the secondary market, having executed approximately \$4 billion of transactions including large and complex transactions such as yours. We believe we can deliver the best possible price to the BWC
- ◆ The size of the BWC Portfolio requires a dedicated, deep and experienced deal team to ensure a successful and timely result. We are committed to leveraging the resources of UBS, one of the largest banks in the world, to ensure success and minimize the utilization of the BWC's resources
- ◆ UBS's Secondary Advisory Team is dedicated exclusively to advising sellers of private equity partnerships; we do not purchase secondary private equity interests or provide related ancillary services. Your interests and ours are directly aligned
- ◆ UBS's relationship with Ohio dates back more than 75 years and UBS has been the #1 Ranked Senior Manager for Ohio State Level Borrowers since 2000
- ◆ UBS's Private Equity Funds Group has substantial experience working with public entities, having placed nearly \$1 billion of private equity partnerships with public pensions since 2004

SECTION 2

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## Overview of UBS

# One of the Largest and Most Reputable Banks in the World

UBS is one of the largest financial institutions in the world and continues to build momentum

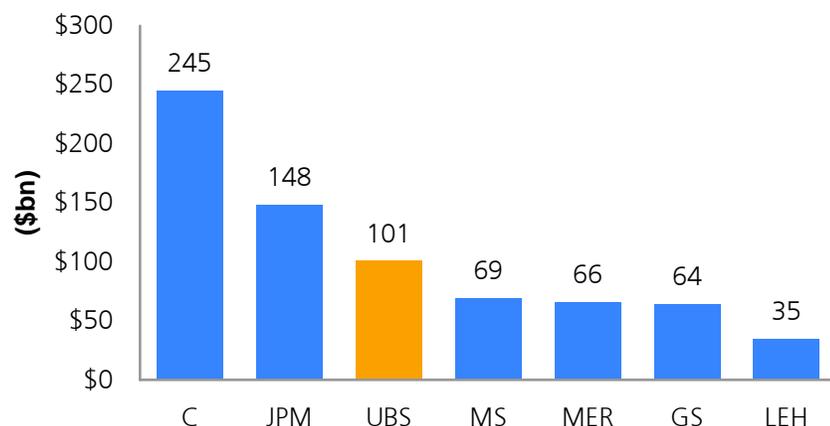
## UBS Overview

- ◆ **UBS Investment Bank** – top 5 global bulge bracket position
- ◆ **UBS Wealth Management** – rated the largest and best private bank, globally<sup>1</sup>
- ◆ **UBS Global Asset Management** – leading institutional and wholesale asset manager with \$583 billion in invested assets

## Key Highlights<sup>2</sup>

- ◆ \$34 billion shareholders' equity
- ◆ Top credit ratings of AA+/AA+/Aa2 (Fitch IBCA, S&P and Moody's, respectively)
- ◆ Market capitalization of \$101 billion
- ◆ Over \$2 trillion in invested assets
- ◆ Some 68,000 employees in over 50 countries

## Market Capitalization<sup>3</sup>



Source: Capital IQ

Notes:

1 Euromoney 2005

2 As of December 31, 2005. UBS market capitalization has been translated at a US\$1 = CHF1.31, the spot rate on December 31, 2005

3 All figures as at December 31, 2005 and from the UBS Quarterly Report. UBS manages its business and reports its results in Swiss Francs (CHF). All figures for all periods have been translated at US\$1 = CHF1.31, the spot rate on December 31, 2005

## Investment Bank - Total Market Share Trends

| Rank            | Firm            | Market Share of Global Fees (%) |              | Momentum | % Change      |
|-----------------|-----------------|---------------------------------|--------------|----------|---------------|
|                 |                 | 2000                            | 2005         |          |               |
| 1               | UBS             | 3.9                             | 4.9          | ↑        | 1.0           |
| 2               | Deutsche Bank   | 3.6                             | 4.4          | ↑        | 0.9           |
| 3               | Lehman Brothers | 3.3                             | 3.7          | ↑        | 0.4           |
| 4               | Citigroup       | 6.6                             | 6.6          | –        | (0.0)         |
| 5               | Banc of America | 3.9                             | 3.1          | ↓        | (0.8)         |
| 6               | JP Morgan       | 7.2                             | 6.2          | ↓        | (1.0)         |
| 7               | Merrill Lynch   | 6.0                             | 5.0          | ↓        | (1.1)         |
| 8               | Morgan Stanley  | 7.7                             | 5.5          | ↓        | (2.3)         |
| 9               | Goldman Sachs   | 9.1                             | 6.1          | ↓        | (3.0)         |
| 10              | Credit Suisse   | 9.5                             | 4.5          | ↓        | (5.0)         |
| <b>Subtotal</b> |                 | <b>60.8</b>                     | <b>50.0</b>  | <b>↓</b> | <b>(10.8)</b> |
| <b>TOTAL</b>    |                 | <b>100.0</b>                    | <b>100.0</b> | <b>–</b> | <b>0.0</b>    |

Source: Dealogic

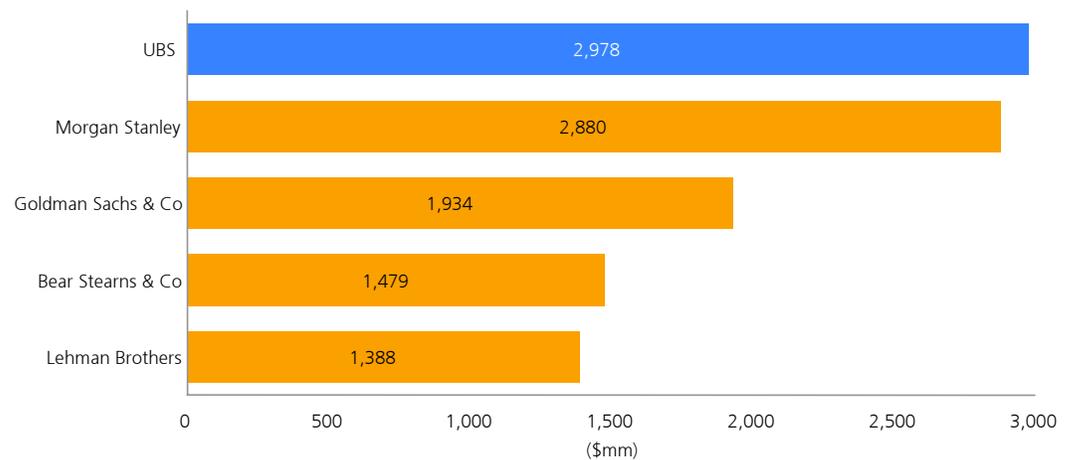
# Long Standing Ohio Presence & Experience

UBS has maintained a corporate commitment to the State of Ohio for 75 years and has been the #1 Ranked Senior Manager for Ohio State Level Borrowers since 2000



Note:  
"●" denotes UBS Wealth Management offices

**State Level Ohio Borrowers  
Negotiated—Full Credit to Lead  
1/1/00–7/1/06**



Source: Securities Data Corporation

- ◆ Currently, UBS employs 714 people in Ohio
- ◆ UBS Financial Services' commitment in Ohio is unparalleled with 16 brokerage offices staffed by 312 financial advisors who advise individual investors in the management of over \$21 billion assets

- ◆ UBS experience includes issues for Ohio Treasurer's Office, Ohio Public Facilities Commission, Ohio Water Development Authority and Ohio Building Authority

# UBS's Private Equity Funds Group (“PEFG”)

The Secondary Advisory Team is part of a global platform to provide leading solutions to private equity Limited Partners (“LPs”)

| PRIMARY   |   | LP RELATIONSHIP MANAGERS  |  |   | SECONDARY   |
|---|---|---|--|---|---|
| Head of Origination   | Head of Financial Sponsors Advisory   | Head of Int'l Distribution  | Global Head of PEFG  | Head of US Distribution   | Head of Secondary Advisory  |
|  |  |  |  |  |  |
| <b>Jake Elmhirst</b>  | <b>Mark Schroeder</b>   | <b>James Moore</b>  | <b>Richard Allsopp</b>   | <b>Mark Bourgeois</b>   | <b>Nigel Dawn</b>   |
| Stamford / London   | Stamford  | London  | London   | Stamford  | New York  |
| GLOBAL COVERAGE   |   | NORTH AMERICA   | EUROPE / MIDDLE EAST / ASIA  |   |   |
| <b>Jake Elmhirst</b>  | <b>Mark Schroeder<sup>1</sup></b>   | <b>Mark Bourgeois</b>   | <b>Richard Allsopp</b>   |   |   |
| John Marshall   | Marty Voelker   | Philip Yau <sup>1,2</sup>   | <b>James Moore</b>   |   |   |
| Michael Henningsen  | Peter Brown   | Kevin Kuryla  | Nicolas Lanel  |   |   |
| Carlos Almodovar  | Nathan Urquhart   | Rick Walsh  | Cristina Forcina   |   |   |
|   |   |   | Sterling Grol  |   |   |
|   |   | GLOBAL COVERAGE   |  |   |   |
|   |   | <b>Nigel Dawn</b>   |  | Michael Hacker  |   |
|   |   | Philip Tsai   |  | Rodney Reid   |   |
|   |   | Gerald Cooper   |  | Pratibha Vuppuluri  |   |
|   |   | Jarrett Vitulli   |  | Michael Catts   |   |

Notes:

- 1 Substantial secondary market experience
- 2 Also responsible for Asia

# UBS Investment Bank's Deal Team for the Ohio BWC

## Senior Sponsorship

|  |   |  |
|--|---|--|
| <p><b>Nigel Dawn</b><br/>                 Managing Director<br/>                 New York, NY<br/>                 +1 (212) 821-5333<br/>                 nigel.dawn@ubs.com</p> | <p><b>Richard Allsopp<sup>1</sup></b><br/>                 Managing Director<br/>                 London, UK<br/>                 +44 207 568 3879<br/>                 richard.allsopp@ubs.com</p> | <p><b>Mark Schroeder</b><br/>                 Managing Director<br/>                 Stamford, CT<br/>                 +1 (203) 719-7113<br/>                 mark.schroeder@ubs.com</p> |
|--|---|--|

## Execution

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**Gerald Cooper**  
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## LP Relationship Managers

|   |   |  |
|---|---|--|
| <p><b>Mark Bourgeois</b><br/>                 Managing Director<br/>                 Nashville, TN<br/>                 +1 (615) 750-8333<br/>                 mark.bourgeois@ubs.com</p> | <p><b>James Moore</b><br/>                 Managing Director<br/>                 London, UK<br/>                 +44 207 568 4297<br/>                 james.moore@ubs.com</p> | <p><b>Philip Yau</b><br/>                 Executive Director<br/>                 San Francisco, CA<br/>                 +1 (415) 352-5688<br/>                 philip.yau@ubs.com</p> |
|---|---|--|

Note:

1 Global Head of the Private Equity Funds Group

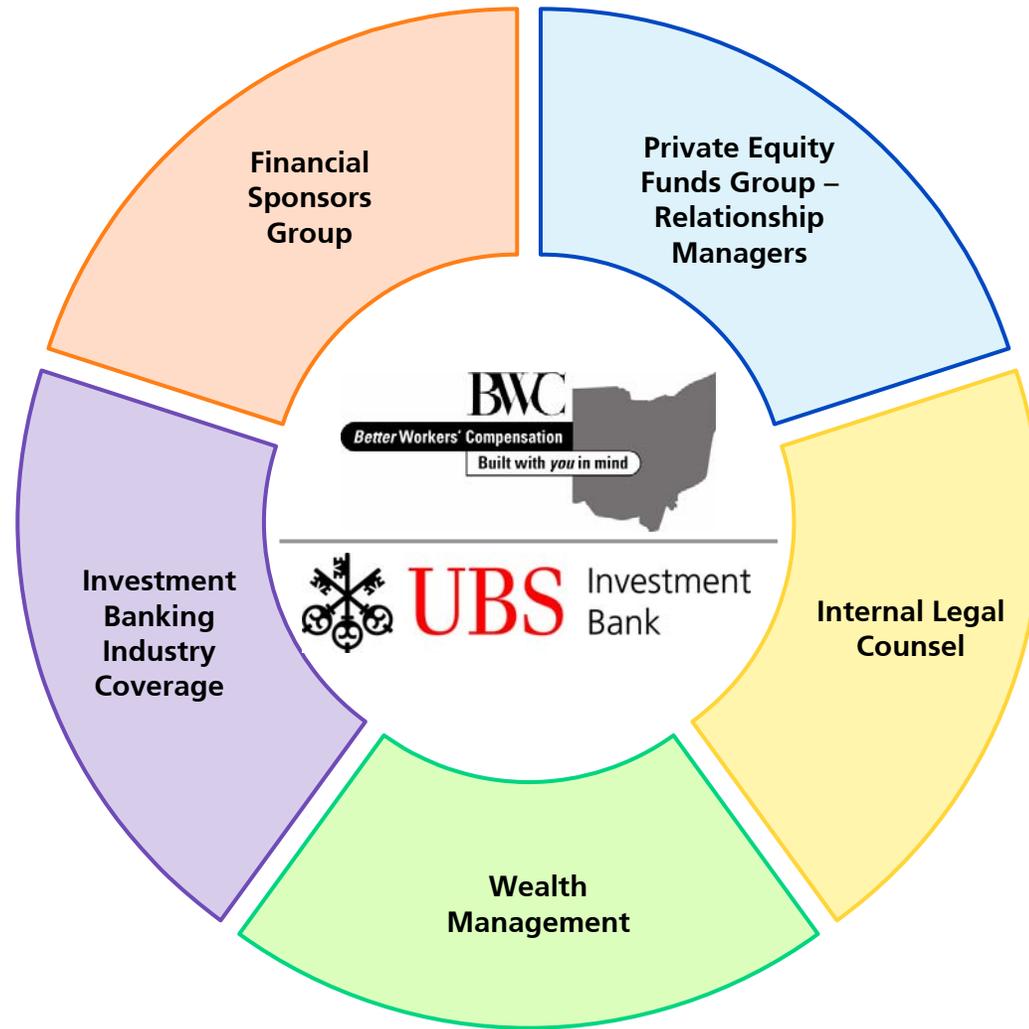
SECTION 3

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## UBS Advantage

# The Firm's Role in Ohio BWC's Transaction

UBS is uniquely positioned to leverage the resources of a leading global financial institution



## Private Equity Funds Group – Relationship Managers

- ◆ UBS's LP Relationship Managers represent a significant distribution network comprising nearly 3,000 distinct private equity investors globally

## Internal Legal Counsel

- ◆ UBS's internal legal counsel provides significant support throughout the transaction in reviewing, drafting and negotiating certain legal documents

## Wealth Management

- ◆ UBS's Wealth Management business group has a significant presence in Ohio and could be helpful in suggesting potential purchasers for the smaller state specific fund interests

## Investment Banking Industry Coverage

- ◆ UBS's dedicated industry coverage bankers can provide unique insights into key portfolio companies, enabling us to identify the key value drivers for the portfolio price

## Financial Sponsors Group

- ◆ UBS's strong relationships with the GP community assists in smoothly guiding clients through the fund transfer process

# The Benefits of Advice from UBS

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## Maximize Price

- ◆ Extensive knowledge of the buyer universe, sold to 51 buyers since 2004
- ◆ Execute tight auction process to make sure that no money is “left on the table”

## Fulfill Fiduciary Duty

- ◆ Truly independent source of validation from a well capitalized, highly regulated and globally respected firm
- ◆ We believe working with UBS involves little reputation risk for our clients because we zealously guard our reputation for integrity and honesty

## Process Management

- ◆ Assume the administrative burden of managing a complex and time intensive process
- ◆ Avoid costly procedural errors

## Leverage in Due Diligence and Transfer Process

- ◆ UBS institutional relationships with sponsors through our Financial Sponsors, Fundraising, Lending and Sector Coverage teams ensures GP assistance — boutiques have no leverage

## Confidentiality

- ◆ As a Swiss organization, UBS understands the importance of discretion and confidentiality when dealing with clients

## Buyer Perception

- ◆ Demonstrate that the sale opportunity is real and not speculative
- ◆ Sold to a number of buyers, very strong market recognition, will ensure your transaction is treated with the respect it deserves

## Structured Transaction Expertise

- ◆ Completed one of the first and largest structured private equity joint ventures

# Key Differentiating Factors Between UBS and Our Competitors

UBS is the only firm to combine the experience and resources of a global investment bank with a detailed understanding of private equity secondary transactions



## Competitors

|  | UBS  | Competitors   |
|--|--|---|
| <b>Conflicts of Interest</b>                   | <ul style="list-style-type: none"> <li>◆ <u>No conflicts.</u> Our team is dedicated exclusively to advising sellers in private equity secondary transactions</li> <li>◆ UBS does not purchase secondary interests</li> <li>◆ <u>No distractions from other businesses</u></li> </ul>   | <ul style="list-style-type: none"> <li>◆ <u>Some of our competitors operate in a number of different capacities,</u> including offering portfolio management services, providing buy side advisory services and purchasing secondary interests</li> </ul>     |
| <b>Experience Executing Large Transactions</b> | <ul style="list-style-type: none"> <li>◆ UBS has <u>completed some of the largest secondary transactions in the market,</u> both in terms of value and number of funds</li> <li>◆ UBS understands the “pitfalls” that can occur in a large transaction</li> </ul>  | <ul style="list-style-type: none"> <li>◆ Many of our competitors only have <u>experience executing small transactions</u> and do not have the breadth of experience or resources that UBS can access</li> </ul>   |
| <b>Structured Transaction Experience</b>       | <ul style="list-style-type: none"> <li>◆ UBS completed one of the largest joint venture secondary sales</li> <li>◆ UBS’s <u>experience with complex transactions</u> enhances the level of service and solutions that we can provide to our clients</li> </ul>   | <ul style="list-style-type: none"> <li>◆ Minimal structured transaction experience</li> <li>◆ Focused primarily on ‘plain vanilla’ straight sales</li> <li>◆ <u>No experience in providing complex solutions or managing a complicated process</u></li> </ul> |
| <b>Network of Potential Buyers</b>             | <ul style="list-style-type: none"> <li>◆ Through our Private Equity Funds Group, UBS has an <u>extensive network of LP relationships around the globe</u> covered by our dedicated LP relationship managers</li> </ul>   | <ul style="list-style-type: none"> <li>◆ Boutiques have more limited resources and capabilities</li> <li>◆ Generally, <u>smaller sales force with a much more narrow reach,</u> potentially limiting ability to identify best investor candidates</li> </ul>  |
| <b>Resources</b>                               | <ul style="list-style-type: none"> <li>◆ <u>Strong GP relationships</u> through other areas within the investment bank: Fundraising and Financial Sponsors</li> <li>◆ In-depth experience in all major industry sectors through investment banking coverage groups</li> <li>◆ <u>Ability to pull resources from the greater PEFG as necessary to meet tight deadlines</u></li> </ul> | <ul style="list-style-type: none"> <li>◆ <u>Boutique firms have limited additional resources</u></li> <li>◆ Few GP relationships</li> <li>◆ Limited resources can create delays in the execution timeline</li> </ul>  |
| <b>Legal</b>                                   | <ul style="list-style-type: none"> <li>◆ <u>Internal counsel with significant experience reviewing, drafting and negotiating legal documentation</u> used in the secondary sale process</li> <li>◆ UBS strictly follows transfer procedures outlined by each respective GP - <u>reputational risk is too great for UBS to “cut corners”</u></li> </ul>                               | <ul style="list-style-type: none"> <li>◆ Our competitors rely on external counsel, which adds to the cost of the transaction</li> </ul>   |

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## Conflicts of Interest

# Managing Potential Conflicts of Interest

The PEFG does not provide portfolio management advice, nor does it manage any private equity funds or private equity portfolios that could conflict with the BWC's potential transaction

| Potential Conflict   | Level of Conflict          | Current Status   | Future Potential   | Mitigating Factors  |
|--|----------------------------|--|--|---|
| <ul style="list-style-type: none"> <li>◆ There are no current conflicts</li> <li>◆ Potential future conflicts could include UBS conducting business with a prospective buyer(s) or taking an equity interest in a prospective buyer(s)</li> <li>◆ Potential conflicts would be flagged by a dedicated compliance team assigned to the BWC transaction</li> </ul> | UBS Group                  | <ul style="list-style-type: none"> <li>◆ Potential client relationships</li> <li>◆ No direct ownership interests in prospective buyers</li> </ul>                                      | <ul style="list-style-type: none"> <li>◆ May pursue client relationships</li> <li>◆ Not an active investor</li> </ul>                        | <ul style="list-style-type: none"> <li>◆ Guidelines in place to identify and properly manage conflicts</li> <li>◆ Information barriers</li> <li>◆ Highly regulated entity</li> </ul>  |
|  | UBS Investment Bank        | <ul style="list-style-type: none"> <li>◆ No direct ownership interests in prospective buyers</li> <li>◆ Minimal amount of business with prospective buyers since 1998</li> </ul>       | <ul style="list-style-type: none"> <li>◆ Not an active investor</li> <li>◆ Prospective buyers do not represent a core client base</li> </ul> | <ul style="list-style-type: none"> <li>◆ Formal "Conflict Clearance" process</li> <li>◆ Must present potential mandates to a Business Review Group</li> <li>◆ Compliance department actively involved</li> </ul>            |
|  | Private Equity Funds Group | <ul style="list-style-type: none"> <li>◆ No client relationships with prospective buyers for fundraising or buy side advisory work</li> </ul>  | <ul style="list-style-type: none"> <li>◆ No fundraising or buy side client relationships contemplated</li> </ul>                             | <ul style="list-style-type: none"> <li>◆ Would disclose to the BWC prior to committing to such mandates</li> </ul>  |
|  | Secondary Advisory Team    | <ul style="list-style-type: none"> <li>◆ No direct ownership interests in prospective buyers</li> <li>◆ No buy side mandates</li> <li>◆ Do not purchase secondary interests</li> </ul> | <ul style="list-style-type: none"> <li>◆ No intention to offer buy side advisory services</li> </ul>   | <ul style="list-style-type: none"> <li>◆ All future potential conflicts would be disclosed and discussed with the BWC prior to their occurrence</li> <li>◆ If required, Nigel Dawn will end involvement with LCP</li> </ul> |

Note: Certain parts of UBS Group, outside of UBS Investment Bank, are separately operated and may now or in the future determine to manage private equity portfolios or purchase private equity secondaries. The PEFG and the Secondary Advisory Team have no control and often limited information with respect to the private equity activities of entities outside of the investment bank

SECTION 5

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## Secondary Private Equity Engagements

# UBS's Secondary Expertise

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UBS has deep secondary experience representing over \$4 billion of original commitments<sup>1</sup> encompassing a broad range of assets and transaction structures

## Transactions Completed

### Types of Assets Included:

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- ◆ Buyout Funds
- ◆ Venture Funds
- ◆ Real Estate Funds
- ◆ Fund of Funds
- ◆ Special Situation Funds
- ◆ Direct Equity Investments

**\$4 billion of Original  
Commitments<sup>1</sup>**  
**260 PE Funds**  
**158 Directs**

### Transaction Types Included:

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- ◆ Limited Auctions
- ◆ Full Auctions
- ◆ Structured Negotiated Sales
- ◆ Synthetic Secondary
- ◆ Negotiated Sales
- ◆ Joint Venture Structures

We have developed a clear understanding of a seller's key issues, cultivated deep relationships with secondary buyers, and demonstrated superior execution capabilities

Note:

<sup>1</sup> Based on the total commitments of 21 transactions and the net asset value of 3 transactions

# Avoiding Potential “Pitfalls” in Secondary Transactions

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The complex nature of a secondary transaction can present many “pitfalls” if not managed correctly

- ◆ Developing the right strategy, process and approach for negotiations with final bidders will help maximize price
  - Understanding the dynamics of the auction process and bidder gaming techniques
- ◆ Knowing which buyers to engage is important, as some buyers will have a preference for certain types of assets. Inviting a sub-optimal group of investors will waste time, resources and lead to an inferior economic result
  - Extensive knowledge of the key buyer universe and experience in working with the most active bidders
- ◆ The following factors should be paramount in the consideration of a secondary sale
  - Running a tightly controlled and competitive auction process with an appropriate number of well-qualified potential buyers will yield the best result for a seller — buyers will try to preempt the process with speculative non-binding offers which should be resisted
  - Given the resource intensive nature of a secondary sale, having a large dedicated team of experienced professionals is essential to a smooth execution process
  - Ensuring the advisor’s interests are aligned with seller’s is crucial — hiring an advisor with potential or perceived conflicts can send a mixed message to the market that could jeopardize an auction process
- ◆ Understanding and addressing GP concerns about the process is important. Also, utilizing institutional relationships will help expedite the transfer process
- ◆ Detailed comprehension of the fund limited partnership agreements and private equity fund financial statements — an experienced execution team will know what to look for
  - Provisions in the limited partnership agreements regarding GP consents, confidentiality, ROFRs and ERISA can have a substantial impact on the success of an auction
  - There is no standard for reporting GP financials. The manner in which gains, losses, calls and distributions are accounted for can have a significant bearing on purchase price

# Case Study: Completed One of the Largest Secondary Transactions

## UBS has a demonstrated track record in executing and managing the sale of large private equity portfolios

### Overview

- ◆ Having initiated the process in 2002, UBS completed one of the largest joint venture secondary sales in October 2003
- ◆ Transferred over \$1 billion in total commitments representing 53 buyout and venture funds spanning a wide range of vintages
- ◆ Client objectives were: (i) maximize price, (ii) reduce risk, (iii) retain some upside exposure to the portfolio and (iv) maintain General Partner (“GP”) relationships

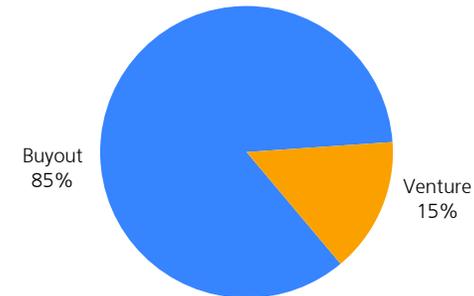
### Approach

- ◆ UBS reviewed several options for the secondary sale, including a full auction, negotiated sale, CDO securitization, total return swap and several other alternatives
- ◆ UBS analyzed more than \$2 billion in original commitments in order to determine the optimum mix of assets for the sale
- ◆ Limited partnership agreements and financials for 53 funds were evaluated thoroughly to appropriately structure the transaction

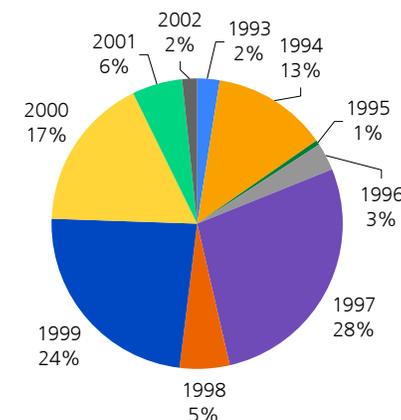
### Transaction Challenges

- ◆ In 2002, the secondary market was still nascent, GP cooperation was unpredictable and assets were being discounted steeply
- ◆ A number of the funds had ROFRs that needed to be factored into the deal
- ◆ A number of the funds had ERISA issues that created the need to restructure certain aspects of the transaction
- ◆ The large number of funds and size of the transaction required a superior level of understanding of the secondary sale process and potential pitfalls of a transaction

### Fund Strategy as a Percentage of the Total NAV



### Vintage Breakdown as a Percentage of the Total NAV



### Result

- ◆ After receiving bids that came in at a substantial discount to net asset value (“NAV”), the seller decided to create a structured sale
- ◆ The final transaction enabled the seller to dispose of the portfolio at an attractive price and retain some potential upside
- ◆ UBS closed one of the largest joint venture secondary sales

# Case Study: Portfolio Auction Including 95 Private Equity Interests

Extensive experience and resources have enabled UBS to process some of the most complex deals

## Overview

- ◆ In March 2005, UBS was engaged by a large US investment manager to seek bids on a portfolio of 31 LP interests and 64 direct investments
- ◆ Total NAV of the portfolio was approximately \$1 billion
- ◆ The portfolio was largely US focused. The fund exposure was approximately 60% buyout and 40% venture
- ◆ Client objectives were: (i) price, (ii) timing and (iii) incremental capital for new investments (in addition to sale proceeds)

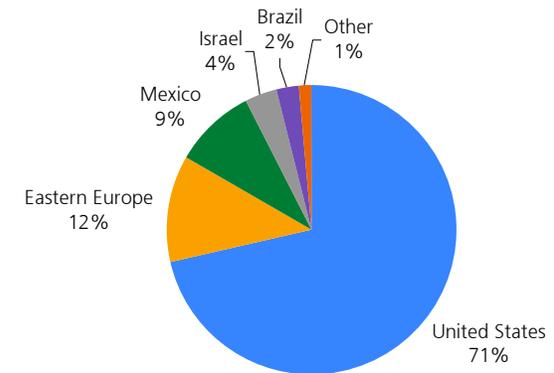
## Approach

- ◆ The client and UBS made a strategic decision to keep a limited number of bidders involved
  - This ensured that the bidders we selected would be fully engaged
  - Helped expedite the process from a timing standpoint
- ◆ UBS analyzed 95 unique investment positions and prepared a detailed due diligence book for investors in four weeks
- ◆ In the final round of bidding, UBS provided strategic advice to the seller and facilitated complex negotiations with three final bidders

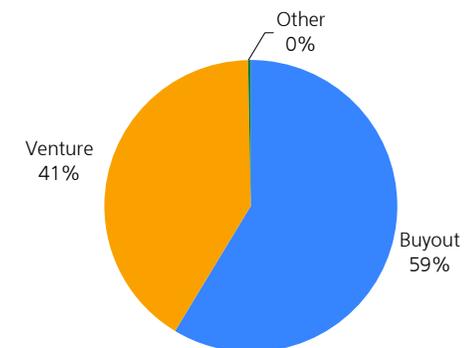
## Transaction Challenges

- ◆ UBS was only allowed to share a limited amount of information with bidders
- ◆ Accelerated transaction timeline due to seller led constraints
- ◆ The portfolio of direct investments included a number of public positions—typically more difficult for secondary investors to value

## Geographic Scope as a Percentage of the Total NAV



## Fund Strategy as a Percentage of the Total NAV



## Result

- ◆ Investor bids received were up to 95% of NAV
- ◆ Completed bidding process in two months
- ◆ Despite considerable demand for the assets, the seller decided to retain ownership of the portfolio for strategic reasons

SECTION 6

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## Summary Portfolio Review



SECTION 7

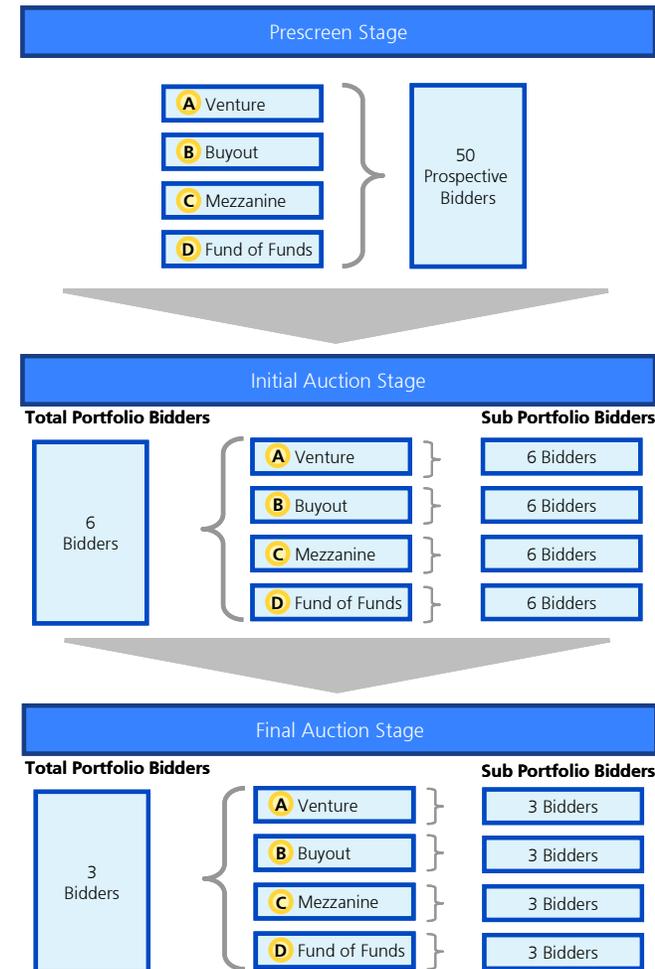
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# Transaction Approach

# Review of Our Proposed Transaction Approach

UBS believes segmenting the portfolio into subsets will maximize the level of demand generated for the secondary sale and ultimately the aggregate price for the portfolio

- ◆ Essentially, run a dual track auction for the entire portfolio and the sub portfolios
  - There are a relatively small number of buyers that would be able to acquire the entire portfolio
  - Segmenting the portfolio into more manageable sizes allows us to maximize competitive tension within each sub-portfolio group
  - Bidders may be able to identify value of smaller funds that would not have been actively considered within a larger portfolio
- ◆ Running a dual process provides the flexibility to simultaneously evaluate portfolio bids from large investors that have the motivation and resources to put large amounts of capital to work
- ◆ We would require “line by line” pricing on each asset in order to determine if better prices can be obtained for certain assets on an individual basis
- ◆ Syndicates would need to be pre-cleared in order to avoid potential “gaming” tactics used by bidders
- ◆ We believe that grouping funds by investment strategy is the most appropriate approach
  - Bidders have clear preferences for certain investment strategies
  - Not all buyers will want to acquire mezzanine and fund of funds assets (also fund of fund managers will be selective in who they transfer to)
  - The prescreen process will enable us to group investors by their existing level of knowledge of the assets
- ◆ A two-stage auction approach would be utilized to assist in narrowing the field to the top three bidders for each sub-portfolio and the entire portfolio



# Target Buyer Universe

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## UBS uses a detailed prescreening process to ensure that the most appropriate investors are included in the process

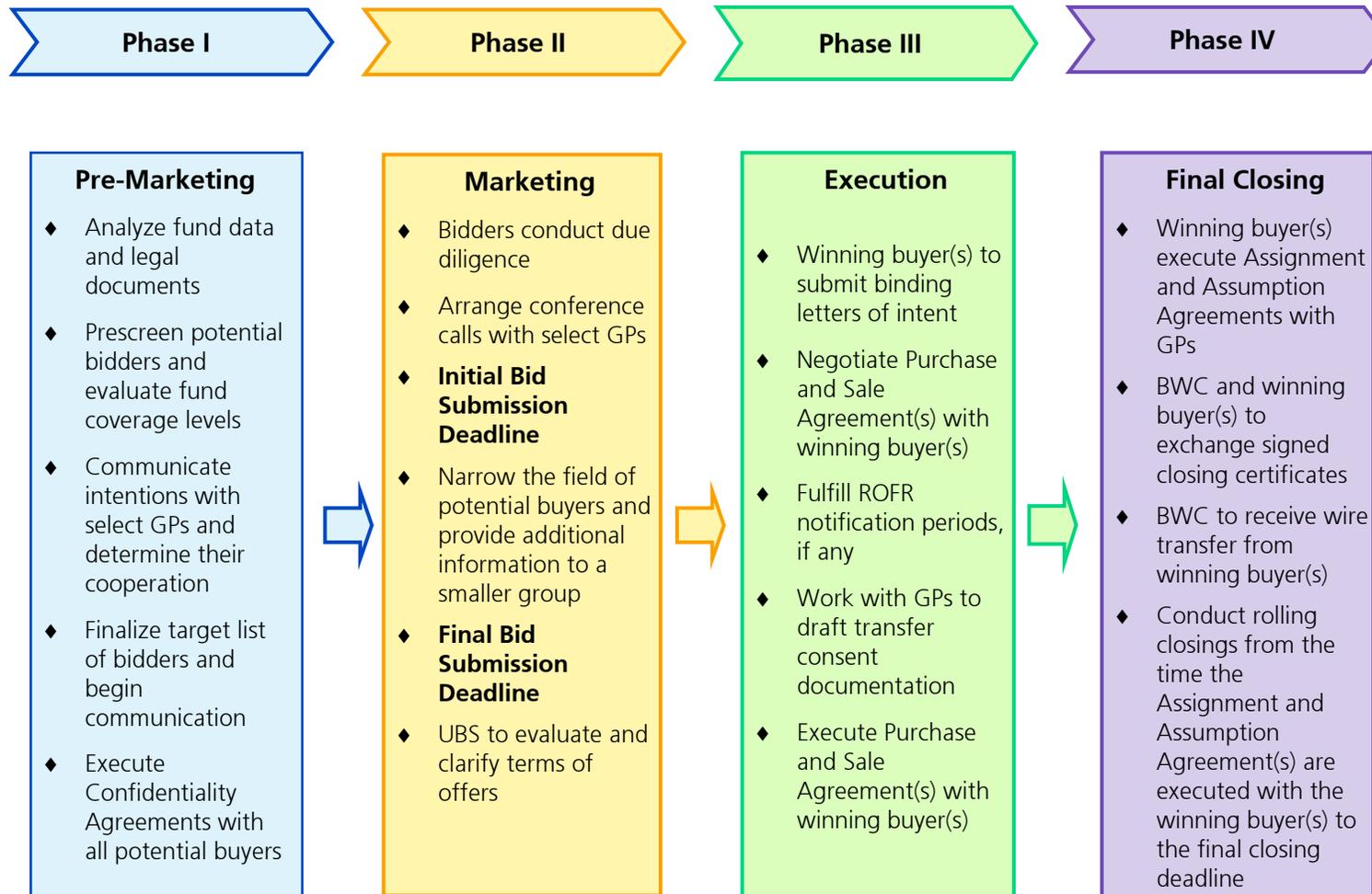
- ◆ UBS would pre-qualify investors to include in the prescreening process
- ◆ Investors would be selected to participate in the auction primarily based on the following factors:
  - The indicative prices they submit for the assets
  - Knowledge of the funds in the portfolio
  - Stated preference for a particular investment strategy or group of funds
  - Size and likelihood of being able to close a transaction in a timely manner
- ◆ We would envision having no more than 30 bidders in the initial stage of the auction and narrowing this down to 15 bidders in the final stage of the auction
- ◆ The universe of buyers will include:
  - Dedicated secondary funds that only acquire secondary interests and are typically highly motivated buyers of the asset class
  - Primary fund of funds who in some cases have a clear advantage in terms of access to information, which enables them to price more aggressively than other bidders
  - Non-traditional buyers, such as pension funds and endowments. With lower costs of capital than traditional secondary buyers, these investors can prove to be strong bidders for assets that they know well
  - Corporate fund managers that use the secondary market for strategic reasons and to access highly sought after GPs or funds
  - Hedge funds who have recently become more active in the private equity space and particularly the secondary private equity market where shorter investment horizons make exposure more attractive than traditional primary LP positions
  - High net worth families seeking to quickly increase their exposure to alternative asset investments
- ◆ Each type of bidder will have a different perspective on the assets depending on how active they are in the market, whether they are already an existing LP in the fund, the targeted return that they are mandated to provide, the level of capital they have available to invest, their willingness to use leverage, and many other idiosyncratic factors
- ◆ UBS's knowledge of the dynamic secondary investor landscape will be a critical component in the BWC's secondary sale process

SECTION 8

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## Secondary Sale Process

# Proposed Transaction Timeline



# Detailed Review of the Secondary Sale Process

| Transaction Stage  | Weeks  | Task   | Responsibility  |
|--|--|--|---|
| <b>Pre-Marketing</b>   | <b>1-7</b>   |  |   |
|  | 1  | ◆ Organizational Meeting   | BWC, UBS, BWC's Counsel   |
|  | 1-3  | ◆ UBS to gather fund information that is currently available and detail key pieces of missing information  | BWC, UBS  |
|  |  | – quarterly reports  |   |
|  |  | – capital account balance statements   |   |
|  |  | ◆ Review limited partnership agreements (“LPAs”) for confidentiality clauses, ROFR provisions, ERISA restrictions and any other potential transfer obstacles | BWC's Counsel, UBS  |
|  |  | ◆ Finalize transaction process and timetable   | BWC, UBS  |
|  |  | ◆ Negotiate and finalize contract with electronic data room provider   | BWC, UBS ,BWC's Counsel   |
|  |  | ◆ Prescreen prospective bidders, only selecting buyers that are highly motivated to participate in the auction   | UBS   |
|  |  | ◆ Determine common key funds for which bidders will request information  | UBS   |
|  |  | ◆ Prepare Request for Proposals document detailing portfolio for sale, process guidelines and timetable  | UBS, BWC's Counsel  |
|  |  | 4-7  | ◆ Finalize list of bidders to be included in initial stage of process. Communicate general guidelines and process |
|  | ◆ Contact GPs to get necessary approvals to share confidential information, execute Notice and Consent Agreements  |  | UBS, BWC's Counsel  |
|  | ◆ Understand the GPs' due diligence parameters and willingness to cooperate  |  | BWC, UBS  |
|  | ◆ Execute confidentiality agreements with each of the bidders  |  | UBS, BWC's Counsel  |
| ◆ Upload due diligence information into electronic data room | UBS  |  |   |
|  | ◆ Distribute Request for Proposals document to bidders. Request asset by asset pricing as well as a portfolio bid, incorporating a potential portfolio premium | UBS  |   |
| <b>Marketing</b>   | <b>8-13</b>  |  |   |
|  | 8-10   | ◆ Open electronic data room to all bidders   | UBS   |
|  |  | ◆ Bidders conduct due diligence. Answer bidders' questions on the portfolio and process  | UBS, Bidders  |

# Detailed Review of the Secondary Sale Process

| Transaction Stage   | Weeks                                  | Task  | Responsibility                  |
|---|--|---|---------------------------------|
| <b>Marketing</b> (cont'd)                                 |  | ◆ Initial Bid Submission Deadline   | UBS, Bidders                    |
|   |  | ◆ Select final round bidders  | BWC, UBS                        |
|   | 11–12                                  | ◆ Reopen electronic data room with additional information   | UBS                             |
|   |  | ◆ Maintain discussions with bidders to ensure competitive tension                                     | UBS                             |
|   |  | ◆ Work with the BWC's counsel to prepare the Purchase and Sale Agreement(s)                           | BWC's Counsel, UBS              |
|   |  | ◆ Final Bid Submission Deadline   | UBS                             |
|   | 13                                     | ◆ Evaluate bids and ask potential buyers clarifying questions   | BWC, UBS                        |
|   | ◆ Select winning solution and buyer(s) | BWC, UBS  |                                 |
| <b>Execution</b>  | <b>14–17</b>                           |   |                                 |
|   | 14–15                                  | ◆ Sign binding letters of intent with winning buyer(s)  | BWC, Bidders                    |
|   |  | ◆ Negotiate and execute Purchase and Sale Agreement(s)  | BWC's Counsel, BWC, UBS, Buyers |
|   | 14–17                                  | ◆ Work with GPs of funds to transfer LP interests and execute Assignment and Assumption Agreements    | BWC, BWC's Counsel, UBS         |
|   |  | ◆ Winning buyer(s) to fill in Subscription Agreements   |                                 |
| ◆ BWC to prepare wiring instructions for winning buyer(s) |  | BWC   |                                 |
| <b>Closing</b> <sup>1</sup>                               | <b>18–22</b>                           |   |                                 |
|   | 18–21                                  | ◆ Receive signed Assignment and Assumption Agreements from GPs  | BWC, UBS                        |
|   |  | ◆ Finalize and sign all legal documentation   | BWC, BWC's Counsel, Buyer(s)    |
|   | 22                                     | ◆ Closing—exchange signed Closing Certificates and BWC to receive wire transfer from winning buyer(s) | BWC, BWC's Counsel, Buyer(s)    |

Note:

<sup>1</sup> Assumes no delays from ROFR provisions

SECTION 9

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# Fee Proposal

# Proposed Fee Structure

## UBS's proposed fee structure directly aligns our interests with the BWC

UBS's proposed fee structure is comprised of two components

- ◆ Monthly retainer fee of \$155,000<sup>1</sup>, which would be entirely offset against the success fee
- ◆ A success fee equal to 1.65%<sup>1</sup> of the proceeds received by the BWC upon the sale of all, or a portion, of the BWC Portfolio

| % (Disc.) / Prem. | Purchase Price <sup>2</sup> | Transaction Fee <sup>3</sup> | Fee Rate |
|-------------------|-----------------------------|------------------------------|----------|
| 10.0%             | 432,581,269                 | 7,137,591                    | 1.65%    |
| 8.0%              | 424,716,155                 | 7,007,817                    | 1.65%    |
| 6.0%              | 416,851,041                 | 6,878,042                    | 1.65%    |
| 4.0%              | 408,985,927                 | 6,748,268                    | 1.65%    |
| 2.0%              | 401,120,813                 | 6,618,493                    | 1.65%    |
| 0.0%              | 393,255,699 <sup>4</sup>    | 6,488,719                    | 1.65%    |
| (2.0%)            | 385,390,585                 | 6,358,945                    | 1.65%    |
| (4.0%)            | 377,525,471                 | 6,229,170                    | 1.65%    |
| (6.0%)            | 369,660,357                 | 6,099,396                    | 1.65%    |
| (8.0%)            | 361,795,243                 | 5,969,622                    | 1.65%    |
| (10.0%)           | 353,930,129                 | 5,839,847                    | 1.65%    |

Notes:

- 1 There will be no other fees for services other than noted above. This confirms and clarifies from the first submission all aspects of our fee proposal presented on page 41 of the original RFP submission, dated June 15, 2006
- 2 Assumes no capital calls or distributions since 12/31/05
- 3 Transaction Fee equals the Purchase Price multiplied by the Fee Rate
- 4 BWC reported market value as of 12/31/05

SECTION 10

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## Legal Aspects

# Role of Legal Counsel and Estimated Cost

In addition to providing the BWC with general legal advice, counsel will also be largely responsible for drafting and negotiating the following legal documents

| Stage                | Document                                   | Description   |
|----------------------|--|---|
| <b>Pre-Marketing</b> | Review of Limited Partnership Agreements   | <ul style="list-style-type: none"> <li>Review each limited partnership agreement to verify key provisions which may in turn dictate certain process methodology and ensure that rules and restrictions are followed</li> </ul>  |
|                      | Notice of Consent                          | <ul style="list-style-type: none"> <li>Notification to the GP regarding the transaction and request for approval to share specific information with bidders</li> <li>This document is not always required, it will depend on the confidentiality provision stated in the Limited Partnership Agreement</li> </ul> |
|                      | Confidentiality Agreements                 | <ul style="list-style-type: none"> <li>Must be signed before bidders can review LP information</li> <li>Typical term is 1 - 2 years</li> </ul>  |
| <b>Execution</b>     | Sale and Purchase Agreement                | <ul style="list-style-type: none"> <li>Contains detailed terms of the sale, representation and warranties, indemnification clause, etc.</li> <li>May be signed prior to receiving all transfer consents provided contingencies are agreed upon</li> </ul>   |
|                      | Deed of Adherence / Subscription Agreement | <ul style="list-style-type: none"> <li>Outlines the terms under which the GP will allow the buyer(s) to subscribe to an interest in the fund</li> <li>Will be signed once the GP has consented to the transfer</li> </ul>   |
|                      | Assumption and Assignment Agreement        | <ul style="list-style-type: none"> <li>Formally represents the transfer of all rights, title and interest in the fund</li> <li>Represents GP's consent to the transfer of the fund</li> </ul>   |

| Stage                 | Estimated Legal Expenses <sup>1</sup> | Description   |
|-----------------------|---------------------------------------|---|
| <b>Entire Process</b> | \$340,000 GP Transfer Expenses        | <ul style="list-style-type: none"> <li>Seller will be responsible for any legal fees incurred by the GPs</li> </ul>           |
|                       | \$350,000 Seller Legal Counsel        | <ul style="list-style-type: none"> <li>Expected seller's external legal fees assuming a well run efficient process</li> </ul> |
|                       | \$690,000 Total Legal Fees            | <ul style="list-style-type: none"> <li>This estimate is based on actual feedback from an experienced US firm</li> </ul>       |

Note:  
<sup>1</sup> Revised from submitted Request for Proposal

# Potential Technical Issues to Consider

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UBS's experience in executing large-scale, complex secondary transactions can help the BWC to identify and appropriately address any technical issues early on

## Rights of First Refusal ("ROFRs")

- ◆ ROFR provisions call for a notice period where the private equity interest for sale will be offered to other LPs, and occasionally the GP, at the offer price proposed by the buyer
- ◆ Notice periods are typically between 15 to 45 days, but can delay a transaction from closing or, if exercised, change the transaction materially

## General Partner Consents

- ◆ GP consent is almost always required to execute a transfer and is usually provided at the sole discretion of the GP
- ◆ Quite often the limited partnership agreement will state that the GP's consent will not be unreasonably withheld
- ◆ Some GPs, usually of the larger funds, will only provide consent to transfer to existing LPs

## Confidential Information

- ◆ Some GPs permit the sharing of confidential information without their consent and others require special consent
- ◆ In most instances, there are carve outs for financial advisors and other professional service providers of the LPs
- ◆ The level of information provided to prospective buyers can impact the success of the transaction

## ERISA

- ◆ Potential buyer selection will be influenced by the ERISA provisions of the funds (e.g., some funds that are not venture capital operating companies ("VCOs") will have a 25% cap on ERISA money)
- ◆ There are significant implications for the funds and investors for breaching ERISA regulations

## Tax

- ◆ Need to ensure the potential buyers are able to handle any potential unique tax situations (e.g., UBTI)

APPENDIX A

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# Biographies

# Biographies

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## Execution Team

### **Nigel Dawn**

#### **Managing Director, Head of Secondary Market Advisory Team**

Nigel Dawn is head of UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. He joined the firm in 1997 within the fixed income area before taking responsibility for making direct equity investments to support the strategic aims of UBS Investment Bank business areas as part of the e-commerce function. Most recently, he was head of UBS Investment Bank's Third Party Private Equity Funds Team. As part of this role, he structured and executed a \$1.3 billion joint venture between UBS and HarbourVest Partners, Tresser, L.P., and reduced private equity exposure by selling third party funds. Prior to UBS, Nigel worked in the Financial Services Practice at Booz, Allen & Hamilton in New York and prior to that was based in Asia with Standard Chartered Bank. He graduated from Newcastle University with a Bachelor of Arts degree in East Asian Politics and earned his MBA at Columbia Business School.

### **Philip Tsai**

#### **Executive Director, Secondary Market Advisory**

Philip Tsai is an Executive Director in UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. He joined the firm in 2001 to make strategic investments for UBS Investment Bank. More recently, as a member of the Third Party Private Equity Funds Team, he helped manage a \$2 billion portfolio of funds and execute a \$1.3 billion joint venture between UBS Investment Bank and HarbourVest Partners, Tresser, L.P. Prior to UBS Investment Bank, Phil made early-stage investments with Telligent Capital, a venture capital firm based in New York. Prior to that, he executed and monitored private equity investments throughout Asia at Newbridge Capital in Hong Kong. Earlier in his career, he analyzed proposed mergers, divestitures, acquisitions, leveraged buyouts, and joint ventures in the Mergers, Acquisitions, and Restructuring Department at Morgan Stanley in New York. Phil graduated from Brown University, magna cum laude, with a Bachelor of Arts degree in Economics and earned his MBA at Harvard Business School.

# Biographies

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## Execution Team

### **Gerald Cooper**

#### **Director, Secondary Market Advisory**

Gerald Cooper is a Director in UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. Prior to UBS Investment Bank, he was an investment professional with Advantage Capital Partners focusing on growth stage equity and mezzanine investments. Prior to that, he was with Deutsche Bank in their Equity Capital Markets Group. Gerald also worked in Bankers Trust's Corporate Finance Group where he executed convertible bond and high yield offerings, financial restructurings, and financial sponsor transactions. Gerald graduated from Bryant University, magna cum laude, with a Bachelor of Science degree in Business Administration and earned his MBA at Harvard Business School.

### **Jarrett Vitulli**

#### **Associate Director, Secondary Market Advisory**

Jarrett Vitulli is an Associate Director in UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. He joined the firm in 2006 from Sovereign Investment Company, a leading real estate private equity firm, where he was responsible for sourcing and structuring investment opportunities. Prior to that, Jarrett worked in Citigroup's Merger and Acquisition practice where he focused on the real estate, consumer and industrial sectors. He also worked at Prudential Capital Group where he invested in leveraged loan transactions. Jarrett graduated from The College of New Jersey with a Bachelor of Science degree in Business Administration and earned his MBA with High Distinction at the University of Michigan. Jarrett is also a Chartered Financial Analyst.

# Biographies

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## Execution Team

### **Michael Hacker**

#### **Associate Director, Secondary Market Advisory**

Michael Hacker is an Associate Director in UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. Prior to UBS Investment Bank, Mike was a Summer Associate in the fixed income department at JP Morgan & Co. focusing on high yield securities and credit derivatives. Previously, he worked in the Leveraged Finance Group at CIBC World Markets where he structured and executed high yield, leveraged loan and mezzanine financings, primarily for financial sponsor related companies. Mike graduated from Williams College, cum laude, with a Bachelor of Arts degree in History and earned his MBA from the Wharton School of the University of Pennsylvania.

### **Pratibha Vuppuluri**

#### **Analyst, Secondary Market Advisory, New York**

Pratibha Vuppuluri is an Analyst in UBS Investment Bank's Secondary Market Advisory Team and is based in New York, NY. Prior to joining UBS Investment Bank in 2005, she worked as an Investment Banking Analyst in the Health Care Group at Deutsche Bank where she assisted in merger and acquisition transactions and equity transactions. Pratibha graduated from Cornell University with a Bachelor of Science degree in Applied Economics and Management with Distinction in Honors Research.

# Biographies

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## Senior Sponsorship and LP Relationship Managers

### **Richard Allsopp**

#### **Managing Director, Global Head of Private Equity Funds Group**

Richard Allsopp is head of UBS Investment Bank's Private Equity Funds Group and is based in London, UK. He joined the firm in 1998 to work on primary placements in the Investment Funds Team. He has been involved in a number of major transactions within the investment funds sector including most recently Blackstone Capital Partners IV, the Candover 2001 Fund, Gores Capital Partners, JW Childs Equity Partners III, Pequot Private Equity Partners III, Pacific Corporate Group Special Situations I, Swander Pace Capital III, Sterling Investment Partners, and Warburg Pincus Private Equity VIII. Prior to joining UBS Investment Bank, he worked at ING Baring Securities Ltd., setting up their closed-end fund business in 1990 and their global emerging markets equity business in 1993.

### **Mark Schroeder**

#### **Managing Director, Global Head of Financial Sponsors Advisory**

Mark Schroeder joined the PEFG in 2003. Previously, he was a Managing Director of Donaldson, Lufkin & Jenrette in the Private Funds Group, which he joined in 1997 from Merrill Lynch's Private Equity Group. He became Managing Director of CSFB upon DLJ's acquisition in November 2000. He has led fundraisings on a global basis for Apollo (IV & V), Apollo Real Estate (III & IV), Brentwood, DLJ Real Estate, Harvest, Kelso, GMT Communications, Industri Kapital (2000 & 2002), Latin America Capital Partners, PAI partners, Rutland, Spectrum and Westbrook. Mark has also significant experience executing secondary private equity transactions having advised on transactions encompassing over \$1.3 billion in Net Asset Value and over 250 distinct funds. Prior to that, he had specialized in cross border tax-advantaged debt and equity private placements at Merrill Lynch, D'Accord Financial Services and Prudential-Bache. Mr. Schroeder earned an M.B.A. from the Darden School, University of Virginia and a B.S. from the United States Military Academy at West Point. He served as a Commissioned Officer in the US Army Field Artillery for five years.

# Biographies

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## Senior Sponsorship and LP Relationship Managers

### **Mark Bourgeois**

#### **Managing Director, Head of North American Distribution**

Mark Bourgeois is the head of the North American Distribution force for UBS Investment Bank's Private Equity Funds Group. He is a Managing Director and covers limited partners in the Midwest, Southwest, and Southeastern United States. Mark has been involved in representing GPs in the private equity community to institutional investors for five years. He has successfully participated in raising funds for Blackstone, Warburg Pincus, Gores Technology Group, Swander Pace, 3i, PCG Special Situation Partners, Leeds Weld, Lineage, Lincolnshire, and a number of additional funds with various strategies in the asset class. Prior to UBS, Mark spent 14 years in the health care industry. His last position was as Director of Operations for Warner Lambert's pharmaceutical division where he was responsible for over \$2.5 billion in annual revenues. Part of Mark's responsibilities at Warner Lambert also included investing in strategic relationships for corporate development. Mark holds an MBA from the University of Phoenix and a B.A. from Tennessee Temple University.

### **James Moore**

#### **Managing Director, Head of International Distribution**

James Moore joined the firm in 1994 and co-founded the Private Equity Funds Group in 1998. He has been involved in a large number of transactions including successful fundraising for Accent Equity Partners, Apollo Investment Fund VI, Ares Capital Opportunities Fund II, Arlington Capital Partners II, Baring Vostok Capital Partners III, Blackstone Capital Partners IV, The Candover 2001 and 2005 Funds, Draper Fisher Jurvetson Eplanet Ventures, Gores Capital Partners, JW Childs Equity Partners III, Monitor Clipper Equity Partners II, Pequot Private Equity Partners III, Star Capital Partners II, Swander Pace Capital III, PCG Special Situation Partners LP, Sterling Investment Partners, Thoma Cressey VII, Towerbook Capital Partners II, TVM V 3I Eurofund IV. He graduated from Exeter University in 1985. Prior to joining UBS Investment Bank he spent five years with the British Army after which he set up and ran an oilfield services company in the Republic of Yemen.

# Biographies

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## Senior Sponsorship and LP Relationship Managers

### **Philip Yau**

#### **Executive Director, LP Relationship Manager**

Philip Yau is an Executive Director in UBS's Private Equity Funds Group and is based in San Francisco, CA. He joined the firm in 2005 to spearhead coverage of limited partners on the West Coast, Canada and Asia, as well as to extend the firm's relationships with venture capital firms. Prior to UBS Investment Bank, he was a Principal with Probitas Partners, where he was the senior relationship manager for the Midwest and Canada. While at Probitas Partners, he was the senior coverage officer who sourced several secondary transactions, including the sale by a Fortune 50 company of their corporate venture fund portfolio consisting of over 30 funds representing several hundreds of millions of commitments. Before Probitas Partners, he was with Viventures, a technology investment firm based in Silicon Valley which had over \$750 mm in commitments, as well as Montgomery Securities (technology banker), Morgan Stanley Asia, and S.G. Warburg. He graduated from Princeton University with a Bachelor of Arts degree in Political Economics and East Asian Studies and earned his MBA at Northwestern University.

# Projected Financial Statements

Fiscal Year 2007

# Projected Fiscal Year 2007 Financial Statements

## Background information

In completing the projected financial statements, the following resources were utilized:

- Projected payroll, rates, and collectible rates provided by BWC's Actuarial Department in conjunction with rate indication information prepared by BWC's external actuarial consultant.
- The most recent fiscal year payment trends for MCO, medical and indemnity expenses.
- Projected administrative disbursements prepared by BWC's Budget Department and the Industrial Commission
- Reserve development patterns identified during the 2005 Fiscal Year actuarial audit completed by BWC's external actuarial consultant.
- Investment information prepared by BWC's Investment Division.

BWC anticipates updating Workers' Compensation and Compensation Adjustment Expense projections upon completion of the 2006 Fiscal Year actuarial audit. This audit is expected to be complete in late August.

BWC anticipates updates to the investment related projections based upon any revisions to the existing Investment Policy.

# Projected Statement of Operations

Fiscal year ending June 30, 2007

| <i>(in millions)</i>                     | Fiscal Year<br>Projected<br>June 30, 2007 | Fiscal Year<br>Projected<br>June 30, 2006 | Increase<br>(Decrease) | Fiscal Year<br>Actual<br>June 30, 2005 | Increase<br>(Decrease) |
|--|---|---|------------------------|--|------------------------|
| Total Operating Revenues                 | \$ 2,476                                  | \$ 2,112                                  | \$ 364                 | \$ 2,139                               | \$ 337                 |
| Total Operating Expenses                 | 3,071                                     | 3,023                                     | 48                     | 3,271                                  | (200)                  |
| <b>Net Operating Gain (Loss)</b>         | (595)                                     | (911)                                     | 316                    | (1,132)                                | 537                    |
| Net Investment Income                    | 428                                       | 726                                       | (298)                  | 993                                    | (565)                  |
| <b>Increase (Decrease) in Net Assets</b> | (167)                                     | (185)                                     | 18                     | (139)                                  | (28)                   |
| <b>Net Assets Beginning of Period</b>    | <u>537</u>                                | <u>722</u>                                | <u>(185)</u>           | <u>861</u>                             | <u>(324)</u>           |
| <b>Net Assets End of Period</b>          | \$ 370                                    | \$ 537                                    | \$ (167)               | \$ 722                                 | \$ (352)               |

# Projected Statement of Operations

Fiscal year ending June 30, 2007

| <i>(in millions)</i>                            | Fiscal Year<br>Projected<br>June 30, 2007 | Fiscal Year<br>Projected<br>June 30, 2006 | Increase<br>(Decrease) | Fiscal Year<br>Actual<br>June 30, 2005 | Increase<br>(Decrease) |
|---|---|---|------------------------|--|------------------------|
| <b>Operating Revenues</b>                       |   |   |                        |  |                        |
| Premium & Assessment Income                     | \$ 2,523                                  | \$ 2,193                                  | \$ 330                 | \$ 2,195                               | \$ 328                 |
| Provision for Uncollectibles                    | (59)                                      | (97)                                      | 38                     | (68)                                   | 9                      |
| Other Income                                    | 12  | 16  | (4)                    | 12                                     | —                      |
| <b>Total Operating Revenue</b>                  | <b>2,476</b>                              | <b>2,112</b>                              | <b>364</b>             | <b>2,139</b>                           | <b>337</b>             |
| <b>Operating Expenses</b>                       |   |   |                        |  |                        |
| Benefits & Compensation<br>Adj. Expense         | 2,912                                     | 2,893                                     | 19                     | 2,948                                  | (36)                   |
| Other Expenses                                  | 159                                       | 130                                       | 29                     | 323                                    | (164)                  |
| <b>Total Operating Expenses</b>                 | <b>3,071</b>                              | <b>3,023</b>                              | <b>48</b>              | <b>3,271</b>                           | <b>(200)</b>           |
| <b>Net Operating Gain (Loss)</b>                | <b>(595)</b>                              | <b>(911)</b>                              | <b>316</b>             | <b>(1,132)</b>                         | <b>537</b>             |
| <b>Investment Income</b>                        |   |   |                        |  |                        |
| Interest and Dividend Income                    | 870                                       | 699                                       | 171                    | 589                                    | 281                    |
| Change in Fair Value<br>of Investment Portfolio | (419)                                     | 61  | (480)                  | 488                                    | (907)                  |
| Investment Expenses                             | (23)                                      | (34)                                      | 11                     | (89)                                   | 66                     |
| Gain on Disposal of Fixed Asset                 | —   | —   | —                      | 5                                      | (5)                    |
| <b>Net Investment Income</b>                    | <b>428</b>                                | <b>726</b>                                | <b>(298)</b>           | <b>993</b>                             | <b>(565)</b>           |
| <b>Increase (Decrease) in Net Assets</b>        | <b>(167)</b>                              | <b>(185)</b>                              | <b>18</b>              | <b>(139)</b>                           | <b>(28)</b>            |
| <b>Net Assets Beginning of Period</b>           | <b>537</b>                                | <b>722</b>                                | <b>(185)</b>           | <b>861</b>                             | <b>(324)</b>           |
| <b>Net Assets End of Period</b>                 | <b>\$ 370</b>                             | <b>\$ 537</b>                             | <b>\$ (167)</b>        | <b>\$ 722</b>                          | <b>\$ (352)</b>        |

# Projected Statement of Net Assets

Fiscal year ending June 30, 2007

| <i>(in millions)</i>                                     | Fiscal Year<br>Projected<br>June 30, 2007 | Fiscal Year<br>Projected<br>June 30, 2006 | Increase<br>(Decrease) | Fiscal Year<br>Actual<br>June 30, 2005 | Increase<br>(Decrease) |
|--|---|---|------------------------|--|------------------------|
| <b>Assets</b>  |   |   |                        |  |                        |
| Total Cash and Investments                               | \$ 16,527                                 | \$ 16,041                                 | \$ 486                 | \$ 16,755                              | \$ (228)               |
| Accrued Premiums   | 2,181                                     | 2,291                                     | (110)                  | 2,340                                  | (159)                  |
| Other Accounts Receivable                                | 268                                       | 145                                       | 123                    | 172                                    | 96                     |
| Investment Receivables                                   | 138                                       | 138                                       | —                      | 843                                    | (705)                  |
| Other Assets   | <u>116</u>                                | <u>126</u>                                | <u>(10)</u>            | <u>132</u>                             | <u>(16)</u>            |
| <b>Total Assets</b>                                      | <b>19,230</b>                             | <b>18,741</b>                             | <b>489</b>             | <b>20,242</b>                          | <b>(1,012)</b>         |
| <b>Liabilities</b>                                       |   |   |                        |  |                        |
| Reserve for Compensation and<br>Compensation Adj Expense | 18,116                                    | 17,470                                    | 646                    | 16,825                                 | 1,291                  |
| Accounts Payable   | 54  | 36  | 18                     | 53                                     | 1                      |
| Investment Payables                                      | —   | —   | —                      | 1,933                                  | (1,933)                |
| Other Liabilities  | <u>690</u>                                | <u>698</u>                                | <u>(8)</u>             | <u>709</u>                             | <u>(19)</u>            |
| <b>Total Liabilities</b>                                 | <b>18,860</b>                             | <b>18,204</b>                             | <b>656</b>             | <b>19,520</b>                          | <b>(660)</b>           |
| <b>Net Assets</b>  | <b>\$ 370</b>                             | <b>\$ 537</b>                             | <b>\$ (167)</b>        | <b>\$ 722</b>                          | <b>\$ (352)</b>        |

# Projected Statement of Cash Flows

Fiscal year ending June 30, 2007

| <i>(in millions)</i>  | Fiscal Year<br>Projected<br>June 30, 2007 | Fiscal Year<br>Projected<br>June 30, 2006 | Increase<br>(Decrease) | Fiscal Year<br>Actual<br>June 30, 2005 | Increase<br>(Decrease) |
|---|---|---|------------------------|--|------------------------|
| <b>Cash flows from operating activities:</b>                        |   |   |                        |  |                        |
| Cash receipts from premiums   | \$ 2,552                                  | \$ 2,351                                  | \$ 201                 | \$ 1,880                               | \$ 672                 |
| Cash receipts — other   | 11  | 27  | (16)                   | 20                                     | (9)                    |
| Cash disbursements for claims                                       | (2,070)                                   | (2,137)                                   | 67                     | (2,150)                                | 80                     |
| Cash disbursements for other  | <u>(415)</u>                              | <u>(424)</u>                              | <u>9</u>               | <u>(404)</u>                           | <u>(11)</u>            |
| <b>Net cash provided (used) by operating activities</b>             | 78  | (183)                                     | 261                    | (654)                                  | 732                    |
| <b>Net cash flows from capital and related financing activities</b> | (20)                                      | (24)                                      | 4                      | 3                                      | (23)                   |
| <b>Net cash provided (used) by investing activities</b>             | <u>(17)</u>                               | <u>(785)</u>                              | <u>768</u>             | <u>316</u>                             | <u>(333)</u>           |
| <b>Net increase (decrease) in cash and cash equivalents</b>         | 41  | (992)                                     | 1,033                  | (335)                                  | 376                    |
| <b>Cash and cash equivalents, beginning of period</b>               | <u>291</u>                                | <u>1,283</u>                              | <u>(992)</u>           | <u>1,618</u>                           | <u>(1,327)</u>         |
| <b>Cash and cash equivalents, end of period</b>                     | \$ 332                                    | \$ 291                                    | \$ 41                  | \$ 1,283                               | \$ (951)               |

# Projected Insurance Ratios

| <i>(in millions)</i>                 | Fiscal Year<br>Projected<br>June 30, 2007 | Fiscal Year<br>Projected<br>June 30, 2006 | Fiscal Year<br>Actual<br>June 30, 2005 |
|--------------------------------------|---|---|--|
| Loss Ratio                           | 94.21%                                    | 110.99%                                   | 111.89%                                |
| LAE Ratio                            | <u>21.20%</u>                             | <u>20.93%</u>                             | <u>22.41%</u>                          |
| <b>Net Loss Ratio</b>                | 115.41%                                   | 131.92%                                   | 134.30%                                |
| Expense Ratio                        | 6.30%                                     | 6.29%                                     | 4.10%                                  |
| Policyholder Dividend Ratio          | <u>0.00%</u>                              | <u>-0.36%</u>                             | <u>10.62%</u>                          |
| <b>Combined Ratio</b>                | 121.71%                                   | 137.85%                                   | 149.02%                                |
| Net Investment Income Ratio          | <u>33.57%</u>                             | <u>30.32%</u>                             | <u>22.78%</u>                          |
| <b>Operating Ratio (Trade Ratio)</b> | 88.14%                                    | 107.53%                                   | 126.24%                                |