BWC Board of Directors

Investment Committee

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

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

CALL TO ORDER

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

MINUTES OF AUGUST 28, 2008

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

DISCUSSION ITEMS

COMMENTS OF THE CHAIR

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

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

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

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

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

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

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

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

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

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

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

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

MERCER INVESTMENT TOPICS FOR EDUCATION

Kweku Obed, Mercer Investment, conducted an education session on two topics: portfolio diversification and active investment management versus passive management. There was a thorough discussion and a number of questions were asked by the Directors. The materials reviewed are incorporated by reference into the minutes.

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

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

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

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

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

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

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

CALENDAR OF EVENTS & REPORTS

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

ADJOURNMENT

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

Prepared by: Larry Rhodebeck, Staff Counsel
H:\Word\ldr\WCB Investment Committee 0908.doc
September 30, 2008

Draft

BWC Board of Directors

Investment Committee

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

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

CALL TO ORDER
Mr. Smith called the meeting to order at 12:05 pm.

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

APPROVE MINUTES OF THE SEPTEMBER 25, 2008 MEETING
Approval of the minutes was deferred until the November 2008 meeting.

NEW BUSINESS / ACTION ITEMS:

INVESTMENT COMMITTEE CHARTER REVIEW
Ms. Falls discussed revision of the committee charter. She noted the sentence "All committee actions must be ratified or adopted by the Board of Directors to be effective" should be added as the last sentence to the purpose section of all committee charters.
Motion was made by Ms. Falls, seconded by Mr. Price, as follows: that the Investment Committee of the Workers' Compensation Board of Directors refer the Investment Committee charter to the Governance Committee to consider the

recommended changes as discussed here today. Roll call was taken and the motion passed 5-0.

DISCUSSION:

CAPITAL MARKET UPDATE

Kristin Finney-Cooke of Mercer Consulting presented on several significant investment matters. A power point presentation was included, and is incorporated by reference into the minutes. Discussion was made of market cycles, including data from the Chicago Board Options Exchange Volatility Index. There is a high level of volatility this month. Ms. Finney-Cooke indicated that in her presentation, the U.S. stock market is currently in a bear cycle that began October 9, 2007. Discussion was made by the directors regarding conditions, and market return subsequent to a down period. Mr. Caldwell asked for the definition of a bull and bear market. The answer was a 20% change in market value, but there is some subjectivity as to the start and end dates. Director Falls noted that unlike some previous bear markets, we are now in a significant global market downturn. Ms. Finney-Cooke emphasized the importance of mitigating risk with a diverse portfolio through both the bond market and the stock market. Mr. Smith added the best way to mitigate risk is to diversify both stock and bond holdings, although both stocks and bonds have experienced recent negative returns. Ms. Finney-Cooke discussed tactical and strategic (long term) asset allocation. Mr. Smith indicated the capital markets tend to overshoot during periods of extreme pessimism and extreme optimism noting that page 7 of the Mercer presentation show how both bull and bear markets did overshoot the actual economic indicators. Mr. Matesich discussed asset allocation during a shock period. Ms. Finney-Cooke stated modeling is used to construct a portfolio. The modeling process includes different environments (high inflation, recession, etc.) Discussion of rebalancing asset allocation during a shock period ensued. Ms. Finney-Cooke indicated that tactical investing is a recipe for failure.

Mr. Smith indicated that the U.S. federal government rescue packages will eventually improve the ability to access cash by borrowers. Ms. Finney-Cooke noted there is some indication of improvement in credit markets according to the recent decline in the London Interbank Offered Rate. Mr. Smith noted that in the current market environment, asset allocation is more important than benchmarks with a special focus on cash for the near term needs and bonds for the anticipated needs in the intermediate term. Mercer will continue to study appropriate strategic asset allocation planning for acceptable risk levels in its asset-liability modeling project for the Bureau. Mr. Smith observed if the target asset allocation is changed, we should consider staging to take advantage of dollar cost averaging to avoid inadvertent market timing. BWC should avoid tactical changes and maintain discipline. Ms. Falls noted that it is important to pay attention to liquidity risk in the portfolio, as credit tightening is the result of decreases in liquidity. The Bureau needs to consider risk in all aspects of asset allocation. In BWC's system, liquidity must be maintained so that claims can continue to be paid without interruption. She continued that CALPERS recently had to sell holdings to meet capital calls on its partnership investments. It is important to address liquidity risk in a portfolio with respect to asset allocation.

Mr. Hummel inquired as to whether consumer spending had reached a bottom point. Ms. Finney-Cooke indicated no. Ms. Falls noted that credit card defaults are increasing significantly. Ms. Falls stated her opinion that the current deleveraging process occurring will put a damper on growth. Ms. Finney-Cooke noted that investment managers are moving to a different analysis of risk.

Mr. Smith asked Bruce Dunn, Chief Investment Officer, for an update on the investment portfolio of the Bureau. Mr. Dunn indicated the estimated unaudited portfolio market value decline of stocks and bonds during the month of October through October 29 was $1.48 billion, representing a portfolio return of negative 8.8%. Stocks during October to date had an estimated negative return of 20.2% and bonds had an estimated negative return of 6.3%. The total return of the Bureau's portfolio was estimated at a negative 14.6 % return year to date.

Charles Bryan joined the meeting at 1:00 pm. Mr. Dunn indicated that cash balances are projected to decline by December 2008 such that BWC will need to redeem $150 million from outside investment managers of the State Insurance Fund in December of 2008. Mr. Dunn indicated the BWC Fiscal & Planning Division periodically provides the Investment Division with detailed operational cash flow projection reports that evidences that need for this redemption action from its investment portfolio. Mr. Dunn also indicated that BWC is experiencing a smaller decline in portfolio performance during the past several months in relationship to most large pension funds having significantly higher equity portfolio allocations.

PORTFOLIO REBALANCING DISCUSSION
Mr. Dunn led a discussion regarding portfolio rebalancing. Mr. Dunn indicated that the Bureau has a Portfolio Rebalancing Committee consisting of Administrator Ryan, the BWC Chief Investment Officer, the BWC Chief Operating Officer and the BWC Chief Fiscal & Planning Officer. A memorandum prepared by Mercer, dated September 30, 2008 is incorporated into the minutes. Mercer indicated that because of the volatile market conditions, including decreased liquidity, it would not be prudent to attempt a rebalancing of the portfolio. At the end of September 2008, the Bureau was in compliance with investment policy asset allocation requirements. Much has changed in October and the Bureau's equity position went lower than its minimum target allocation of 17% of the total portfolio value due to the significant value decline in equities in early October. Mr. Dunn indicated the Portfolio Rebalancing Committee met on October 10, 2008 to review portfolio asset allocation and determined it would not be prudent to attempt any portfolio rebalancing at this time due to extremely unsettled and volatile market conditions and poor liquidity to sell bonds in order to buy stocks.

Ms. Finney-Cooke stated it only makes sense to rebalance during normal market conditions. This is not a normal market. Transaction costs and market volatility could require multiple rebalancings. Mr. Smith noted there has been a good process occurring regarding portfolio rebalancing. There has been good dialogue and deliberations between BWC staff, Mercer staff and the Board. All appropriate steps have been taken in evaluating this issue. The credit market is extremely challenging, and may worsen further, thus making it unwise to rebalance. Mr. Smith indicated that one should look to the credit market to see if credit spreads have reduced to more normal levels, prior to rebalancing. Ms. Falls indicated that rebalancing should be considered prospectively. Ms. Falls asked that the minutes reflect the committee acknowledges the portfolio may be out of balance on occasion. Mr. Dunn noted that the Bureau was not out of compliance with targeted asset allocation ranges at the end of the quarter for the State Insurance Fund and the two larger ancillary funds. Mr. Smith acknowledged an exception to a requirement of rebalancing, given the current market conditions. This has been given much discussion, thought and consideration, in light of the memorandum prepared by Mercer Consulting. Mr. Dunn made reference to the investment policy, with regard to compliance and portfolio rebalance. There is a need for clarification of the investment policy concerning portfolio rebalancing such as when to execute any rebalancing action and by how much within the defined targeted asset allocation range. Mr. Price inquired as to how often portfolio asset allocation is monitored. Mr. Dunn stated the internal staff rebalancing policy requires weekly monitoring, but BWC investment staff, in fact, monitors asset allocation daily. Mr. Smith suggested consideration be made of revising the policy to state rebalancing criteria based upon either date certain and/or amount certain, as well as market conditions. Exceptions to mandated quarterly rebalancing should be defined. Mercer will evaluate this and report back to the Board for discussion at the November meeting, and the committee is expected to recommend to the board a revised rebalancing policy at the December 2008 meeting.

STATE STREET UPDATE

Discussion was led by Mr. Dunn. BWC is moving forward with the commingled fund strategy concerning the Marine Fund and Public Workers' Relief Fund, to be managed by State Street. This could include possible securities lending. Mr. Dunn explained that there is evidence of problems and risk associated with securities lending in the current market environment as evidenced by losses, failure to honor redemption requests and lawsuits. BWC currently has no active securities lending program. Mr. Dunn and Lee Damsel, Director of Investments, will meet with State Street to discuss this matter and will report to the committee at the November meeting. Mr. Dunn indicated that recently he has been discussing the securities lending program with State Street. Mercer is discussing the subject of securities lending with clients suffering losses. Discussion is being made concerning not moving forward at this time with a securities lending program associated with the intermediate duration fixed income mandate for these two ancillary funds, and assessing all risks involved with securities lending, to ensure that informed and prudent decision making can be undertaken with regard to securities lending. Mr. Dunn discussed the commingled option, and the client's ability to choose whether to use or not use securities lending. Mr. Dunn stated that BWC can tell State Street that it will not be in a securities lending program but still invest in its available commingled fund previously approved by the BWC Investment Committee and Board of Directors. Mr. Dunn and Ms. Damsel continue to engage in due diligence concerning BWC's relationship with State Street. Ms. Falls noted that the Board has had much discussion and educational review of securities lending in the past. However, in light of the new financial conditions Ms. Falls recommended that the committee revisit the issue to consider revising the investment policy to suspend securities lending. Mr. Smith indicated we could also just not authorize securities lending with this mandate and that this will be with a topic at the November meeting.

ASSET / LIABILITY MODELING

Presentation was made by Ms. Finney-Cooke. A power point presentation was included and is incorporated into the minutes. BWC and Mercer have been collaborating on a project to analyze BWC's tolerance for risk. Mr. Smith noted a standard correlation of asset classes and risk is the basis of most asset allocations and asked if Mercer has done any work on studying correlations during periods of significant economic shocks (such as we are now experiencing). Ms. Falls raised the issue of developing capital market assumptions, including a long range expected rate of return on major asset classes.

MINORITY INVESTMENT MANAGER EDUCATION

Ms. Finney-Cooke made a presentation on this issue. A power point presentation was included and is incorporated by reference into the minutes. Ms. Finney-Cooke indicated minority and women owned business enterprises provide an opportunity to increase potential return to the fund per unit of active risk, by utilizing more nimble investment mandates. Minority and women owned business enterprises might be an emerging firm defined as managing assets of $2 billion or less, but are not always so as some minority firms cited in her presentation do manage larger asset pools. Mandates may be placed to work directly with a minority and women owned business enterprise, or the investment may be made through a "manager of managers" program approach. There are also staged and graduation investment programs available. Mr. Smith noted that BWC anticipates hiring active managers in the future, so he thought it would be a good idea for the committee to become familiar with the evaluation and implementation steps now.

CIO REPORT

The report was provided by Mr. Dunn. Highlights of the report were made by Mr. Dunn. The report is incorporated into the minutes. Mr. Dunn emphasized that virtually all of the $94.6 million of realized losses from securities sales reported by the Bureau in September 2008 were the result of four issuers (Fannie Mae, Freddie Mac, Lehman Brothers, and Washington Mutual) that were removed from the Bureau's respective stock and bond benchmark indices due to their poor financial conditions. The removal of these four issuers from the relevant benchmark index required the respective outside passive index investment managers to promptly sell these issues in order to maintain consistency and expected portfolio tracking performance to the benchmark index. Mr. Dunn indicated that discussion with BWC outside investment managers confirmed that corporate bonds have poor liquidity in the current weak credit markets.

Motion was made by Ms. Falls, seconded by Mr. Harris to adjourn the meeting at 2:05 pm. Roll call was taken and the motion passed 4-0. Mr. Caldwell had left the meeting just prior to the motion.

Prepared by: Thomas Woodruff, Interim Director Self Insured Department
October 31, 2008

OBWC Board of Directors
Investment Committee Charter

Purpose

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

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

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

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

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

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

Meetings

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

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

Duties and Responsibilities

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

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

subcommittee as appropriate. The subcommittee shall have a specific purpose. Each subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

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

DATE: November 10, 2008

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Recommended Action Items**
Commingled Passive Index Manager
Public Work-Relief Employees' Fund/Marine Industry Fund

Background

Attached is a timeline summarizing events and actions taken by both the BWC Investment Committee and Board of Directors with respect to the RFQ process for the selection of an investment manager to serve as Intermediate Duration U.S. Fixed Income Passive Index Manager for two ancillary trust funds. The current Investment Policy Statement (IPS) states that the investment policy strategy target for these two ancillary funds is to invest 99% of invested assets in intermediate duration fixed income assets managed to the designated benchmark index. Such benchmark index is the Lehman Intermediate U.S. Government/Credit Index. The current IPS also states that approval is provided to invest the assets of these two funds on an interim basis in the institutional money market fund currently utilized for the cash balance assets of BWC. All invested assets of these two funds have been invested in the JPMorgan U.S. Government institutional money market fund since July 2007 in satisfaction of this interim investment policy.

The purpose of the RFQ process to select a commingled passive index fixed income manager for these two funds is to satisfy and fulfill the targeted investment strategy of both funds. Such strategy achieves a close matching of the duration of assets and liabilities for both funds, as the projected liabilities of both funds are between 3-4 years. The investment policy benchmark index of these two funds has consistently been within this duration range for many years. As a matter of information, the Lehman intermediate duration fixed income benchmark index provided a weighted average yield to maturity of 4.50% as of November 7, 2008 as compared to a 7-day yield of 1.64% earned from the JPMorgan institutional money market fund currently utilized for the two funds.

The BWC Chief Investment Officer (CIO) and BWC Director of Investments (DOI) have had frequent communication with State Street Global Advisors (SSGA) since approval was provided by the Board of Directors on August 29, 2008 to replace Barclays Global Investors with SSGA to satisfy the RFQ mandate. The purpose of such communication was to receive updates on its management of fixed income assets as well as its overall securities lending program relevant to this investment mandate during the recent very challenging and volatile market conditions. In addition, background checks are nearing completion on all identified SSGA personnel designated to have key involvement in the management of either the core fixed income assets or the securities lending activity associated with this investment mandate.

The CIO and DOI will be visiting the offices of SSGA in Boston prior to the November 2008 Investment Committee meeting in order to conduct a scheduled mandatory quarterly outside investment manager meeting with the portfolio management teams managing BWC assets invested in long duration fixed income assets and TIPS. During this visit, the CIO and DOI will also meet with the portfolio management team involved in the RFQ mandate for the two ancillary funds as well as with managers of the securities lending team. An update on additional information learned from this visit will be provided verbally by the CIO and DOI at the November 20 Investment Committee meeting.

Summary

The financial crisis and significant deterioration in financial market and credit conditions since August has prompted a reassessment of the advisability of proceeding with the securities lending option associated with investing in the commingled passive indexed managed fund offered by SSGA for the two ancillary funds. BWC has the option to invest in this SSGA managed commingled fund approved by the BWC Board of Directors without participating in its securities lending program. The current environment of reduced liquidity, declining market values of collateral pools, especially securitized assets, and elevated counterparty risks have contributed to escalate the challenges and risks confronting securities lending programs. This has led to realized losses and unrealized looses being incurred and reported recently by some prominent securities lending programs and their participating investor clients.

It is the recommendation of the CIO that BWC not proceed with the securities lending program offered by SSGA in association with its intermediate duration commingled passive indexed managed fund approved for these two ancillary funds. This decision is based largely on current market conditions and can be reassessed at some point in the future with consent of the Investment Committee.

The CIO is very supportive of proceeding and contracting with SSGA for the management of the core intermediate duration fixed income mandate for the two ancillary funds, exclusive of securities lending, for the reasons reflected in the last page of the RFQ summary report (provided herein as page 4) presented to the Investment Committee and approved on August 28, 2008. It is anticipated all legal documentation and background checks can be completed such that funding by the two ancillary funds for this mandate can occur next month.

Recommendation

It is recommended that investment in the approved Intermediate Duration Fixed Income Commingled Passive Index Fund of State Street Global Advisors proceed to implementation and funding for the Public Work-Relief Employees' Fund and the Marine Industry Fund.

It is also recommended that the Public Work-Relief Employees' Fund and the Marine Industry Fund suspend implementation of any securities lending program associated with the approved Intermediate Duration Fixed Income Commingled Passive Index Fund of State Street Global Advisors for the reasons described herein. The decision not to participate in such securities lending program can be reassessed at a future time under appropriate market conditions with consent of the Investment Committee.

Recommended New Finalist
Intermediate Duration U.S. Fixed Income Passive Index Manager

State Street Global Advisors (SSgA)

- Very large passive IDFI manager based in Boston with approximately $18 billion under management in intermediate duration Lehman government/credit benchmarked U.S. fixed income passive index managed commingled funds.
- Experienced and proven fixed income passive management team well known to BWC Investment Staff.
- Realized portfolio returns versus benchmark index averaged a narrow 2-3 basis points (27/1000 of 1%) per annum tracking error (variance) over the past three years 2005 - 2007.
- Emphasis on controlled sampling of the credit portion of portfolio has resulted in tight performance history versus benchmark.
- Dedicated securities lending group, with an established risk control process focused on risk mitigation, has incurred no losses to date from either counterparties or from an issuer owned in a cash collateral pool over the firm’s 34 year history of securities lending.
- Strong culture of fiduciary responsibility and internal compliance controls.
- Securities trading execution platform is one of the largest in the industry as the result of being one of the largest index fund managers in the world.
- Per annum fee of 4 basis points of portfolio market value with 5% fee discount if total BWC assets under management with SSgA is more than $4 billion (3.8 bp effective fee).

Fund	Estimated Assets	Annual Fee
Public Work-Relief Employees’ Fund	$22MM	$8,360
Marine Industry Fund	$16MM	$6,080

RFQ Timeline of Events
Intermediate Duration U.S. Fixed Income Passive Index Manager

Investment Committee Meeting – April 24, 2008

BWC Chief Investment Officer (CIO) presented a summary report on the Request for Quotations (RFQ) process for the selection of an Intermediate Duration U.S. Fixed Income Commingled Passive Index Manager for the Public Work-Relief Employees' Fund and Marine Industry Fund ancillary trust accounts. There were two qualified respondents to the RFQ, Barclays Global Investors (BGI) and State Street Global Advisors (SSGA). After review and scoring of the RFQ proposals and subsequent discussions with both respondents, the RFQ Evaluation Committee recommended to the Investment Committee that BGI be approved as the Finalist of the RFQ. Included in such recommendation was BWC participation in the securities lending program of the Finalist offered to investors in this intermediate duration fixed income commingled fund. Representatives from both the portfolio management and securities lending side of BGI appeared before the Investment Committee to present information and answer questions. Approval of BGI as Finalist was provided by the Investment Committee on this date and by the BWC Board of Directors on April 25, 2008.

Investment Committee Meeting – May 29, 2008

BWC CIO informed the Investment Committee that initial Finalist candidate BGI employs derivatives contracts, including swaps, in the management of its securities lending dedicated cash collateral asset pool associated with the subject commingled fund under investment consideration. This derivatives use was learned by the BWC investment staff members of the RFQ Evaluation Committee several weeks after the subject fund was approved by the Board of Directors on April 25, 2008. The specific derivatives contracts employed by such Finalist are prohibited investments per the current BWC investment policy statement (IPS).

Investment Committee Meeting – June 26, 2008

BWC CIO provided report on alternative investment options for these two ancillary trust funds. Discussion ensued on possible alternative courses of actions. Mercer asked by Investment Committee to conduct research regarding alternative investment options.

RFQ Timeline of Events
Intermediate Duration U.S. Fixed Income Passive Index Manager

Investment Committee Meeting – July 24, 2008

Mercer provided summary of search conducted of intermediate fixed income managers that could conceivably manage these trust funds without use of derivatives on an economical basis. Mercer concluded Board of Directors should consider modifying current investment guideline so as to permit controlled use of certain derivatives, allowing use by top tier commingled index fund providers such as two RFQ Finalist candidates. Mercer asked by Investment Committee to present at next meeting a survey on derivatives use by other Ohio retirement funds, to provide an educational session on derivatives types and purposes, and to provide proposed changes in IPS to permit derivatives use in certain applications.

Investment Committee Meeting – August 28, 2008

Mercer presented results of study on derivatives use permitted by a sample of Ohio and other public state funds, provided derivatives education and proposed IPS revisions on derivatives use to Investment Committee for consideration. The Investment Committee on this date and the Board of Directors on August 29, 2008 each approved recommended IPS revisions on derivatives recommended by Mercer with one added language revision for clarification purposes. The BWC CIO provided an updated summary report on the RFQ process that includes a revised Finalist recommendation of the RFQ Evaluation Committee. Such recommendation was for SSGA to serve as the new Finalist to replace BGI. Such recommendation was the result of BGI employing the use of derivatives contracts in the management of its securities lending program whereas SSGA has not employed the use of derivatives contracts for such purposes. The Investment Committee on this date and the Board of Directors on August 29, 2008 rescinded the April 2008 action to approve BGI as the RFQ Finalist and subsequently approved SSGA as the new RFQ Finalist.

DATE: November 10, 2008

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Annual Report on Performance and Value of each Investment Class**

Purpose

Section 4121.12(F)(12) of the Ohio Revised Code states that the Board of Directors of the Ohio Bureau of Workers' Compensation shall:

> "Submit a report annually on the performance and value of each investment class to the governor, the president and minority leader of the senate, and the speaker and minority leader of the house of representatives."

Background

In response to ORC 4121.12(F)(12), the BWC Chief Investment Officer has prepared the following Fiscal Year 2008 Annual Report on the performance and value of each investment class of the BWC.

All asset values reflected in this Annual Report were obtained from the BWC financial statements for fiscal year ended June 30, 2008. These financial statements were subject to audit and are pending release from the Auditor of the State of Ohio. Performance rates of return reflected in this Annual Report were, with one exception, obtained from the outside investment performance vendor (JPMorgan) contracted by BWC staff. The one exception pertained to rate of return on the equity securities owned by the Disabled Workers' Relief Fund and Coal Workers' Pneumoconiosis Fund. This return was obtained by the outside investment manager Northern Trust.

Action

The following Annual Report is presented by the BWC Chief Investment Officer for review and consideration by the BWC Investment Committee and BWC Board of Directors. The purpose of this Annual Report is to serve as the Annual Report to be submitted by the BWC Board of Directors in satisfaction of its requirement to satisfy ORC 4121.12(F)(12) for fiscal year 2008.

BWC FY2008 Investment Class Annual Report Comments

Total investment assets at fair value held by the Bureau were $17,284 million on June 30, 2008, an increase of $531 million when compared to $16,753 million on June 30, 2007. The total rate of return on invested assets for the fiscal year 2008 ended June 30, 2008 was 4.7%. Net investment income reported for fiscal year 2008 was $720 million, comprised of $877 million in interest and dividend income less $144 million in decrease in fair value of investments and $13 million in investment expenses.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2008 was 79.4% bonds, 18.4% stocks and 2.2% cash and cash equivalents. This asset mix was very similar to that of 79.6% bonds, 18.4% stocks and 2.0% cash and cash equivalents on June 30, 2007.

The total fair value of the bond portfolio of the Bureau was $13,724 million on June 30, 2008 compared to $13,329 million on June 30, 2007. The total rate of return of bonds held by the Bureau was 9.2% for fiscal year 2008. Virtually all bonds owned during fiscal year 2008 were passively managed by several index managers under contract to match targeted benchmark index returns. A total fair value of $7,724 million of bonds or approximately 56% of total bonds owned at fair value on June 30, 2008 represented direct U.S. government obligations, including $3,663 million of U.S. Treasury inflation index protected securities representing 27% of total bonds owned at fair value.

The total fair value of the equities portfolio of the Bureau was $3,180 million on June 30, 2008 compared to $3,089 million on June 30, 2007. The total rate of return of equity securities owned by the State Insurance Fund for fiscal year 2008 was -13.1%. Such equity securities had a fair value of $2,918 million on June 30, 2008 which represented approximately 92% of the equities portfolio of the Bureau. Virtually all of these equity securities are invested in a passively managed S&P 500 index fund account. Two additional trust funds (Disabled Workers' Relief Fund and Coal Workers' Pneumoconiosis Fund) commenced investing in separately managed S&P 500 index fund accounts at the end of September 2007 with a fair value of $278 million on September 30, 2007. The total rate of return of equity securities owned by these two trust funds was -14.8% from September 2007 inception through June 30, 2008.

The remaining equities portfolio of the Bureau for fiscal year 2008 represents private limited partnerships with a fair value of $15 million on June 30, 2008 compared to $456 million on June 30, 2007. The Bureau was in the process of selling all 68 of its private equity partnerships under the direction of its contracted selling agent throughout fiscal year 2008. A total of 66 private equity partnerships were sold in fiscal year 2008 for total proceeds of $393 million, with all proceeds reinvested in the S&P 500 index fund account.

Total cash and cash equivalents (including short-term collateral) of the Bureau had a fair value of $381 million on June 30, 2008 compared to $335 million on June 30, 2007. The Bureau utilized a U.S. government money market fund offered by its custodian bank throughout fiscal year 2008 to earn interest income on its short-term invested assets. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was 4.0% for fiscal year 2008.

Prepared by Bruce Dunn, Chief Investment Officer
November 7, 2008

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

Asset Sector	Market Value Oct 31, 2008	% Assets	Market Value Sept 30, 2008	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2008	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	12,470,693,698	81.3%	13,449,308,956	79.5%	(978,615,258)	-7.3%	$13,917,829,156	79.8%	(1,447,135,458)	-10.4%
Equity	2,432,876,019	15.9%	2,920,601,007	17.3%	(487,724,988)	-16.7%	3,185,174,964	18.3%	(752,298,945)	-23.6%
Net Cash - OIM	15,196,392	0.1%	17,914,542	0.1%	(2,718,150)	-15.2%	31,217,754	0.2%	(16,021,362)	-51.3%
Net Cash - Operating	323,605,836	2.1%	440,734,852	2.6%	(117,129,016)	-26.6%	202,328,872	1.2%	121,276,964	59.9%
Net Cash - MIF, PWRF, SIEGF	97,240,479	0.6%	96,827,912	0.6%	412,567	0.4%	95,980,364	0.6%	1,260,115	1.3%
Total Net Cash	436,042,707	2.8%	555,477,306	3.3%	(119,434,599)	-21.5%	329,526,990	1.9%	106,515,717	32.3%
Total Invested Assets	$15,339,612,424	100%	$16,925,387,269	100%	($1,585,774,845)	-9.4%	$17,432,531,110	100%	($2,092,918,686)	-12.0%

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

Market Value of Bonds and Stocks includes accrued investment income.

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

October/September 2008 Comparisons

- Net investment income in October 2008 was a negative $1,468 million representing a monthly net portfolio return of -8.74% (unaudited).
- Bond market value decrease of $978.6 mm comprised of $45.6 mm in interest income, $1,025.1 mm in net realized/unrealized losses ($16.6 mm net realized loss) and $0.9 mm in OIM net bond purchases (decreasing net cash balances accordingly).
- Equity market value decrease of $487.7 mm comprised largely of $4.4 mm of dividend income, $492.8 mm in net realized/unrealized losses ($1.7 mm net realized loss) and $1.8 mm in lower OIM net cash balances.
- Net cash balances decreased $119.4 mm in October 2008 largely due to decreased OIM cash balances ($2.7mm) and decreased operating cash balances ($117.1mm).
  JPMorgan US Govt. money market fund had 30-day average yield of 1.90% for October 2008 (2.26% for Sep08) and 7-day average yield of 1.86% on 10/31/08 (2.14% on 9/30/08).

October 2008/June 2008 FYTD Comparisons

- Net investment income FYTD of a negative $2,212 million comprised of $327 mm of investment income, $2,538 mm of net realized/unrealized losses ($120 million net realized loss) and $1 mm in fees, representing a FTYD net portfolio return of -12.55%.
- Bond market value decrease of $1,447 mm comprised of $301 mm in interest income and $1,763 mm of net realized/unrealized losses ($67 mm net realized loss), reduced by $15 mm in lower OIM cash balances.
- Equity market value decrease of $752 mm comprised largely of $22 mm in dividend income and $775 mm in realized/unrealized losses ($53 mm net realized loss), reduced by $1 mm in lower OIM cash balances.

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

November 20, 2008

Ohio Bureau of Workers' Compensation (BWC)

Performance Review
Third Quarter 2008

Kristin Finney-Cooke, MBA
Guy Cooper, MBA
Kweku Obed, CFA

Services provided by Mercer Investment Consulting, Inc.

Executive Summary

- At the end of the third quarter, the BWC held approximately $16.91 billion in assets, representing a decrease of $501.1 million over the previous quarter's balance of $17.41 billion.
- During the third quarter, the All Funds Composite returned -4.2%, and outperformed the interim benchmark by approximately 20 basis points.
- Relative to the interim policy targets, the BWC's total portfolio held an underweight position in domestic equities and long duration fixed income and overweight positions in TIPS, short term investments, and miscellaneous investments.

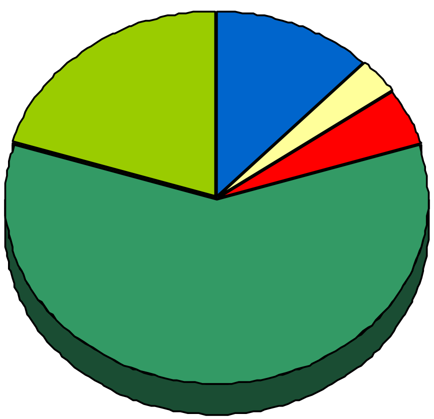
Recommendations and Observations

- We continue to maintain that diversification is additive to an overall portfolio's long term strategic asset allocation. We are currently evaluating specifically where within BWC's portfolio additional diversification will be a benefit as we complete the Asset Liability Study.
- Although, we are currently in an environment where most asset classes have declined on an absolute basis, BWC's heavy weighting to the fixed income market (TIPS and Long Duration Bonds) reduced the magnitude of the overall decline for the portfolio during the 3rd Quarter 2008. The equity asset classes had double digit declines.
- During the 3rd Quarter 2008, higher quality securities have done far better than speculative securities as we have seen a flight to quality amongst investors. This is a reversal to recent history, where speculative securities were rewarded, as fear of continued defaults and low consumer confidence abound.

Performance Benchmarks
Policy Weights – Long-Term, Interim, and Actual

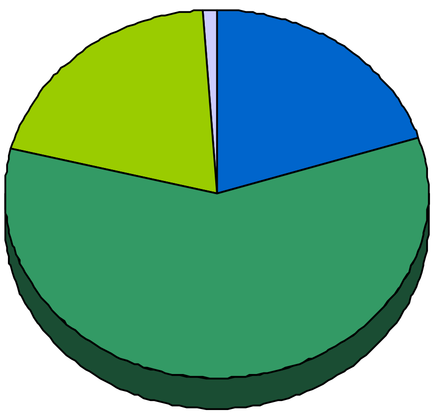
- The Long Term Policy Weights are the long term strategic weights that have been approved by the Board.
- Since the BWC's total portfolio is in the process of fully transitioning to the approved long term strategic weights as set forth in the investment guidelines, the performance of the BWC Total Assets and the State Insurance Fund will be measured against an Interim Policy benchmark. The Interim Policy represents the asset allocation that has been implemented. The benchmark will be reset when the Board approves additional implementation steps in the investment program.

Asset Allocation
As of September 30, 2008
Long Term Policy



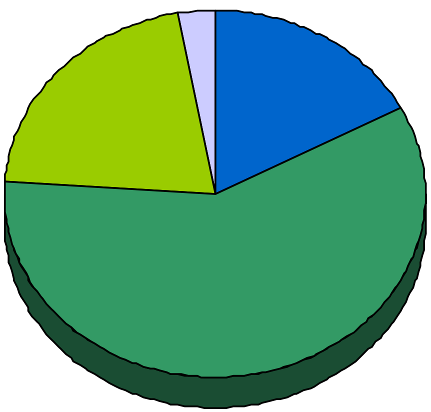
Large Domestic Equity	12.0%
Small / Mid Dom Equity	3.0%
Non US Equity	5.0%
Long Duration	59.0%
High Yield	0.0%
TIPS	20.0%
Alternative Investments	0.0%
Cash Equivalents	1.0%
Miscellaneous	0.0%

Asset Allocation
As of September 30, 2008
Interim Policy



Large Domestic Equity	20.0%
Small / Mid Dom Equity	0.0%
Non US Equity	0.0%
Long Duration	59.0%
High Yield	0.0%
TIPS	20.0%
Alternative Investments	0.0%
Cash Equivalents	1.0%
Miscellaneous	0.0%

Asset Allocation
As of September 30, 2008
Actual



Large Domestic Equity	17.3%
Small / Mid Dom Equity	0.0%
Non US Equity	0.0%
Long Duration	58.7%
High Yield	0.0%
TIPS	21.2%
Alternative Investments	0.0%
Cash Equivalents	2.7%
Miscellaneous	0.1%

BWC Total Assets
3Q 2008 Performance Summary**

	Market Value	Quarter		Annualized Returns 1 Year		2 Years		Inception to Date	
BWC Total Assets	**$16,914.6**	**(4.2)**	**%**	**(3.7)**	**%**	**0.8**	**%**	**3.4**	%
BWC Total Assets Policy Benchmark	--	(4.7)		(3.3)		1.9		2.9	
BWC Total Assets Interim Benchmark		(4.4)							

The TIPS, cash equivalents and miscellaneous segments ended the quarter with overweight positions versus the interim policy weights. Long duration fixed income and domestic equities ended the quarter with underweight positions versus the interim benchmark.

** Performance is reported net of fees and excludes Private Equity. Please see page 20 for Private Equity returns

BWC Total Assets Interim benchmark

The interim benchmark for the BWC Total Assets is calculated by multiplying the asset class weights by the returns of the corresponding asset class benchmarks and summing up the results. Interim Policy Weights are based on the following Board approved allocations: Large Cap Domestic Equity – 19.89% (S&P 500), Long Duration Fixed Income – 58.67% (Lehman Long U.S. Government/Credit Index), Inflation-Protected Securities – 19.89% (Lehman U.S. TIPS), Cash – 1.32% (90-Day T-Bill), Intermediate Duration Fixed Income – 0.22% (Lehman Intermediate US Government/Credit Index).

BWC Total Assets Policy benchmark

BWC Total Assets Long-Term Policy benchmark is comprised of the following allocations: Large Cap Domestic Equity – 12% (S&P 500), Small/Mid Cap Domestic Equity – 3% (Wilshire 4500), Non-U.S. Equity – 5% (MSCI EAFE), Long Duration Fixed Income – 54% (Lehman Long U.S. Government/Credit Index), Inflation-Protected Securities – 20% (Lehman U.S. TIPS), High Yield – 5% (Merrill Lynch High Yield Master II), Total Alternative Investments – 0% (Wilshire 5000 + 5%), Cash – 1% (90-Day T-Bill).

Economic Environment
Overview

Summary

- The advance estimate of annualized third-quarter GDP growth was –0.3%, following 2.8% growth in the second quarter.
- The Federal Open Market Committee made no changes to the 2.00% Federal Funds Target Rate during the quarter.
- Treasury yields shifted downward during the quarter as 3-month Treasury yields declined from 1.90% at the end of June to 0.92% at the end of September. Likewise, 10-year Treasury yields declined from 3.99% in June to 3.85% at the end of the quarter.
- Consumer prices rose at an annual rate of 2.6% during the third quarter and 4.9% over the past 12 months, as measured by the Consumer Price Index.
- The unemployment rate rose to 6.1% from 5.5% at the end of the second quarter.
- The Consumer Confidence Index rebounded during the third quarter; however, the survey may not have captured many of the financial market events taking place in September.
- Early in the quarter, oil prices climbed to over $147/barrel before dropping below $100/barrel in September.
- The housing market, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, hit an all-time low in July and August before recovering slightly in September.

Economic Environment
Overview

Key Issues /Potential Risks

- Global economic prospects, already weak, collapsed in September and October as the financial crises spread worldwide.
- Recession risks in the US and Europe are a near certainty, while the growth in emerging markets will slide considerably.
  - ECB (Europe's counterpart to the Fed) cut interest rates by 50 bps
  - The Bank of England cut rates by 150 bps
  - Consumer confidence and trade sentiment remains low. The VIX, a measure of the cost of protection, remains elevated at close to 68, which is off from high of 79.10 in October. A range of below 20 is how this indicator of volatility in the market has traded over the last 5 years
- Liquidity has been a continual problem during the market crisis, however, we have started to see some thawing in the credit markets
  - The Ted Spread (Difference between LIBOR and 3-Month Treasuries) has narrowed to 2.03 from its highs of 3.82 in September and 4.69 in October
  - Short term cash market has seen an increase in liquidity over the last several weeks
- We expect recession level growth (-1.0% to 0.0%) into the middle part of next year. We expect a slight recovery (0.5% to 1.0%) growth in the second half of 2009.
- Although deflationary pressures are considerable over the next few months, we expect liquidity will improve and keep inflation in the 1.0% to 2.0% range for 2009. Over the longer term, we expect a continuation of current of monetary policy, however, we also anticipate a move towards the utilization of fiscal policy to aid the economy going forward.

Economic Environment
Overview

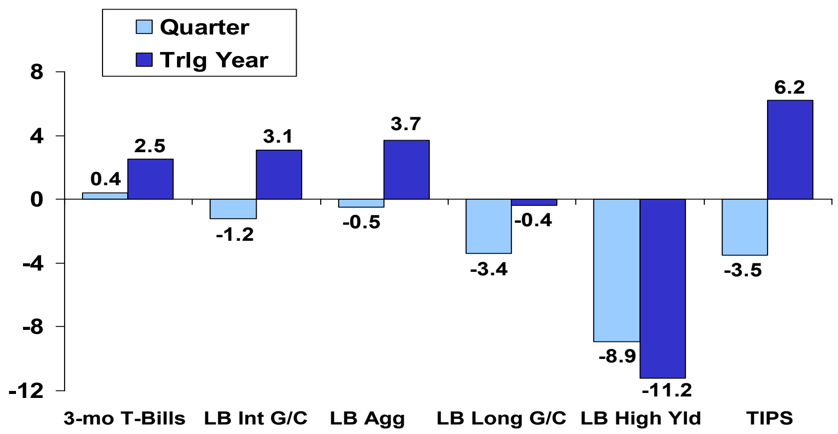
Key Issues /Potential Risks

- Employment growth, a lagging indicator, will not rebound as quickly as the economy or the capital markets. We expect unemployment to reach 8.0% in late 2009.
- Many of the imbalances that affected the dollar in previous years—high trade deficits, higher energy prices, excessive US consumption—have moderated and are in the stages of correcting.
- Capital markets as a whole are moving towards more fairly valued valuations.
- Treasury rates at the short end will remain low throughout much of 2009. The yield curve is relatively steep, auguring economic improvement in 2009. We expect credit spreads to narrow, but remain above historic averages well into 2010.
- Commodities have continue to react to the market, with oil priced at the mid to high $50's from its high of $147 a barrel seen during the last 18 months.

Capital Markets Overview

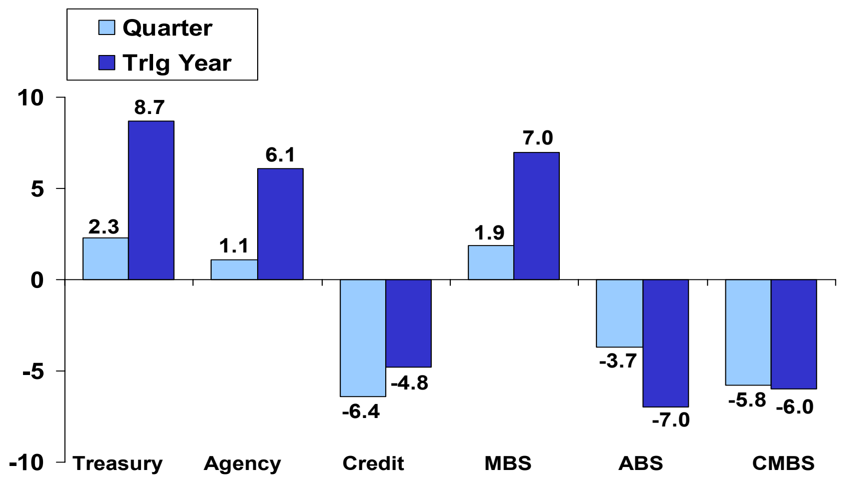
Fixed Income Market Performance

Performance by Maturity and Sector

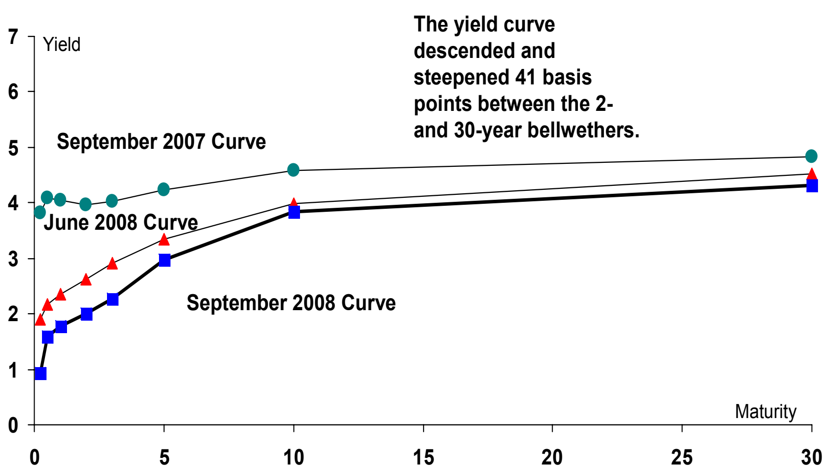


- A number of unprecedented events rattled the bond market during the quarter. The government de-privatized Fannie Mae and Freddie Mac, rescued AIG, and seized and brokered the sale of Washington Mutual. Merrill Lynch and Wachovia were acquired and Lehman Brothers went bankrupt. The Lehman Brothers Aggregate Bond Index fell 0.5%.
- Treasuries, up 2.3% for the quarter, outperformed all spread sectors as investors fled to safety.
- The Lehman Brothers Credit Index lost 6.4% during the quarter. Long-term bonds underperformed intermediate-term maturity issues. By quality, A-rated bonds were the weakest performers, losing 10.1%, followed by Aa-rated issues, which fell 5.0%. On average, credit spreads widened 155 basis points during the quarter.
- The Lehman Brothers MBS Index gained 1.9% for the quarter, while CMBS and ABS issues gave up 5.8% and 3.7% respectively.

Performance by Issuer



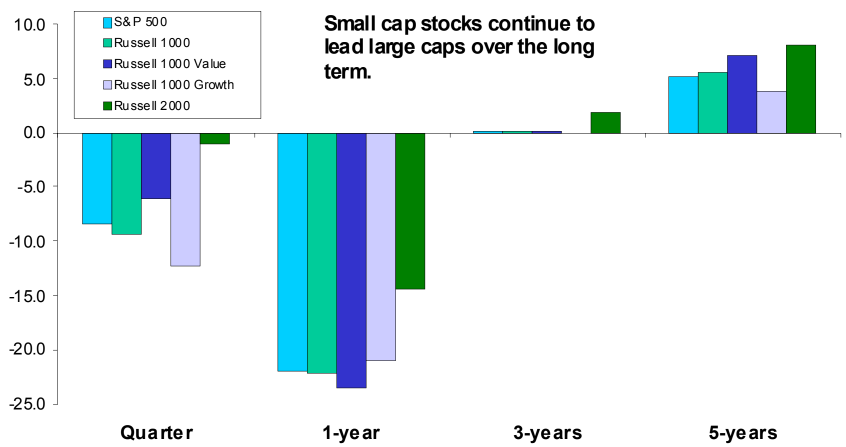
Treasury Yield Curves



Capital Markets Overview

Domestic Equity Market Performance

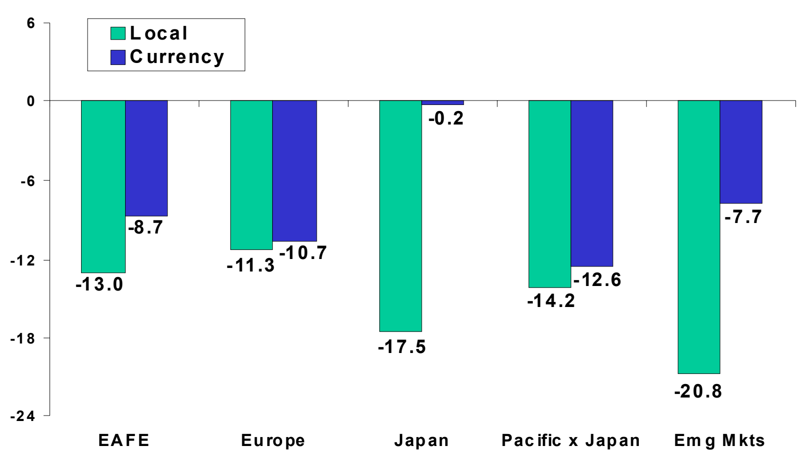
Market Index Performance



- Turmoil in the financial markets and uncertainty over the government's bailout plan roiled the stock market in the third quarter. The S&P 500 Index was down 8.4%, while the Russell 1000 Index lost 9.3%.
- Small cap stocks, down 1.1%, outperformed large and mid cap stocks by a wide margin.
- Value outperformed growth across all market capitalizations during the quarter. Large cap growth stocks were down 12.3%, while large cap value stocks lost 6.1%. Small cap value stocks, up 5.0%, were the strongest performers.
- Energy and materials were the weakest-performing sectors, losing 26.7% and 24.9% respectively. Consumer staples held up best, returning 4.1%.

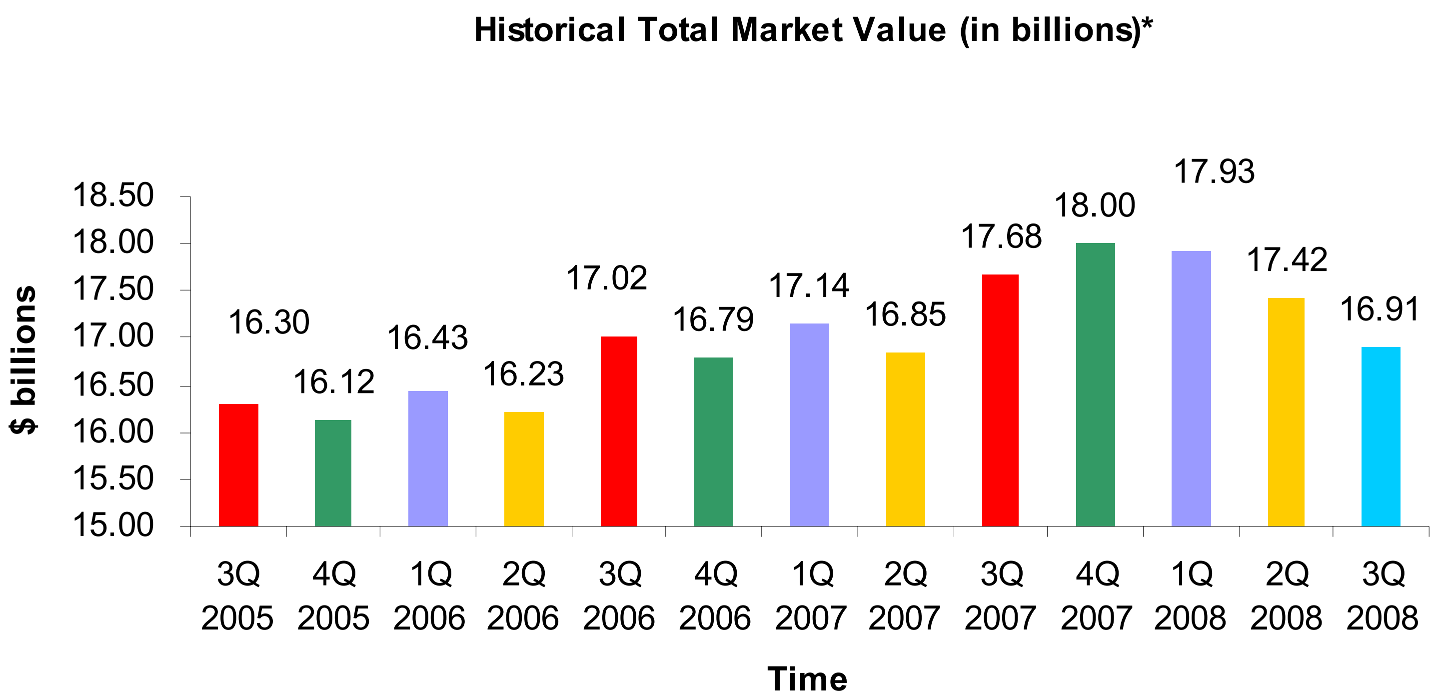
International Equity Market Performance

Regional Performance for the Quarter



- The financial crisis wreaked havoc on international equity markets as the MSCI EAFE Index declined 14.4% in September, its worst monthly return since January 1970. For the quarter, the Index was down 20.5% in dollar terms and 13.0% in local currency terms.
- The Pacific region was down 20.0% for the quarter. Japan posted a 17.6% loss, while the Pacific ex Japan region declined 25.0%.
- The European region fell 20.7% during the quarter, with all countries reporting double-digit losses. The U.K. was down 21.0%, while Germany and France lost 20.6% and 18.9% respectively.
- The emerging markets plunged 26.9% during the quarter. The EM Europe region posted the weakest results, losing 36.0%. The EM Latin America and EM Asia regions fell 32.6% and 23.0% respectively.

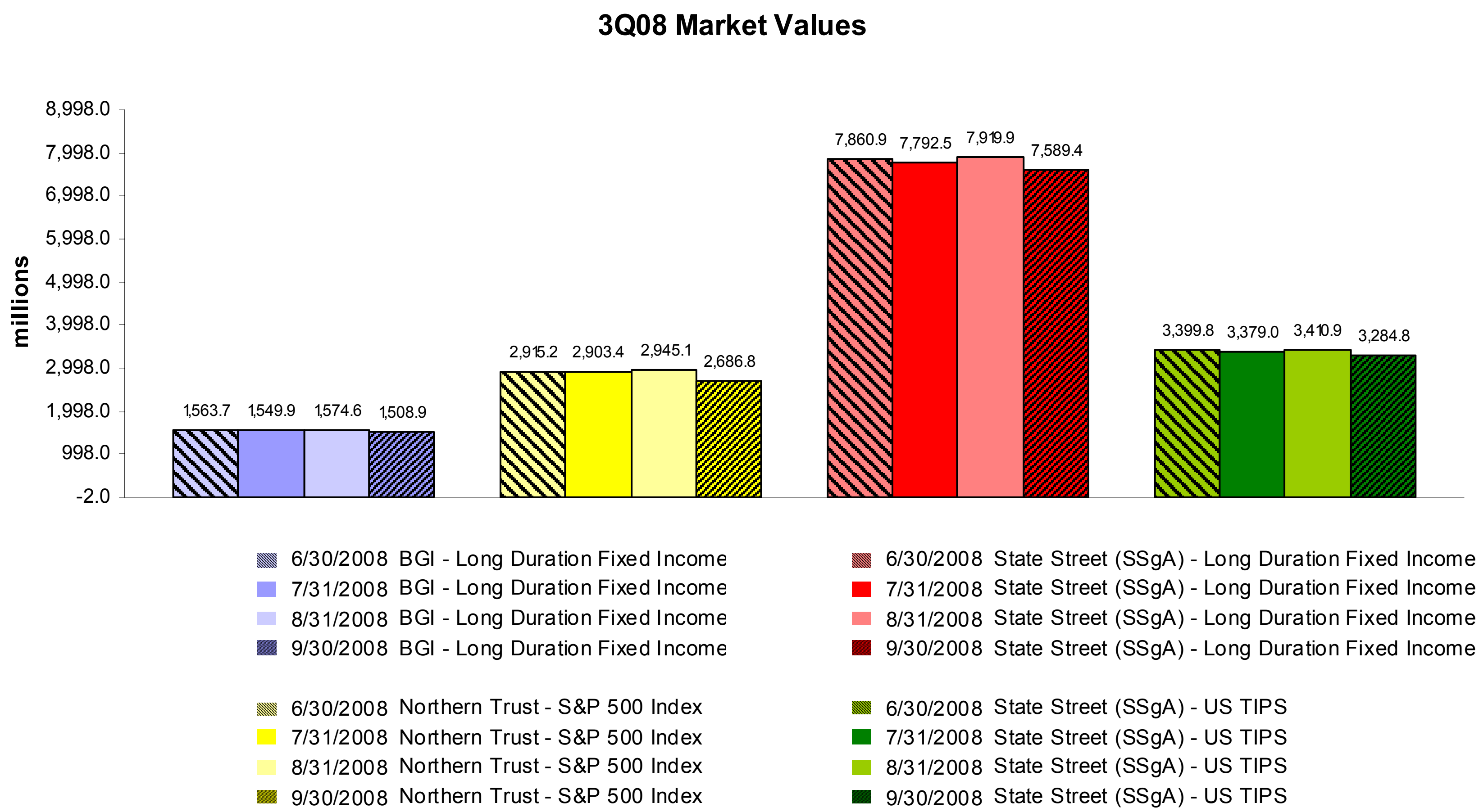
BWC Total Assets
3Q 2008 Performance Summary



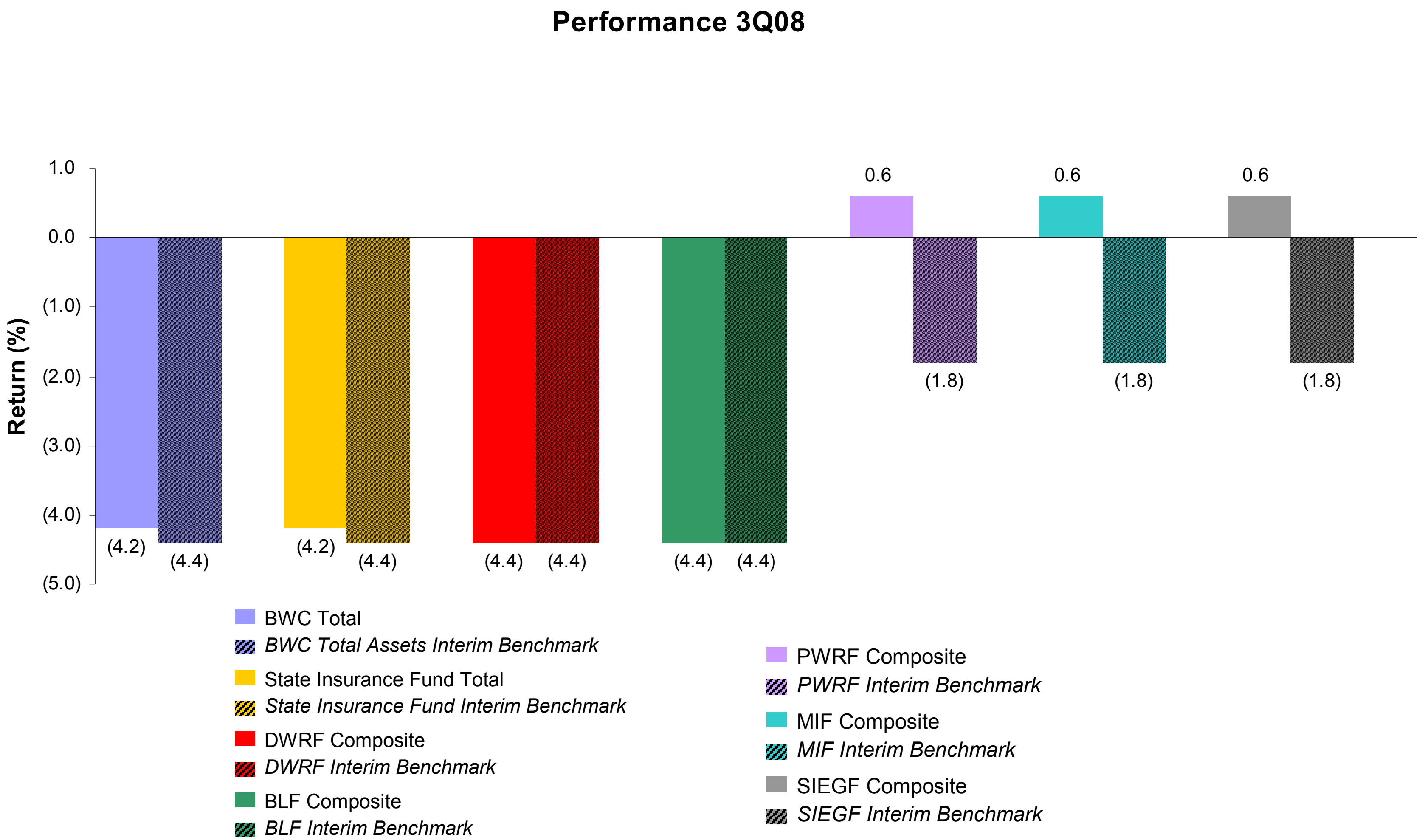
*Custodian reported market values, including private equity.

BWC Total Assets – U.S. Equity, Long Duration and TIPS
3Q 2008 Performance Summary

June 2008 – September 2008 Monthly Market Values (in millions)



BWC Total Assets
3Q 2008 Performance Summary



BWC Total Assets
3Q 2008 Performance Summary**

	Market Value	% of Total Fund	Quarter	1 Year	2 Years	Inception to Date
			Annualized Returns*			
BWC Total Assets	$ 16,914.6	100.0 %	**(4.2)** %	**(3.7)** %	**0.8** %	**3.4** %
BWC Total Assets Policy Benchmark			(4.7)	(3.3)	1.9	2.9
BWC Total Assets Interim Benchmark			(4.4)	--	--	--
State Insurance Fund Total	15,506.1	91.7	**(4.2)**	**-3.8**	**0.8**	**3.4**
SIF Policy Benchmark			(4.8)	-3.5	1.8	2.9
SIF Interim Benchmark			(4.4)			
Long Duration Bond Total	9,098.3	58.7	**(3.5)**	**--**	**--**	**0.9**
SSGA LDFI	7,589.4	48.9	(3.5)	7.4	--	0.9
BGI LDFI	1,508.9	9.7	(3.5)	6.9	--	0.6
Lehman Brothers U.S. Gov/Credit-Long Term			(3.4)	-0.4	1.6	0.8
TIPS Total	3,568.3	21.1	**(3.4)**	**--**	**--**	**4.9**
SSGA TIPS	3,284.8	19.4	(3.4)	6.4	--	11.7
Lehman Brothers US Treasury: US TIPS			(3.5)	6.2	5.6	5.0
Public Equity Portfolio Total	2,913.4	17.2	**(8.3)**	**--**	**--**	**(11.9)**
NT S&P 500 Index	2,686.8	15.9	(8.3)	--	--	(10.2)
S&P 500 - Total Return Index			(8.4)	(22.0)	(4.7)	(22.0)
Miscellaneous Composite	10.5	0.1	**17.0**	**--**	**--**	**17.3**
Cash Composite	528.1	3.1	**0.6**	**--**	**--**	**2.1**

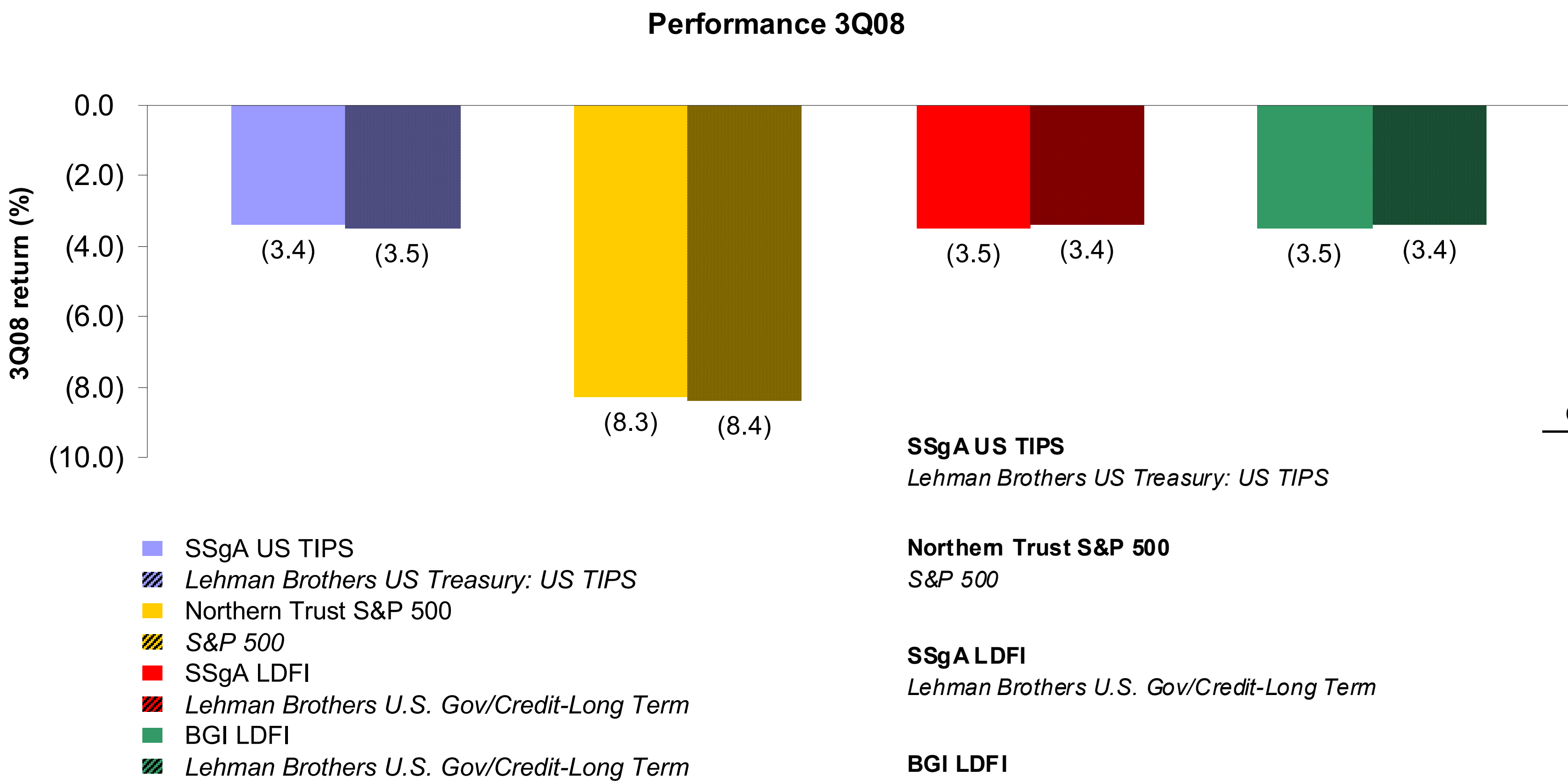
** Reported Net-of-fees.*

** Performance excludes Private Equity. Please see page 20 for Private Equity returns

Miscellaneous composite is comprised of a transition account, coin account and miscellaneous holdings account.
Please refer to Appendix for composite inception dates.

BWC Total Assets - U.S. Equity, Long Duration and TIPS

3Q 2008 Performance Summary*



	Quarter
SSgA US TIPS	**(3.4)**
Lehman Brothers US Treasury: US TIPS	(3.5)
Northern Trust S&P 500	**(8.3)**
S&P 500	(8.4)
SSgA LDFI	**(3.5)**
Lehman Brothers U.S. Gov/Credit-Long Term	(3.4)
BGI LDFI	**(3.5)**
Lehman Brothers U.S. Gov/Credit-Long Term	(3.4)

*Gross of fees

BWC Total Assets - U.S. Equity
3Q 2008 Performance Summary

- **The Public Equity portfolio** is comprised of the SIF Northern Trust S&P 500 Index Fund, the Black Lung Northern Trust S&P 500 Index Fund and the DWRF Northern Trust S&P 500 Index Fund:
  - During the third quarter, Northern Trust returned -8.3% and outperformed the benchmark (the S&P 500 Index) by 10 basis points.
  - At the end of the quarter, Northern Trust ranked in the 35th percentile* of the Mercer US Equity Large Cap Core Universe.
  - In the third quarter, most large capitalization core active managers underperformed the S&P 500 Index, hence Northern Trust's ranking in the 35th percentile of the Mercer US Equity Large Cap Core Universe.

* A ranking in the 1st percentile denotes strong performance i.e. a manager has outperformed 99 percent of the peer group universe. Conversely, a ranking in the 99th percentile denotes lagging performance i.e. a manager has only outperformed 1 percent of the peer group universe. For Index funds a 50th percentile is in-line with expectations as an index should perform within a very small tracking error to the benchmark.

BWC Total Assets - Long Duration Fixed Income
3Q 2008 Performance Summary

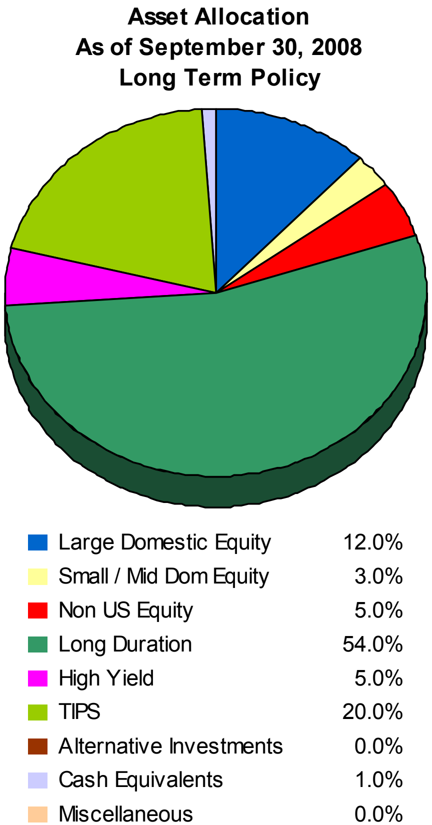
- **The Long Duration Bond Total** is comprised of the State Insurance Fund Long Duration Composite, the Disabled Workers Long Duration Composite and the Black Lung Long Duration Composite. The Long Duration Bond Total underperformed compared to the benchmark during the quarter:
  - During the quarter, the SSgA Long Duration portfolio returned -3.5% while the Lehman Brothers US Long Govt / Credit index returned -3.4%.
  - At the end of the third quarter, State Street's Long Duration portfolio ranked in the 41st percentile* of the Mercer US Fixed Long Duration Universe (in line with our expectations).
  - For the trailing one year period (ending September 30, 2008), SSgA has outperformed the Lehman Brothers US Long Govt / Credit index by 20 basis points.
  - Over the trailing 3 months (ending September 30, 2008) Barclays returned -3.5% and trailed the benchmark by 10 basis points.
  - At the end of the third quarter, Barclay's Long Duration portfolio ranked in the 41st percentile* of the Mercer US Fixed Long Duration Universe (in line with our expectations).
  - For the trailing one year period (ending September 30, 2008), Barclays has approximated the Lehman Brothers US Long Govt / Credit index.

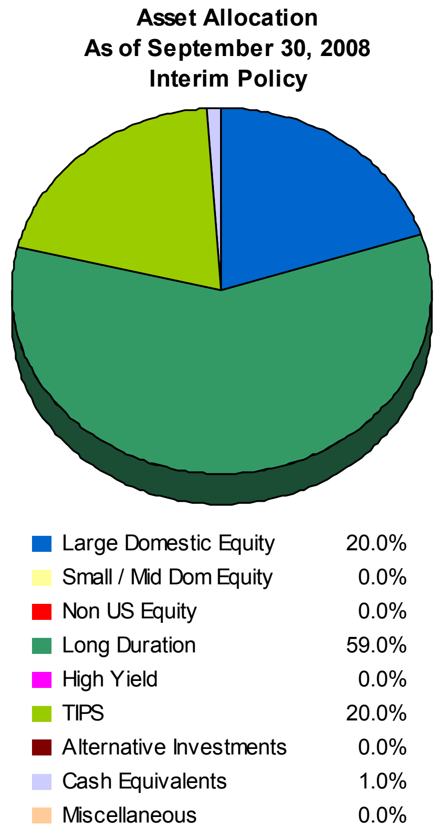
* A ranking in the 1st percentile denotes strong performance i.e. a manager has outperformed 99 percent of the peer group universe. Conversely, a ranking in the 99th percentile denotes lagging performance i.e. a manager has only outperformed 1 percent of the peer group universe. For Index funds a 50th percentile is in-line with expectations as an index should perform within a very small tracking error to the benchmark.

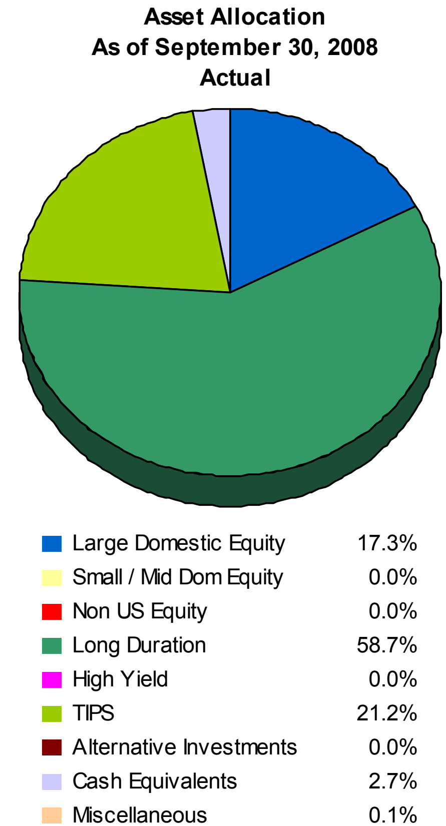
BWC Total Assets - TIPS
3Q 2008 Performance Summary

- **The TIPS Total** is composed of the State Insurance Fund TIPS Composite, Disabled Workers Relief Fund TIPS Composite and the Black Lung TIPS Composite. The TIPS Composite is solely invested in the SSgA U.S. TIPS Strategy:
  - Over the trailing 3 months (ending September 30, 2008) the US TIPS Fund returned -3.4% and outperformed the Lehman Brothers US TIPS Index which returned -3.5%.

State Insurance Fund
3Q 2008 Performance Summary







State Insurance Fund
3Q 2008 Performance Summary

- The State Insurance Fund Total has assets of approximately $15.51 billion at the end of the second quarter representing a decrease of $435.5 million over the previous quarter.
- The State Insurance Fund returned -4.2% in the third quarter and outperformed the Interim benchmark (-4.4%).
- At the end of the second quarter, relative to its Interim benchmark, the State Insurance Fund Total held an underweight position in domestic equities and long duration fixed income while the fund held overweight positions in TIPS, cash and miscellaneous investments.

State Insurance Fund
3Q 2008 Performance Summary

			Annualized Returns		
	Market Value	Quarter	1 Year	2 Years	Inception to Date
State Insurance Fund Total	**15,506.1**	**(4.2) %**	**-3.8 %**	**0.8 %**	**3.4 %**
SIF Policy Benchmark	--	**(4.8)**	-3.5	1.8	2.9
SIF Interim Benchmark		**(4.4)**			

SIF Interim Benchmark

- The State Insurance Fund interim benchmark is calculated by multiplying the asset class weights by the returns of the corresponding asset class benchmarks and summing up the results. Interim Policy Weights are based on the following Board approved allocations: Large Cap Domestic Equity – 20% (S&P 500), Long Duration Fixed Income – 59% (Lehman Long U.S. Government/Credit Index), Inflation-Protected Securities – 20%(Lehman U.S. TIPS), Cash – 1% (90-Day T-Bill).

SIF Policy Benchmark

- The State Insurance Fund Long-Term Policy benchmark is comprised of the following allocations: Large Cap Domestic Equity – 12% (S&P 500), Small/Mid Cap Domestic Equity – 3% (Wilshire 4500), Non-U.S. Equity – 5% (MSCI EAFE), Long Duration Fixed Income – 54%(Lehman Long U.S. Government/Credit Index), High Yield – 5% (Merrill Lynch High Yield Master II), Inflation-Protected Securities – 20% (Lehman U.S. TIPS). Total Alternative Investments – 0% (Wilshire 5000 + 5%), Cash – 1% (90-Day T-Bill).

Private Equity
2Q 2008 Performance Summary**

*Performance Measurement Periods:

Buyout Fund: May 1999 - Jun 2008

Fund of Funds: Dec 2000 - Jun 2008

Mezzanine Funds: Oct 1998 - Jun 2008

Venture Capital: Dec 2000 - Jun 2008

Partnership	BWC Commitment	BWC Contributions to Date	Distributions	Market Value as of 6/30/08	Net Annualized IRR	Upper Quartile [3]	Median	Lower Quartile
Buyout Fund Total	$282,497,067	$241,461,056	$330,729,240	$0	14.10%	18.00%	8.00%	0.00%
Fund of Funds Total	$100,000,000	$79,267,336	$80,566,136	$0	3.01%	-0.13%	-4.64%	-14.12%
Mezzanine Total	$60,000,000	$63,433,079	$66,254,425	$0	-1.46%	12.80%	7.30%	1.30%
Venture Capital Total	$371,642,000	$289,647,389	$234,120,067	$3,215,947	-11.47%	15.00%	4.90%	-2.10%
Total	$814,139,067	$673,808,861	$711,669,868	$3,215,947	2.09%	15.70%	6.20%	-1.30%

- As of June 30, 2008, the Ohio BWC's total private equity portfolio had an estimated internal rate of return (IRR) of 2.09%. This return was below the median IRR of 6.20%.**
- The buyout fund's composite IRR (as of June 30, 2008) was 14.10% as compared to an 8.00% median IRR for buyout funds with similar vintage years.
- The Ohio BWC's fund-of-fund composite IRR (as of June 30, 2008) was 3.01% as compared to a -4.64% median IRR for fund-of-funds with similar vintage years.
- The BWC's mezzanine fund composite IRR (as of June 30, 2008) was -1.46% as compared to a 7.30% median IRR for mezzanine funds with similar vintage years.
- The BWC's venture capital partnerships had an overall composite level IRR of -11.47% at the end of the second quarter in 2008 and trailed the 4.90% median IRR for venture capital funds with similar vintage years.

**Calculated using Venture Xpert's IRR data by vintage year for all private equity weighted according to the BWC's weighted average allocation by vintage year. Please refer to the performance disclosures in the Appendix.

Appendix

Appendix
Inception Dates

Composite	Inception Date *
BWC Total Assets	July-05
State Insurance Fund Total	July-05
Long Duration Bond Total	January-08
TIPS Total	January-08
Public Equity Portfolio Total	January-08
Miscellaneous Composite	January-08
Cash Composite	January-08

* Denotes commencement day of performance measurement

Private Equity
Performance Disclosures

1) BWC contributions to date (June 30, 2008) 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.
2) Market values utilized are provided by the general partner, when available. In the instances when managers did not provide market values as of June 30, 2008, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to June 30, 2008, accounting for contributions and distributions during the interim time period.
3) 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 Xpert. Data is as of June 30, 2008. Venture Xpert's returns are representative of the following periods:

   Buyout Fund: 1999-2008

   Fund of Funds: 2000-2008

   Mezzanine Funds: 1998-2008

   Venture Capital: 2000-2008

   Total: The total upper quartile, median quartile, and lower quartile values are weighted average IRRs calculated by taking Venture Xpert's upper, median, and lower quartile by vintage year and weighting those values according to BWC's weighted average allocation by vintage year for their private equity portfolio.

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Returns for periods greater than one year are annualized. Returns are calculated gross of investment management fees, unless noted.

Style analysis graph time periods may differ reflecting the length of performance history available.

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Percentile rankings for managers, funds or indices in performance floating bar exhibits may not match Universe percentiles due to rounding. Only performance composites submitted by investment managers by Mercer's deadline for a particular quarter are included in that quarter's Manager Universe calculation. Composites submitted after the deadlines are included in the Manager Universe at Mercer's discretion. Because Mercer Manager Universes are based upon information voluntarily provided by investment managers, to the extent higher or lower performing investment managers do not submit information to Mercer, the percentile rankings may not reflect as accurate an indication of an investment manager's performance relative to all of its peers than otherwise would be the case.

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Private Equity Report

November 20, 2008

Prepared by BWC Investment Division

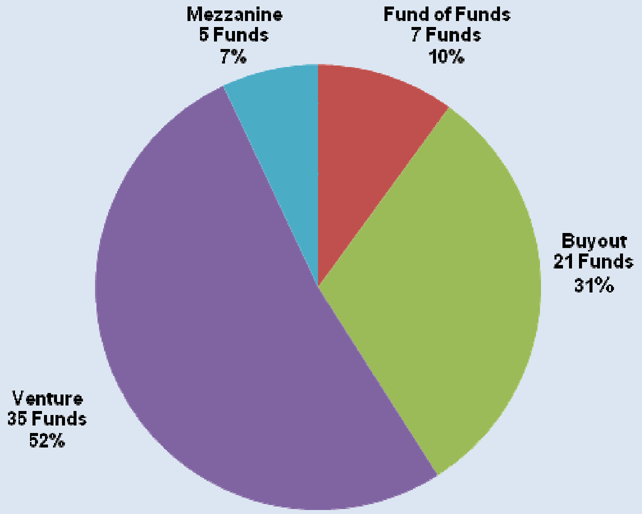
Restoring Operational Excellence

Ohio Bureau of Workers' Compensation

The BWC Portfolio was fairly well diversified across 68 US focused partnerships spread across venture, buyout, mezzanine and fund of funds asset categories.

Portfolio Overview	As of March 2005
Total Number of Funds	68
Total Number of GPs	54
Original Commitment amount	$813,450,000
Capital Calls Funded	$409,390,000
Unfunded Amount (est.)	$404,060,000
% Approximately Drawn	50.3%
BWC Market Value	$330,088,000
Largest Fund Exposure (Market Value)	$25,917,000

Fund Type by Market Value



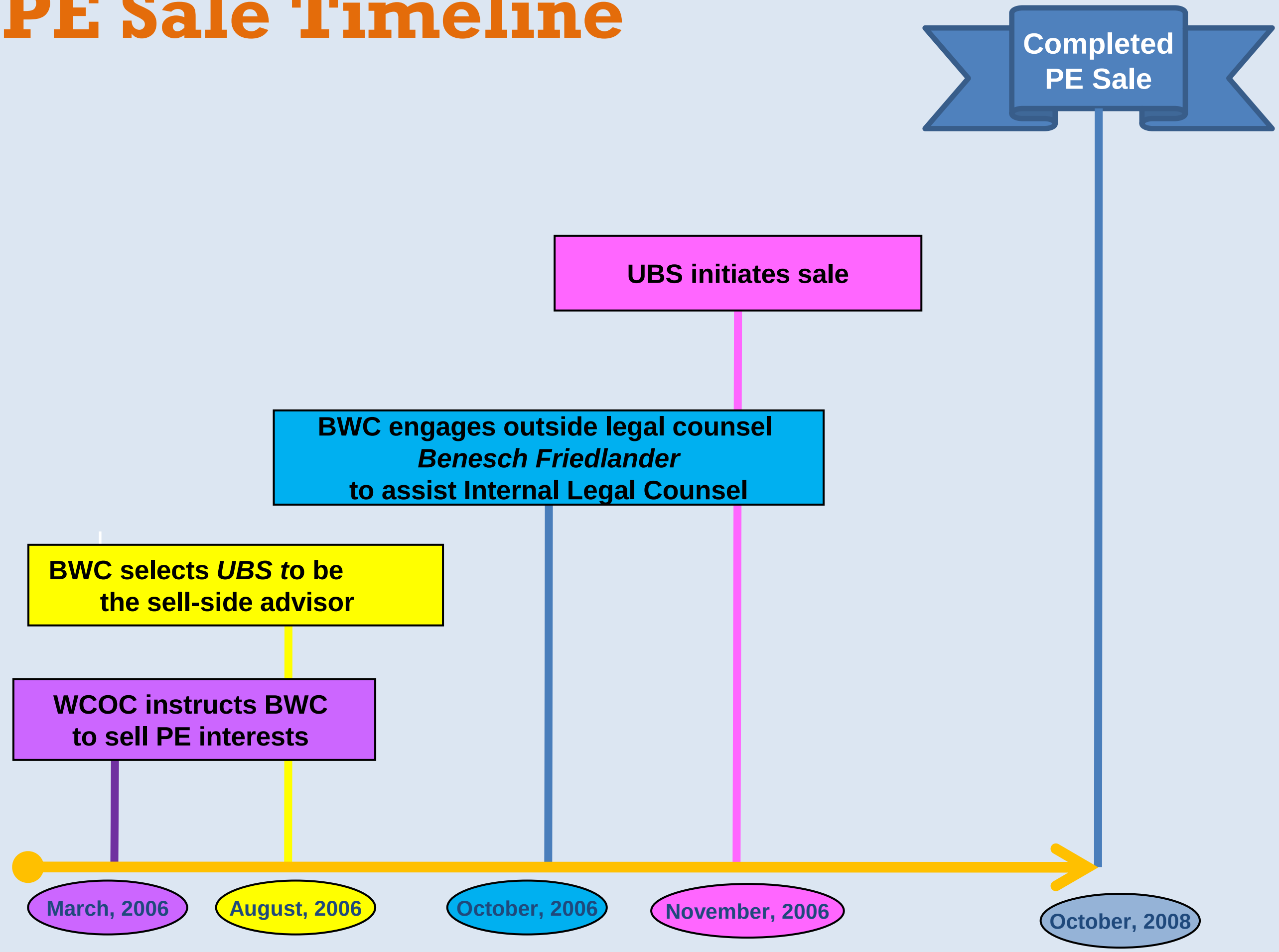
- The BWC Portfolio was relatively young with a total unfunded commitment of 50%

  Vintages ranged from 1998 to 2005 with no new commitments after 2005
  % ownership positions ranged from 99% to 0.4%
  Commitment by fund ranged from $25 M to $0.5 M

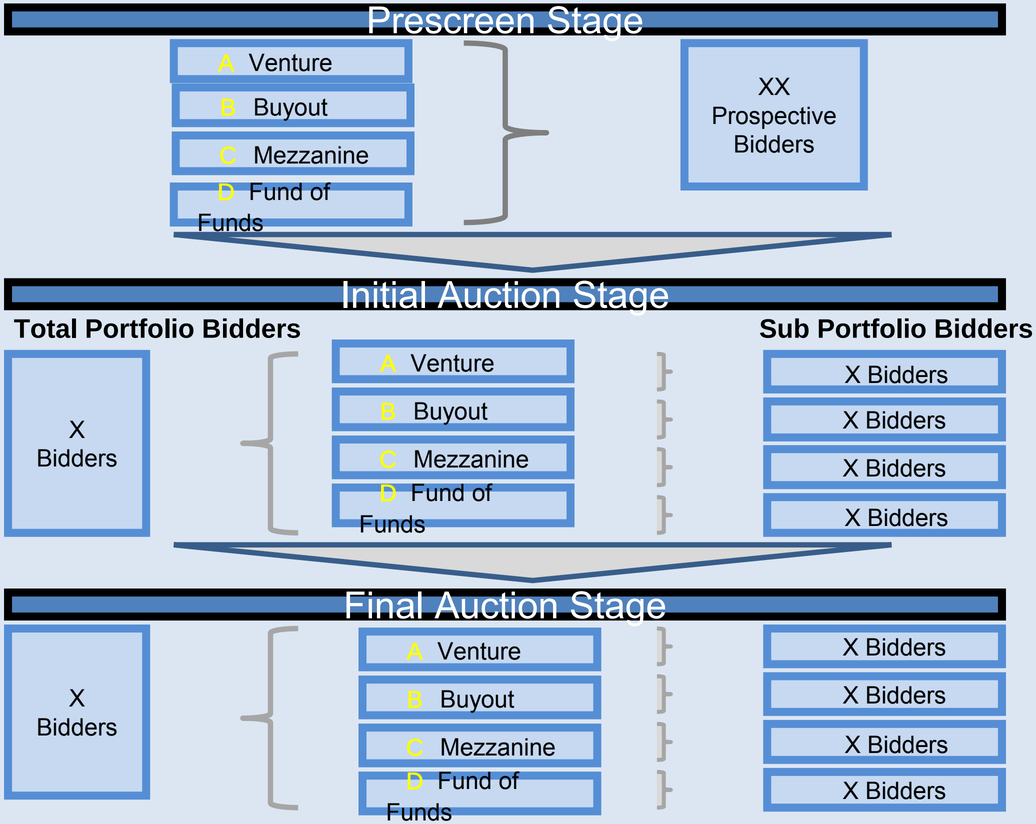
- The 25 largest funds in the portfolio represented approximately 75% of the total market value

  Generally recognizable funds commanded attention In the market place

PE Sale Timeline



UBS Investment Bank
Two Stage Auction Approach



UBS Investment Bank
Two Stage Auction Timeline

Phase I

Pre-Marketing
- Analyzed fund data and legal documents
- Prescreen potential bidders and evaluate fund coverage levels
- Communicate intentions with select GPs and determine their cooperation
- Finalize target list of bidders and begin communication
- Execute Confidentiality Agreements with all potential buyers

Phase II

Marketing
- Bidders conduct due diligence
- Arrange conference calls with select GPs
- **Initial Bid Submission Deadline**
- Narrow the field of potential buyers and provide additional information to a smaller group
- **First Bid Submission Deadline**
- UBS to evaluate and clarify terms of offers

Phase III

Execution
- Winning buyer(s) to submit binding letters of intent
- Negotiate Purchase and Sale Agreement(s) with winning buyer(s)
- Fulfill ROFR notification periods, if any
- Work with GPs to draft transfer consent documentation
- Execute Purchase and Sale Agreement(s) with winning buyer(s)

Phase IV

Final Closing
- Winning buyer(s) execute Assignment and Assumption Agreements with GPs
- BWC and winning buyer(s) to exchange signed closing certificates
- Conduct rolling closings from the time Assignment and Assumption Agreement(s) are executed with the winning buyer(s) to the final closing deadline
- BWC to receive wire transfer from winning buyer(s)

Private Equity Sale Summary

- BWC's secondary Private Equity Sale was the second largest in the United States in 2006
- Total net sale proceeds were approximately $400 Million received from June 2007 through October 2008
- Total gains and losses on the sale resulted in approximately $70 Million in net realized loss
- Percentage net gain/loss was approximately negative 3% at initial auction stage
- Internal Rates of Return (IRR) for the Private Equity Portfolio as of June, 2008:

	BWC	Benchmark Quartile		
Category	IRR	Lower*	Middle*	Upper*
Buyout (21)	13.23%	0.00%	8.00%	18.00%
Fund of Funds (7)	0.23%	-14.12%	-4.64%	-0.13%
Mezzanine (5)	1.79%	1.30%	7.30%	12.80%
Venture Capital (35)	-8.11%	-2.10%	4.90%	15.00%
Total PE (68)	2.33%	-1.30%	6.20%	15.70%

*Source: Venture Xpert

- Fees paid for the execution of the Private Equity Portfolio Sale were:

UBS Investment Bank	$6.6M
Benesch/Other Legal Fee (est.)	$1.7M
Total	$8.3M

Role of Legal Counsel

Document Type	Description
Review of Limited Partnership Agreements	♦ 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
Notice of consent	♦ Notification to the GP regarding the transaction and request for approval to share specific information with bidders ♦ This document is not always required. It will depend on the confidentiality provision states in the Limited Partnership Agreement
Confidentiality Agreements	♦ Must be signed before bidders can review LP information ♦ Typical term is 1-2 years
Purchase and Sale Agreement	♦ Contains detailed terms of the sale, representation and warranties, indemnification clause, etc. ♦ May be signed prior to receiving all transfer consents provided contingencies are agreed upon
Deed of Adherence/Subscription	♦ Outlines the terms under which the GP will allow the buyer(s) to subscribe to an interest in the fund ♦ Will be signed once the GP has consented to the transfer
Assumption and Assignment Agreement	♦ Formally represents the transfer of all rights, title and interest in the fund ♦ Represents GP's consent to the transfer of the fund
Rights of First Refusal ("ROFRs")	♦ ROFR provisions call for a notice period where the private equity interest for sale will be offered to other LP's 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 transaction materially

INVESTMENT DIVISION

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

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: November 17, 2008

SUBJECT: CIO Report October, 2008

Fiscal Year 2009 Goals

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

1. Provide support and execute new BWC Investment Policy resulting from Asset-Liability study
2. Achieve full staffing of BWC Investment Division with continued training of developing staff
3. Continued establishment and execution of investment controls and compliance procedures
4. Complete implementation and utilization of resources provided by new investment accounting and performance system
5. Sell remaining miscellaneous investment assets

Strategic Goal One – PORTFOLIO TRANSITION

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

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

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

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

The Investment Division began fiscal year 2009 commencing July 1, 2008 with a staff of ten individuals consisting of the CIO, Director of Investments, Investment Administration Manager, one Senior Investment Manager, one Investment Manager, three Assistant Investment Managers and two administrative assistants. The one current remaining vacancy within the Investment Division is for a second Senior Investment Manager. After second stage interviews were concluded in early October, 2008 for this important position, a leading candidate emerged. This leading candidate was offered the position of Senior Investment Manager and has accepted such offer. The new Senior Investment Manager leading candidate is scheduled to join the Investment Division staff in early January, 2009, pending the requisite completion of the background check which is progressing.

There will be a proper emphasis on the training of staff investment professionals to become more effective managers. Continuous investment education and an appropriate emphasis on CFA (Chartered Financial Analyst) related programs and study will be encouraged and supported. The number of investment professionals on staff who have achieved the CFA accreditation now totals six and will total seven with the addition of the chosen second Senior Investment Manager in January, 2009. The cross-training of many duties assigned to respective staff members will occur to broaden skill sets and ensure necessary backup support. Each investment professional on staff is expected to serve the needs of the Bureau and its customers with the highest of integrity, ethics and competence.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

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

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

Strategic Goal Four – INVESTMENT ACCOUNTING SYSTEM RESOURCES UTILIZATION

A new investment accounting and reporting system offered by BNY Mellon was selected by the Bureau in 2007 via the RFP process. The Investment Division is focusing on the goal of utilizing this improved investment accounting system for the daily monitoring of investment managers in satisfaction of compliance with the BWC Investment Policy. The investment staff is now either learned or is well into the process of learning how to utilize many of the compliance and performance measurement tools and resources offered by this accounting system through both formal training sessions and self education. The BWC Internal Audit Division validated in October, 2008 that the compliance measurement tools of this investment accounting system have been implemented and are being utilized by the Investment Division.

Strategic Goal Five – MISCELLANEOUS INVESTMENT ASSET SALES

It is a strategy and goal of the Investment Division to sell or liquidate during fiscal year 2009 the remaining miscellaneous investment assets of value owned by the Bureau. Miscellaneous assets are defined to include private equity, coins, stock distributions received from formerly owned private equity partnerships, and illiquid securities inherited and retained from previously terminated outside investment managers. The aggregate carrying value of these miscellaneous assets targeted for disposal was approximately $8.5 million on October 31, 2008.

At the end of fiscal year 2008 ending June 30, 2008, a total of 66 private equity partnerships had been sold by BWC since June, 2007 for total proceeds received of $399.0 million. All such proceeds received from private equity sales were reinvested in the passive indexed Large Cap S&P 500 Equity portfolio currently managed by Northern Trust. The last remaining private equity fund investment targeted for sale was sold in October, 2008 for proceeds of $0.9 million. There currently remains one private equity partnership that is being liquidated via portfolio asset sales and resulting cash distributions during fiscal year 2009. A significant cash distribution of $1.02 million was in fact received in September, 2008 from this fund being liquidated, reducing its carrying value to $0.2 million. A final summary report of the private equity sale process and results is being presented at the Investment Committee meeting on November 20, 2008.

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

Compliance and Portfolio Rebalancing

The investment portfolios in the aggregate were in compliance with the BWC Investment Policy at the end of October, 2008, with the exception of certain asset class allocation market value percentages at the end of October, 2008. The asset allocation class market values of both equities and fixed income for each of the State Insurance Fund (SIF), Disabled Workers' Relief Fund (DWRF) and Coal Workers' Pneumoconiosis Fund (CWRF) were outside of their stated target ranges of the BWC Investment Policy at the end of October, 2008.

The total equity class market value asset allocation target range for each of SIF, DWRF and CWPF is 17-23% of total invested assets. The total fixed income market value asset allocation target range for these three funds is 55-63% of total invested assets. The unaudited equity class market value asset allocations on October 31, 2008 were 16.1% for SIF, 15.6% for DWRF and 16.6% for CWRF. Each of these equity allocations were below the minimum 17.0% market value allocation as the equity portfolios of each fund declined an estimated 16.7% in value during October, 2008, or significantly more than the fixed income market value decline estimated at 7.3% for the same month. As a result of this wide variance in performance between these two major asset classes for each fund, each of the unaudited fixed income allocations were above the maximum 82.0% market value allocation for fixed income for SIF (82.1%), DWRF (84.0%) and CWRF (82.3%) at the end of October, 2008.

The decision was made by the BWC staff Portfolio Rebalancing Committee to suspend any portfolio rebalancing actions during this time of national financial crisis and poor credit availability, causing extreme volatility of U.S. markets.

Further discussion on the current BWC rebalancing policy and its implementation will occur at the November, 2008 Investment Committee meeting on November 20, 2008.

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: August 29, 2008

Amends Adoption of: February 29, 2008

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The Ohio Bureau of Workers' Compensation
Statement of Investment Policy and Guidelines

I. INVESTMENT OBJECTIVES

The primary investment objective is to manage the reserve to preserve the ability of Funds to pay all disability benefits and expense obligations when due. Meeting this objective necessitates prudent risk-taking with the Funds' investments. An additional objective is to earn sufficient returns to grow the surplus over time and to keep premium payments as reasonable and predictable as possible for the benefit of the injured workers and employers of Ohio.

II. BACKGROUND

A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and Ancillary Funds ("the Funds"). The Workers' Compensation Board of Directors ("Board") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the surplus and reserves of the Funds as required by Ohio Revised Code Section 4121.12(F).

The Board is required to establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. (O.R.C. 4121.12(F))

B. Fiduciary Standard

Under Ohio Revised Code Section (O.R.C.) 4123.44, the voting members of the Board, the Administrator of OBWC, and the Chief Investment Officer of the OBWC are trustees of the state insurance fund and fiduciaries of the Funds, which are held for the benefit of the injured workers and employers of Ohio.

*All fiduciaries shall discharge their duties with respect to the Funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. (*O.R.C. 4123.44*)*

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the O.R.C. 4123.44 and any other applicable statutory or administrative rules. A copy of the O.R.C. 4123.44, as amended, is attached to this Investment Policy and all aspects of this Investment Policy shall be construed and interpreted in a manner consistent with O.R.C. 4123.44.

III. ROLES AND RESPONSIBILITIES

A. Board Responsibilities

The Board is the primary body charged with overseeing investment activities relating to the Funds. Its oversight functions include the duties specified below:

i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.

ii. Permit the Administrator to invest in an investment class only after the Board, by majority vote, opens the class in question.

iii. Close any class of investments when it deems prudent.

iv. Monitor and review the investment performance of the Funds on a quarterly (February, May, August and November) basis to determine achievement of goals and compliance with this Investment Policy.

v. Advise and consent to the Administrator's hiring of the CIO.

vi. Advise and consent to the OBWC's employment of an internal auditor, who shall report directly to the Board on investment matters.

vii. Approve the selection and termination of all Investment Consultants.

viii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.

ix. Approve the final selection and funding and termination of all Investment Managers and General Partners.

x. Approve the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

xi. Prohibit on a prospective basis any specific investment that the Board finds to be contrary to the Investment Objectives of the Funds. In the event that the Board determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the Board shall direct the Administrator to take the appropriate corrective action.

xii. Submit a report annually on the performance and the value of each investment class to the governor, the president and minority leader of the senate, and the speaker and the minority leader of the house of representatives.

xiii. Advise the Administrator of the Board's criteria for approving proposed dividends submitted to it pursuant to R.C. 4123.32 and Ohio Admin. Code 4123-17-10.

The Board may appoint members to an Investment Committee for the express purpose of assisting the Board to carry out any of the responsibilities enumerated here.

B. OBWC Staff Responsibilities

The Chief Investment Officer shall be employed by the Administrator, with the advice and consent of the Board, and shall be a senior member of the OBWC staff with the primary responsibility for implementing the Investment Policy. Subject to the supervision and control of the Administrator, the Chief Investment Officer shall:

i. Consult with and receive approval from the Board regarding the appropriate strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving relevant facts or situations.

ii. Recommend permissible asset classes for investment to the Board.

iii. Monitor and review the investment performance of the Funds on a monthly basis to determine achievement of goals and compliance with Investment Policy. Provide a report of monthly market value changes by investment asset class.

iv. Consult with and receive approval from the Board on the selection and termination of all Investment Consultants.

v. Consult with and receive approval from the Board on the selection and termination of all Investment Managers and General Partners.

vi. Consult with and receive approval from the Board on the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

vii. Implement the directives of the Board.

viii. Supervise the management of each Fund's assets in accordance with this Investment Policy and the objectives and guidelines set forth herein.

ix. Consult with and receive approval from the Board regarding criteria and procedures to be utilized to select Investment Managers and General Partners.

x. Monitor all managed assets to insure compliance with the guidelines set forth in this Investment Policy and report same to the Board on a monthly basis.

xi. Inform and receive approval by the Board of any significant change in investment strategy of approved Investment Managers and General Partners.

xii. Monitor manager trade execution.

xiii. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds set forth herein. The CIO may retain a third party proxy voting service or direct investment managers to vote the proxies related to securities held in their respective portfolios.

xiv. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory obligations related thereto.

xv. Report to the Board on at least an annual basis summary trade activity by brokerage firm and communicate any unusual trading activity to the Board in a timely manner, including any discussions with Investment Managers regarding such trading activity.

xvi. Consult with the Funds' Investment Managers on at least a quarterly basis to discuss account performance and other material information.

xvii. Collect and review the current Form ADV of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the Board.

C. Investments Managers' Responsibilities

Each Investment Manager shall:

i. Be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of 1940.

ii. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.

iii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Investment Management Agreement and the specific portfolio guidelines contained therein.

iv. Subject to any exceptions expressly set forth herein, Investment Managers shall be directly responsible for executing trades related to the portfolios they manage for the Funds. Investment Managers shall be responsible for seeking the best execution of trades. Any Broker used by any Investment Manager must be properly licensed.

v. Provide monthly performance evaluation reports that comply with the Global Performance Presentation Standards (GPPS) issued by the CFA Institute.

vi. Provide the CIO with firm's Brokerage, Soft Dollar and Trade Execution Policy on an annual basis.

vii. Provide the CIO with a report on at least monthly basis on the trading activities of the Funds, including, but not limited to, the volume of trades and related commissions executed by each Broker.

viii. Provide the CIO with the firm's Ethics Policy and quarterly confirmation of its compliance with said policy.

ix. Provide the CIO with the firm's most recent Form ADV on an annual basis.

x. Comply with the Campaign Contribution Policy as set forth in the Ohio Revised Code (O.R.C.) Section 3517 and provide written evidence of such compliance on a quarterly basis.

xi. Promptly inform the CIO in writing of all changes of a material nature pertaining to the firm's organization and professional staff.

xii. If directed by the Administrator and/or the Chief Investment Officer, shall promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds. Each manager designated to vote shall provide OBWC with firm's proxy voting policy on an annual basis, keep detailed records of said voting of proxies and related action and comply with all regulatory obligations related thereto.

xiii. Report to the CIO on at least a quarterly basis on the status of the portfolio and its performance for various time periods and meet with the staff at least semi-annually to report on the economic outlook and compliance with goals and objectives.

xiv. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy.

D. General Partners' Responsibilities

Each General Partner shall:

i. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.

ii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Partnership and/or Subscription Agreement and the specific portfolio guidelines contained therein.

iii. Provide the CIO with quarterly financial statements and an audited annual financial statement for each partnership or fund to which the Ohio BWC has made a commitment.

iv. Provide the CIO with an annual Valuation Certification attesting to the value of the Ohio BWC holdings in each partnership or fund.

v. Provide the CIO with the firm's Ethics Policy and annual confirmation of its compliance with said policy (for agreements entered into after January 1, 2006 only).

vi. Promptly provide the CIO with a detailed report of all capital calls and/or distributions for each partnership or fund.

vii. Comply with the Campaign Contribution Policy as set forth in the Ohio Revised Code (O.R.C.) Section 3517 and provide written evidence of such compliance on an annual basis (for agreements entered into after January 1, 2006 only).

viii. Promptly inform the CIO in writing of all changes of a material nature pertaining to the firm's organization and professional staff.

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

i. Provide independent and unbiased information to the Board, the Administrator and the CIO.

ii. Assist in the development and amendment of this Investment Policy.

iii. Assist in the establishment of strategic asset allocation targets.

iv. Assist in the development of performance measurement standards.

v. Report the quarterly investment performance results and quarterly risk characteristics of the Funds to the Board.

vi. Monitor and evaluate Investment Manager performance on an ongoing basis.

vii. Conduct due diligence on the Funds' current and prospective Investment Managers.

viii. Establish a procedural due diligence search process.

ix. Assist in the development of criteria and procedures to be utilized for the selection of all Investment Managers.

x. Provide the CIO with the firm's most recent Form ADV on an annual basis.

xi. Provide any other advice or services that the Board or the Administrator and Chief Investment Officer determine from time to time is necessary, useful or appropriate to fulfill the objectives of this Investment Policy in accordance with the Investment Consulting Agreement.

IV. INVESTMENT POLICY GUIDELINES

A. Asset Allocation Guidelines

The Funds are part of the Ohio Workers' Compensation System, an exclusive state insurance fund system that is held for the sole benefit of the injured workers and employers of Ohio.

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as fixed income, U.S. equity, non-U.S. equity, alternative investments and cash equivalents. The asset allocation decision reflects the Funds' return requirements as well as the Funds' tolerance for return variability (risk) within the context of the expected liabilities of the Funds. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, premiums and total assets. These factors are important for identifying the investment horizon of the Funds and their cash flow requirements. A formal asset/liability analysis for each Fund will be conducted annually, or more frequently if conditions warrant.

The Board has adopted a long-term asset allocation policy for each Fund that identifies the strategic target weights to each of the major asset classes. These policies are detailed in Section VII.

B. Rebalancing Policy

The asset allocation targets represent a long-term strategy. Short-term market activity will cause the asset mix to drift from the specific allocation targets. A **Rebalancing Policy** is designed to provide a disciplined approach to control the risk exposure of each Fund to the investment categories that have deviated from the established target policy weights. The Board has adopted a policy of range rebalancing. Under range rebalancing, asset rebalancing will be triggered only when actual weightings fall outside of the ranges specified above. The Board expects range rebalancing to produce a superior return/risk tradeoff as compared to time rebalancing because turnover occurs only when necessary.

The Funds' asset allocations are to be monitored quarterly, or more frequently if market conditions warrant. Should the actual asset allocations for a particular class of investments deviate from the indicated range for a particular asset class, the Administrator and Chief Investment Officer will make the necessary adjustments to satisfy the asset allocation guidelines established by this Investment Policy. In order to minimize turnover, Fund cash flows, such as premiums received or benefits paid, will be used to the fullest extent to achieve rebalancing objectives.

C. General Guidelines

The following represent the general guidelines that will apply to the management of Fund assets. In addition, each Investment Manager will have specific guidelines that are part of their Investment Management Agreement that will document the Funds' performance expectations and the Investment Manager's role in the overall portfolio. The Funds use these guidelines to establish, guide and control the strategy for each Investment Manager.

i. The following guidelines serve to diversify the organizational risk of Investment Management firms or General Partners providing services to the Funds and to minimize the dependence by the Funds on any one investment firm. The diversification guidelines are as follows:

- No one investment organization or General Partner, utilizing active investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The Board, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
- The Funds' assets managed by any one firm, utilizing either active or passive investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that asset class at the time it is hired. For purposes of this constraint, "asset class" shall be broadly defined to include all styles, sub-sectors, or specialty portfolios managed by a firm within a particular asset class.

ii. **Fixed Income Investments**

The investment goal of the fixed income investments is to protect the Funds against adverse changes in the value of the Funds' assets relative to their liabilities. The Board has adopted a policy to invest each Fund's fixed income portfolio in a manner that will approximate the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow the surplus.

Average Weighted Credit Quality
The minimum average weighted quality of the total fixed income portfolio shall be A, as measured by the lower of the Moody's or Standard & Poor's (S&P) rating.

Duration
The duration of the fixed income portfolio in aggregate shall be maintained within a range of +/- 5% of each Fund's fixed income benchmark.

Diversification

The fixed income portfolio in the aggregate shall be diversified as specified below[1] to minimize the risk of losses:

By Sector:

Sector Allocation	**Max. % of Fixed Income**
U.S. Governments:	***100%***
Treasuries	100%
Agencies	100%
Mortgages	***40%***
Agencies	40%
Non-Agency	10%
Collateralized Mortgage Obligations (CMOs) (must be rated AA or better)	10%
Commercial Mortgage Backed Securities (CMBS) and Project Loans	10%
Floating Rate Mortgages	10%
Investment Grade Credit	***70%***
Finance	35%
Industrial	35%
Transportation	35%
Utilities	35%
Yankees	15%
Asset Backed Securities (ABS) (must be rated AA or better)	10%
Foreign Governments	***5%***
Below Investment Grade Credit	***7.5%***

[1] Percentages represent a maximum allocation and will not sum to 100%

By Credit Quality:

Credit Quality	Max. % of Fixed Income	Credit Name Max %
Governments/Agencies	100%	N.A.
Aaa/AAA or below	80%	1.00% (AAA only)
Aa/AA or below	65%	1.00% (AA only)
A/A or below	40%	0.75% (A only)
Baa/BBB or below	25%	0.50% (BBB only)
Ba/BB or below	7.5%	0.25% (BB only)
B/B or below	*	0.10% (B only)
CCC	**	0.05% (CCC only)
Below CCC	0%	0.00%

***Maximum of 70% of "Ba/BB or below" securities owned**
****Maximum of 20% of "Ba/BB or below" securities owned**

Individual credit name limits are applicable for actively managed fixed income mandates, and are not applicable for passively managed (index) fixed income mandates. Credit name is defined as unique ticker symbol, such that each distinct credit name has a different ticker symbol as represented on Bloomberg or other such informational source used by the sponsor of the fixed income benchmark index approved.

Maximum percentages refer to market value of each security or credit name owned for the Funds' Fixed Income portfolio in its aggregate. Credit ratings recognized are Moody's, Standard & Poor's and Fitch. Credit rating applicable is the lower of the two ratings if such security is rated by only two of the three rating agencies. Credit rating applicable is the middle rating if such security is rated by all three rating agencies, as consistent with the rules used by the sponsor of the fixed income benchmark index approved. The Chief Investment Officer will report to the Board the details of any guideline violation at the next scheduled Board meeting, or sooner if warranted in the judgment of the Chief Investment Officer. Each Investment Manager will be required to adhere to this Investment Policy in general and will be provided with specific investment security guidelines by the Chief Investment Officer consistent with these Credit Quality and Sector Allocation guidelines in the aggregate.

In the event that downgraded securities result in a violation of these constraints, the Board shall grant an exemption that would allow the Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the Chief Investment Officer. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the applicable guidelines to the Chief Investment Officer. Such action plan will be reflected in the compliance report of the Chief Investment Officer to be presented at the next scheduled Board meeting.

The Funds may invest in Rule 144A and private placement securities subject to the sector and credit constraints specified above.

iii. U.S. Equity

The investment goal of the domestic equity investments is to offer the Funds a broad exposure to the return opportunities and investment characteristics associated with the U.S. domestic equity market.

Diversification

The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's U.S. Equity benchmark.
- No single holding shall account for more than 5% of each Fund's total U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

Non-U.S. Equity

The investment goal of the non-U.S. equity investments is to offer the Funds a broad exposure to the return opportunities, diversification effects and investment characteristics associated with the non-U.S. equity market.

Diversification

The Non-U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's Non-U.S. Equity benchmark.
- Investments will be diversified by geographic region and sector, so as to optimize the relationship of expected return to expected risk after taking into consideration the asset allocation of each Fund.
- No single holding shall account for more than 5% of each Fund's total Non-U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

iv. Alternative Investments

The State Insurance Fund has allocated a portion of its investment portfolio to private equity securities, limited partnerships and funds of funds subject to all applicable legal requirements and limits set forth in this Investment Policy. The purpose of investing in private equity securities, partnerships or funds is to enhance the overall investment returns of the Funds.

Future investments in Alternative Investments are not presently anticipated.

v. **Cash Equivalents**

Cash equivalents may be held to meet each Fund's short term cash flow needs.

vi. **Securities Lending**

Securities lending shall be engaged by the Funds or their Investment Managers as determined and approved by the Board.

vii. **Derivatives**

A derivative is broadly defined as a contract whose value is based on the performance of an underlying financial asset, index or other investment. The most common forms of derivatives are futures, options, swaps and forwards.

The use of derivatives by the Funds or their Investment Managers is prohibited unless specifically approved by the Board. Specific approvals include:

1. Permission is granted to passive indexed investment managers to use futures on financial contracts in the management of commingled investment funds. The Board anticipates that this use of financial futures may be initiated by investment managers for specific risk-control purposes such as the facilitation of the investment of a large inflow of new money into the commingled fund.

   The Board also recognizes that the language of the policies of some commingled funds permits other financial derivatives such as options and swaps. The Board has a very low tolerance for the use of other financial derivatives in commingled funds. On the infrequent occasions when financial derivatives such as options and swaps are used in commingled funds, the Board will carefully evaluate whether remaining invested in that commingled fund is appropriate.

2. Permission is granted to investment managers to use futures on financial contracts in the management of portfolio transitions. This use of financial futures will be reported to the Board in advance and will typically begin and end in short periods of time.

   In every case where financial derivatives are used, the Board requires the investment staff of the BWC to report the use of the derivatives to the Board at the next scheduled meeting after the derivatives position has been initiated so that the Board may judge the appropriateness of the risks of the derivatives position.

3. Other derivatives that are generally approved for use include: collateralized mortgage obligations (CMOs), asset backed securities (ABS), and TBA mortgaged-backed securities in accordance with the restrictions outlined below and in Section IV.C.ii above. Other broad classes of derivatives may be added in the future as deemed necessary and desireable by the Board.

   CMOs are mortgage-backed bonds that separate mortgage pools into different maturity classes. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government-guaranteed or other top-grade mortgages. To qualify for investment by the Funds, CMOs must be rated AA or better and not be levered. Interest-only (IOs) and principal-only (POs) instruments are prohibited.

ABS are bonds or notes backed by loan paper on accounts receivable originated by banks, credit card companies or other providers of credit and often "enhanced" by a bank letter of credit or by insurance coverage provided by an institution other than the issuer. To qualify for investment by the Funds, ABS must be rated AA or better.

TBA ("to be announced") pools are mortgage-backed securities in which the specific underlying mortgage pools are not identified at the time of commitment to purchase, but which share defined characteristics such as coupon and term to stated maturity. TBA pools are sometimes either sold before settlement or extended in settlement from original settlement date to a future settlement date that is typically in the next month. To qualify for investment by the Funds, TBA pools must be issued by Freddie Mac, Federal National Mortgage Association (Fannie Mae), or Government National Mortgage Association (Ginnie Mae).

viii. **Commission Recapture / Directed Brokerage**

The Funds shall not engage in commission recapture or directed brokerage programs.

ix. **General Prohibitions**

The following activities or investments are expressly prohibited within the Funds:

a. Short selling in any form.
b. The use of all forms of leverage or the purchase of securities with borrowed money is prohibited, except that the Board recognizes that financial futures are generally purchased on margin and this is permitted.
c. Coins, artwork, horses, jewelry, gems, stamps, antiques, artifacts, collectibles, and memorabilia.
d. Direct or indirect investments in vehicles that target specified assets, which includes unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity and that lack readily determinable valuation.

V. PERFORMANCE OBJECTIVES

A. Total Fund

The primary performance objective for each Fund is to achieve an aggregate rate of return that exceeds the return of each Fund's Performance Benchmark on a consistent basis. The Benchmark combines designated market and/or custom indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are:

Asset Class	Benchmark
Total Fixed Income:	***N/A***
Intermediate Duration	Lehman Intermediate U.S. Government/Credit Index
Long Duration	Lehman Long U.S. Government/Credit Index
High Yield	Merrill Lynch High Yield Master II
Inflation-Protected Securities	Lehman U.S. TIPS
U.S. Equity	***Wilshire 5000***
Large Cap	S&P 500
Small/Mid Cap	Wilshire 4500 / Russell 2500
Alternative Investments	Wilshire 5000 + 5%
Non-U.S. Equity	***MSCI EAFE***
Cash Equivalents	***90-Day T-Bill***

B. Asset Class Composites

Each asset class shall be measured relative to its designated market and/or custom index. It is expected that any active management of individual asset classes will provide an investment return in excess of the index, net of expenses, on a consistent basis.

C. Investment Managers

On a timely basis, but not less that four times a year, the Chief Investment Officer will meet with the Investment Consultants to:

- Evaluate the performance of each Investment Manager.
- Review each Investment Manager's adherence to this Investment Policy.
- Analyze any material changes in the Investment Manager's organization, investment strategies or personnel.
- Review each Investment Manager's performance relative to appropriate indices and peer groups.

Each Investment Manager's performance shall be evaluated relative to an appropriate benchmark index and a relative peer group of managers as indicated below. They are expected to (1) rank above median versus their respective peer groups and (2) earn investment returns, net of expenses, that equal or exceed their respective benchmark index.

The performance of each Investment Manager will be monitored on an ongoing basis and the Administrator and the Chief Investment Office shall take any appropriate corrective action, including, subject to approval by the Board, the termination and replacement of an Investment Manager. Factors that may lead to terminating a manager relationship include:

- Performance below median (50th percentile) of their peer group.
- Realization of investment returns, net of expenses, that lag their respective benchmark index.
- Failure to adhere to this Policy or the portfolio's Investment Guidelines.
- Failure to comply with the Ethics Policy of the firm or the Board.
- Violation of any law.
- Style drift.
- Organizational changes including:
    - Change in professional staff
    - Significant loss of clients
    - Significant growth of new business
    - Change in ownership

VI. COMMUNICATIONS

- Each Investment Manager will provide written reports at least monthly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Private Equity General Partner will provide written reports at least quarterly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Investment Manager will provide all reporting required under Section III. C. of this Policy.
- Each Investment Manager is expected to meet with the Administrator and/or the Chief Investment Officer at least annually at OBWC offices.
- Frequent and regular communication with the OBWC by all Investment Managers is encouraged.

VII. TARGET ASSET MIXES AND RANGES

A. State Insurance Fund (SIF)

The State Insurance Fund liabilities consist of the following primary components:

- Indemnity cost: the compensation paid to injured workers for lost wages
- Medical cost: the cost of providing medical coverage to injured workers

These liabilities are long-term in nature, with an approximate duration of 10 years. Premiums are set each year at a level that is expected to cover the cost of future claims. Future claims are estimated based on actuarial methods that measure the expected indemnity and medical costs. These costs are discounted at a rate that is consistent with the guidelines as established by the Government Accounting Standards Board (GASB).

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

			Management Style	
Asset Class	**Policy Target[1]**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity				
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	4-6%	0%	5%

[1] Alternative Investments includes private equity and the coin fund. This asset class targets will be combined with that of Small/Mid Cap U.S. Equity until a final determination has been made regarding the potential liquidation of these assets

B. Coal Workers' Pneumoconiosis Fund (CWPF)

The Coal Workers' Pneumoconiosis Fund ("CWPF") provides benefits for injured workers under the Federal Coal Mine Health and Safety Act of 1969. The CWPF provides voluntary coverage to employers who have employees who are exposed to coal dust, as required by federal law.

These liabilities are long-term in nature, with an approximate duration of 11 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***74%***	***5%***
Long Duration	54%	51-57%	54%	0%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***20%***	***0%***
U.S. Equity	20%			
Large Cap	17%	9-15%	17%	0%
Small/Mid Cap	3%	2-4%	3%	0%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	0%	NA	NA	NA

C. Marine Industry Fund (MIF)

The Marine Industry Fund ("MIF") provides voluntary coverage to employers who have employees who work on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[2] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%[3]
Cash Equivalents	***1%***
Total Equity	***0%***

[2] Expected to be implemented by December 31, 2006

[3] Approval to invest the assets of the MIF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

D. Disabled Workers' Relief Fund (DWRF)

The Disabled Workers' Relief Fund ("DWRF") provides supplementary payments to workers whose combined Permanent and Total Disabled plus Social Security disability benefits are lower than the DWRF entitlement amount.

These liabilities are long-term in nature, with an approximate duration of 10 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity	15%			
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	4-6%	0%	5%

E. Public Work-Relief Employees' Fund (PWRF)

The Public Work-Relief Employees' Fund ("PWRF") provides benefits for "work-relief employees" who are engaged in any public relief employment and receiving "work-relief" in the form of public funds or goods in exchange for any service or labor rendered in connection with any public relief employment.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%[1]
Cash Equivalents	***1%***
Total Equity	***0%***

[1] Approval to invest the assets of the PWRF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

F. Self Insured Employers Guarantee Fund (SIEGF)

The Self Insured Employers Guarantee Fund ("SIEGF")/Surety Bond Fund ("SBF") provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers.

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***0%***
Cash Equivalents	***100%***
Total Equity	***0%***

VIII. REVIEW PROCEDURES

The Board in conjunction with the Administrator, Chief Investment Officer and Investment Consultant will review this policy statement at least once a year, to determine if revisions are warranted and will publish the policy statement and any changes it adopts and make copies available to all interested parties.

It is not expected that this Investment Policy will change frequently; in particular short-term changes in the financial markets should generally not require an adjustment in this Investment Policy.

IX. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

The Board desires that Staff and the Investment Consultant identify, research and evaluate qualified Ohio managers, minority managers and women-owned managers and that Investment Managers give consideration to such managers and brokers in their efforts to fulfill the Funds' investment objectives, but only in compliance with their respective fiduciary duties to the Funds.

<u>Qualified Ohio Managers - Criteria</u>

As used in this Investment Policy, a qualified Ohio-qualified investment manager or broker is one that meets at least one of the following requirements:

- Has its corporate headquarters or principal place of business in Ohio
- Employs at least 500 individuals in Ohio
- Has a principal place of business in Ohio and employs at least 20 residents of the State

<u>Minority Managers – Criteria</u>

As used in this Investment Policy, a minority manager shall be defined as an investment manager or broker that is U.S. domiciled and is majority-owned by one, or any combination, of the following groups: African American, Native American, Hispanic American and Asian American.

Additionally, Investment Managers who are majority-owned by women are included in this Policy

In addition to the requirements above, any qualified Ohio manager, and any minority or women-owned Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940. Any Broker must be properly licensed.

It is the Board's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the Board is not obligated to hire any qualified Ohio manager, minority or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders.

12-month Investment Committee Calendar

Date	Agenda	Notes
Date	**November**	**Notes**
11/20/08	1. Mercer Asset/Liability Project progress report - Deep Dive 2. Annual Investment Committee Charter Review, vote 3. Commingled Index Manager recommendation, possible vote 4. Portfolio Rebalancing recommendation, possible vote 5. Investment class performance/value annual report [ORC 4121.12(F)(12)], possible vote 6. Investment Consultant Performance Report 3Q08 7. Private Equity sale completion report 12:00 pm-2:00 pm, Level 2 Room1	
Date	**December**	
12/17/08	1. Mercer Asset/Liability Project progress report 2. Annual Custodial Review	
Date	**January**	
1/22/09	1. Investment Consultant Asset/Liability Report and recommendation, possible vote	
Date	**February**	
2/19/09	1. Investment Consultant Performance Report 4Q08	
Date	**March**	
3/19/09		
Date	**April**	
4/29/09		
Date	**May**	
5/28/09	1. Investment Consultant Performance Report 1Q09	
Date	**June**	
6/18/09		
Date	**July**	
7/30/09	1. BWC Investment Division Goals FY2010	
Date	**August**	
8/27/09	1. Investment Consultant Performance Report 2Q09	
Date	**September**	
9/24/09		
Date	**October**	
10/29/09		