

**Call to Order**

Bob Smith, Committee Chair

**Roll Call**

Tom Woodruff, Scribe

**Approve Revised Minutes of the December 19, 2007 Meeting**

Bob Smith

**Approve Minutes of the January 24, 2008 Meeting**

Bob Smith

**New Business/Action Items**

1. Investment Policy Statement Review
  - Recommendation to revise Section III.B regarding BWC Staff Responsibilities  
Bob Smith and Bruce Dunn  
*first consideration* for action  
*possible vote* to recommend approval to the Board of Directors
  - Recommendation to revise Section III.E regarding Investment Consultants' Responsibilities  
Bob Smith and Bruce Dunn  
*first consideration* for action  
*possible vote* to recommend approval to the Board of Directors

**Discussion Items**

1. Portfolio Performance
  - Wilshire Quarterly – Fourth Quarter 2007  
Bruce Dunn
2. Portfolio Monthly Value Comparison
  - January 2008/December 2007  
Bruce Dunn
3. Mercer Consulting Proposed Work Plan Topics  
Rich Nuzum, Guy Cooper, Kristin Finney-Cooke, Kweku Obed
4. Annual Calendar of Events/Reports  
Bob Smith and Bruce Dunn
5. CIO Report – January 2008  
Bruce Dunn

**Adjourn**

**Next Meeting: March 27, 2008, 12:00 pm – 2:00 pm @OCOSH, 13430 Yarmouth Drive, Pickerington, Ohio**

(Joint Meeting with Actuarial Committee)

**BWC Board of Directors  
Investment Committee**

**Thurs., Jan. 24, 2008, 2:00 P.M.**

William Green Building  
The 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 member

Other Board Members Present:

James Hummel  
Jim Matesich  
Philip Fulton  
Kenneth Haffey

**Call to Order**

Mr. Smith called the meeting to order at 2:00 PM and the roll call was taken.

**Minutes of Dec. 19, 2007**

Alison Falls suggested several changes. On page one, after the first sentence, the presentation made should be incorporated as part of the minutes covering the major areas of the comprehensive slide presentation. The next two sentences should be deleted. On page two, the second paragraph, there was substantial discussion with regard to the risks involved in securities lending. On page three, at the bottom, Ms. Falls indicated that the benchmark change was favored, in large part, due to increased diversification, increased opportunity for higher returns, and decreased risk profile. Mr. Caldwell and Mr. Harris noted the minutes should reflect that their votes with regard to the new benchmark index reflect their desire to invest in America. Mr. Lhota noted that minutes for the Investment Committee should note that he is an ex officio member and that all Committee minutes should list attendance of non Committee member directors. The minutes for December shall be reconsidered for approval next month.

**Charter Review**

Don Berno, Board Liaison, noted that the Investment Committee Charter indicates that the Committee Chair and Vice Chair are designated by the Board. The Charter further reflects that the ex officio member Board Chair shall not vote if the Chair's vote will create a tie vote. Upon

motion by Mr. Price, seconded by Mr. Harris, the Charter was approved unanimously by all Committee members.

## **New Business/Action Items**

### **Investment Policy Statement Review**

Bruce Dunn, Chief Investment Officer, discussed his memorandum dated January 14, 2008 proposing and recommending changes to the Investment Policy Statement and incorporated into the minutes, by reference, in detail. Mr. Dunn mentioned that the Investment Committee approved in November and December 2007 both a Request for Quote for two ancillary trust funds and a Request for Proposal for the three largest trust funds of the Bureau involving the selection of passive index investment managers. These approvals were provided for the purpose of transitioning from a separate account structure to a commingled account structure for the management of passive indexed investment assets. Mr. Dunn indicated that the recommendations provided in this memorandum are made to eliminate inconsistencies reflected in the IPS between the composition of the BWC fixed income benchmarks and the ownership of foreign-related issues. Mr. Dunn indicated such inconsistencies need to be addressed before the approved RFQ and RFP documents can be issued by the Bureau.

There was discussion of the specifics of the proposed Investment Policy Statement changes of Section IV.C.ii as reflected in the memorandum. Mr. Dunn stated the recommended increase in the limits of foreign government-related debt to 5% from 0% and of Yankee debt to 15% from 10% for the Bureau's fixed income portfolios in the aggregate would permit outside investment managers to manage effectively to the appropriate fixed income benchmarks in place for the Bureau. Mark Brubaker and Mike Patalsky of Wilshire Consulting indicated their support for such changes to enable outside investment managers sufficient latitude to meet their performance objectives.

Discussion on this issue ensued between the committee members. Ms. Falls raised the issue as to whether or not sector allocation restrictions reflected in this Section IV.C.ii was for active management or passive management of funds. Mr. Dunn responded that sector allocation was applicable for both active and passive management. Mr. Dunn pointed out that the recent changes made to Section IV.C.ii of the IPS with respect to individual Credit Name ownership restrictions are applicable for only actively managed fixed income mandates and are not applicable for passively managed indexed fixed income mandates. Mr. Dunn further explained that for active management, managers could deviate significantly from benchmark sector weights as long as the fixed income portfolios of BWC, in the aggregate, comply with these diversification guideline limits set forth in this Section IV.C.ii. Mr. Smith indicated BWC should stay consistent with benchmark policies for passive managers. Ms. Falls made the observation that for active fixed income managers to beat their benchmark index, such managers have portfolio management strategies that may differ significantly from the composition of a benchmark index. There remains an issue as to what guidelines apply for active managers. .

Mr. Price questioned what the implications were of the phrase "in the aggregate" being added to Section IV.C.ii of the IPS. Mr. Dunn responded that it meant that a specific trust fund portfolio

could deviate from the diversification guidelines as long as, in the aggregate when all BWC trust funds are grouped together, the combined trust funds meet these guidelines.

Ms. Falls raised the issue as to what impact will there be on the current IPS when changes occur in the benchmark indices. Mr. Dunn indicated that the Investment Committee will be alerted if the trend of such changes in a benchmark index may require the diversification requirements of the IPS to be readdressed. Ms. Falls also requested that in the future when the Bureau's investment practices are modified, all corresponding parts of the IPS be modified at the same time.

A motion was made by Ms. Falls, and seconded by Mr. Price, as follows: that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it amend section IV.C.ii of the Investment Policy Statement regarding foreign bond ownership limits, in order to correct certain inconsistencies arising from prior changes to the Investment Policy Statement, for reasons outline in the memorandum of the Bureau's Chief Investment Officer dated January 14, 2008. The exact changes adopted by this motion will be incorporated by reference into the minutes of this meeting of the Investment Committee. A roll call vote was taken, and the motion passed 6-0.

### **Appendices**

Mr. Smith stated that the appendices of the IPS are too restrictive, in that they are outdated and in some cases unnecessary. A discussion ensued regarding whether the level of specificity in the appendices of the IPS was necessary. A motion was made by Mr. Smith, seconded by Ms. Falls, as follows: that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that appendices 9, 11A, 11B, 12, 13, 14 as well as previously suspended appendix 15 be deleted. A roll call vote was taken, and the motion passed 6-0.

## **Discussion Items**

### Calendar of Events

Mr. Dunn highlighted certain future topics on the Calendar of Events, specifically investment risk tolerance, derivatives use and the selection of minority managers.

### CIO Report – January 2008

Mr. Dunn discussed his monthly CIO memorandum dated January 11, 2008. The memorandum is incorporated by reference into the minutes. The memorandum discusses six strategic goals for fiscal year 2008. Included in such goals are the hiring of additional members of the investment team with the objective of attaining a full team of 11 staff members, including two support staff. With respect to the private equity sale, there are eight remaining funds to be sold.

### Asset Allocation

Mr. Dunn provided a handout that provided the asset allocation ranges and targets between bonds, equity and cash at market value applicable for each of the State Insurance Fund, Disabled Workers Fund and Coal Workers Fund portfolios. The combination of the strong performance of the fixed income markets and the negative return of the S&P 500 index in recent months has resulted in the Total Fixed Income allocation currently being higher than its targeted allocation range and the Total

Equity allocation currently being right at the low end of its targeted allocation range for both the SIF and Coal Workers Fund portfolios. In addition, Mr. Dunn indicated that the cash balances for SIF are at its projected low point for the year. Mr. Dunn pointed out that the asset allocation Rebalancing Policy of the Bureau indicates that should actual asset allocations deviate from the indicated range, the Administrator and CIO will make the necessary adjustments, factoring in projected future cash flows. Mr. Smith commented that the advance in Treasury prices and decline in equity prices since October reflect the types of market changes that should trigger a rebalance of equities and fixed income. Mr. Smith inquired as to whether U.S. treasuries were overvalued. Mr. Dunn indicated yes. Mark Brubaker of Wilshire Consulting, stated that asset allocation rebalancing should be ministerial. Marsha Ryan, Bureau Administrator, inquired as to whether there were any cash flow trends that the Bureau needed to be concerned about. Mr. Dunn replied that cash flow trends have been predictable for the past few years. Mr. Dunn indicated the Bureau's Fiscal and Planning Division projects an increase in cash balances of approximately \$400 million by the end of February 2008. Ms. Falls raised the issue as to why cash was not being used for rebalancing. Mr. Dunn stated that it is not expected that these increases in cash flow balances will be applied towards bond or stock investments. In fact, Mr. Dunn indicated the increase in cash balances will cause the equity asset allocation to decline further. Mr. Harris inquired as to whether a rate decrease and economic stimulus package will stabilize the economy. Mr. Brubaker stated that a clearly defined rebalancing policy reflects upon investment best practices in that it eliminates the attempt to forecast future market movements. Mr. Smith asked that the BWC's Rebalancing Policy be reviewed and revised if necessary to make it a clearly defined policy. Mr. Smith noted that criticisms of the Bureau have been made in the past for not taking advantage of the equity markets. Despite these criticisms, the Bureau is now benefiting from its investments in fixed income. Mr. Dunn indicated it is likely that the Bureau may execute an asset allocation rebalancing strategy after further discussion with its external portfolio managers.

## **Adjournment**

Motion was made by Mr. Price and seconded by Mr. Harris, to adjourn the meeting at 3:06 PM.

Prepared by Tom Woodruff, BWC Staff Counsel

**BWC Board of Directors**  
**Investment Consultant Evaluation Committee**

**DRAFT**  
**Fri., Jan. 25, 2008, 8:45 AM**

William Green Building  
The Neil Schultz Conference Center  
30 West Spring Street, 2nd Floor (Mezzanine)  
Columbus, Ohio 43215

Members Present: Robert Smith  
Alison Falls  
David Caldwell  
James Harris  
Larry Price  
William Lhota  
Bruce Dunn  
Lee Damsel

Other Board Members Present:

James Matesich  
Charles Bryan  
James Hummel  
Kenneth Haffey  
Philip Fulton

**Call to Order**

Robert Smith called the meeting to order at 8:45 AM and the roll call was taken. All committee members were present.

**Discussion Items**

Discussion was made of the request for proposal for an investment consultant. An on-site visit with Mercer Consulting, for further fact-finding, was discussed. Mr. Smith provided an overview of the Mercer Consulting firm. Mercer's proposed consulting team for the Bureau consists of Guy Cooper, Kristin Finney-Cooke, Rich Nuzum, and Kweku Obed. Mr. Cooper and Ms. Finney-Cooke will serve as co-lead consultants. Bruce Dunn, Chief Investment Officer, discussed a five-page summary of the request for proposal for a full service investment consultant. There were three finalist firms. Fee proposals were an important consideration in selecting the finalists, together with the other criteria as described in the RFP. Mercer Consulting is headquartered in Chicago, Illinois and both co-lead consultants are based in Chicago. The on-site visit to Chicago with Mercer Consulting was a four hour session, with discussion including the unique challenges of the Bureau. Mr. Smith, Mr. Dunn and Lee Damsel, Director of Investments, participated in the on-site meeting in Chicago. The Bureau's objectives for its investments were discussed. Ms. Damsel commended Mr. Smith's detailed questioning of Mercer. Mr. Dunn indicated that a clarification from Mercer was requested regarding add-on fees for extra manager searches and possible operations-related assignments not specifically included in the Scope of Services in the RFP.

Seven manager searches over a seventeen month period are included in the fees proposed by Mercer. However, if the Bureau requires additional manager searches, an additional cost will be charged. Mr. Dunn indicated that the Bureau could require over seven manager searches over the initial seventeen month term of the contract. One of the main reasons for hiring an investment consultant is the guidance and perspective that can be provided on many investment-related issues. Mercer can provide such contributions.

The Mercer proposed consulting team was introduced and made a presentation to the committee. The presentation included slides, which are incorporated by reference, into the minutes. Mercer emphasized adding value to the Bureau. Mercer's market share of public funds is the largest in the United States. Charles Bryan inquired as to Mercer's largest insurance clients. In Japan, Mercer serves as consultant to several very large insurance companies. There are several insurance company clients in the United States with assets exceeding one billion dollars. In the United States, Mercer also consults on retirement plans for insurance companies. Mercer possesses global experience with clients of similar size to the Bureau.

Mercer maintains a low client to consultant ratio of around 5:1. The core Mercer team for the Bureau shall include five people who will draw upon many additional resources and professionals with specialized skills within the firm. Mercer's goal is to add value by: increasing investment returns, manage risk, and balance cost. Mercer has 1800 clients in thirty-five countries. Mercer can assist the Bureau with achieving the objective of minimizing premiums and increasing asset returns. A question and answer session ensued between the Directors and Mercer. Mr. Smith wants Mercer to examine discount rate setting with a focus on return on assets, as opposed to an increase in premiums. Mercer indicated that a smoothing of the discount rate would allow for more investment risk. This is a key issue that Mercer would like to work on with the Bureau. There must be a focus on adequate fund surplus in addition to consideration of discount rates. The presentation concluded. Further discussion amongst the Board of Directors ensued.

A motion was made by Ms. Falls, and seconded by Mr. Caldwell, as follows: that the Request for Proposal Evaluation Committee of the Bureau Board of Directors recommend to the Board that it authorize the Administrator of the Bureau of Workers' Compensation to contract with Mercer Consulting to serve the Board as a full service investment consultant, upon such terms as are outlined in Mercer Consulting's response to the request for proposals issued on October 30, 2007, and such other terms as are favorable to the Bureau and the Board of Directors. Roll call was taken and the motion passed unanimously.

## **Adjournment**

Motion was made by Ms. Falls, and seconded by Mr. Price, to adjourn the meeting at 9:25 am. Roll call was taken and the motion passed unanimously.

Minutes taken by Tom Woodruff, Bureau Staff Counsel

**BWC Board of Directors  
Investment Committee  
Weds., Dec. 17, 2007, 12:00 P.M.**

William Green Building  
The 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

Other Members Present:

James Hummel  
Jim Matesich  
Philip Fulton  
Charles Bryan  
Kenneth Haffey

**Call to Order**

Mr. Smith called the meeting to order at 12:00 PM and the roll call was taken.

**Minutes of Nov. 20, 2007**

Upon a motion made by Mr. Harris and seconded by Mr. Caldwell, the minutes were approved.

**Charter Review**

The review of the committee charter was moved to the meeting for next month.

**New Business/Action Items**

**Securities Lending**

Lee Damsel, Director of Investments, and Bruce Dunn, Chief Investment Officer, presented an overview of securities lending. The presentation is incorporated by reference as part of the minutes. Securities lending involves specific longer-term held securities such as bonds and stocks that are loaned to entities that need them for a short period of time. These entities pay a borrowing fee for the security, thus providing additional incremental revenue to the owner and lender of the security. Mr. Matesich inquired about the nature of the collateral utilized to secure the return of the security. Ms. Damsel indicated that securities on loan are collateralized from 102% to 105% of their value. Securities lending will impact the financial statements. Securities lending will enhance revenue and

provide additional funds to meet operating expenses. It is estimated that a securities lending program for BWC may increase revenue by five to ten million dollars per year.

Mr. Fulton inquired as to why the practice of securities lending was originally stopped. Mr. Dunn indicated that it was stopped approximately one year ago, as a consequence of the seventeen billion dollar asset transition. It is important that all securities involved in an asset transition strategy be free from being on loan so that the assigned transition manager can effectively execute the transition strategy. The Investment Division and its selected securities lenders will be very diligent in evaluating the credit worthiness of the borrowers. Ms. Damsel emphasized the importance of having appropriate securities lending policies and procedures in place prior to exercising a securities lending program. There was substantial discussion with regards to the risks of securities lending with Board members. Emphasis was placed on following industry standards with regard to securities lending.

A motion was made by Ms. Falls, and seconded by Mr. Price, as follows: that the Investment Committee recommend that Workers' Compensation Board of Directors authorize the Bureau's Chief Investment Officer to implement a securities lending program, for the reasons set forth in the securities lending presentation dated December 19, 2007, and that section IV. C. vi of the current Bureau Investment Policy Statement be amended or deleted as necessary to implement the securities lending program. Roll call was taken and the recommendation passed 6-0.

## **Commingled Index Managers Request for Proposal**

Mr. Dunn discussed a proposal for the issuance of a Request for Proposals for passive indexed investment managers managing assets under a pooled commingled custodian account structure, as described in his memorandum dated December 10, 2007. Such RFP would apply for each of the three largest trust funds of BWC which are the State Insurance Fund, Disabled Workers Fund and Coal Workers Fund. This RFP document to be issued would involve separate passive indexed manager searches for each of the three current passive index mandates of these three trust funds: Long Duration Fixed Income, U.S. Treasury Inflation Protected Securities (TIPS) and Large Cap U.S. Equity. Mr. Dunn stated that the Investment Division is very satisfied with the current group of three passive indexed investment managers of BWC. However, a new RFP is required to be issued for these searches with the desired conversion preference of the Board to a commingled pooled custodian management structure from the current separate account management structure for all BWC passive indexed managed assets.

Mr. Dunn discussed the recommended level of experience and minimum assets under management suggested of each eligible respondent to the proposed RFP, as reflected in his memorandum. Mr. Dunn discussed proposed scoring weighting subject matter criteria for the proposed RFP, as also presented in his memorandum. It was emphasized by Mr. Dunn that, given the large size of each of the three asset class mandates, it is important that each potential investment manager respondent to this RFP be large and experienced managers who can achieve economies of scale in the management of a large pool of assets to the benefit of the Bureau. Mark Brubaker of Wilshire Consulting indicated that he supported this RFP approach presented and the importance of large

and experienced investment managers offering low competitive fees in the management of the large size of Bureau assets in each of the three asset classes.

Mr. Dunn also discussed the need to consider a change in the long duration fixed income (LDFI) benchmark applied to such long duration fixed income assets of BWC. Mr. Dunn pointed out that the existing customized benchmark index utilized by BWC is not a widely recognized and accepted benchmark index for this asset class, as it includes restrictions prohibiting investments in foreign government related debt. Mr. Dunn stated that BWC will not be able to convert management of its passive indexed long duration fixed income assets to a pooled commingled account structure combining other client assets of an investment manager unless the widely accepted Lehman U.S. Long Government/Credit Index benchmark becomes the new benchmark for BWC for such assets. This widely recognized index serves as the reference benchmark index used in the creation of the current BWC customized benchmark for this fixed income asset class. Mr. Dunn also mentioned that a comparison of past performance of the returns of the BWC customized LDFI benchmarks with the standard reference Lehman LDFI index over the past ten-year period reflects the consistent higher returns provided by the standard benchmark, as provided in his memorandum. Mr. Brubaker indicated that he supported having the standard Lehman long duration bond index becoming the new benchmark for this asset class. Mr. Brubaker stated that the fewer restrictions placed upon investment managers will generally result in greater returns on investments over the long-term.

Motion was made by Ms. Falls, and seconded by Mr. Price, as follows: that the Investment Committee recommend that the Workers' Compensation Board of Directors authorize the Administrator to issue separate new requests for proposals for passive indexed investment managers for three large asset class mandates within the state insurance fund, and the pneumoconiosis fund, for reasons set forth in the memorandum of the Bureau's Chief Investment Officer dated December 10, 2007. The separate requests for proposal would be for the Long Duration Fixed Income, U.S. TIPS, and Large Cap U.S. Equity asset classes. Roll call was taken and the recommendation passed 6-0.

There was discussion with regard to the long duration fixed income benchmark, and whether it should be altered to permit the Bureau to invest in Non-U.S. government-related debt. Ms. Falls indicated the new benchmark has benefits of increased diversification, increased opportunity for higher returns, and a decreased risk profile. Motion was made by Ms. Falls and seconded by Mr. Price as follows: that the Investment Committee recommend that the Workers' Compensation Board of Directors adopt and approve the recommendation of the Investment Committee to adopt the Lehman U.S. Long Government/Credit Index as the long duration fixed income benchmark, replacing the existing Lehman customized U.S. Long Government/Credit Index benchmark, for the reasons set forth in the memorandum of the Bureau's Chief Investment Officer dated December 10, 2007, and to amend section V.A of the Investment Policy Statement to reflect the change to the Lehman U.S. Long Government/Credit Index as the long duration fixed income benchmark. Roll call was taken and the vote was as follows:

SMITH	YES
FALLS	YES
PRICE	YES
CALDWELL	NO

HARRIS	NO
LHOTA	YES

The recommendation passed by a vote of 4-2.

Mr. Caldwell and Mr. Harris asked that the minutes note their “no” vote reflected their desire to invest in America.

### **Investment Policy Statement Review**

Mark Brubaker discussed the critical elements of an Investment Policy Statement. Mr. Brubaker wants to reduce the ministerial, prescriptive nature of the statement, and make it an “all weather” document. Mr. Brubaker discussed the template of the document in detail. The first part of the document clearly defines the mission of the fund. Mr. Smith emphasized the importance of this. The document further states the investment objectives (i.e. pay claims when due, maintain liquidity and solvency, maintain adequate surplus, manage asset allocation for a stable and competitive premium). The document further defines roles and responsibilities. Wilshire Consulting recommends doing a formal asset / liability study every three years. In sum, the Investment Policy Statement is the governing document for investments. Mr. Fulton inquired as to whether or not the investment policy of the Bureau will be consistent with legislative proposals made by State Representative William Batchelder. Because the outcome of the pending legislation is still unknown, Mr. Smith and Mr. Price commented that the Board should not base its decisions on what action the legislature might take on any issue.

A motion was made by Mr. Price and seconded by Mr. Harris as follows: that the Investment Committee recommends that the Workers’ Compensation Board of Directors adopt and approve the recommendation of the Investment Committee to amend the Bureau Statement of Investment Policy and Guidelines to replace references to the former Workers’ Compensation Oversight Commission and various statutory citations to reflect changes adopted in Amended Substitute House Bill 100 of the 127<sup>th</sup> General Assembly, as set forth in the red-lined version of the Investment Policy Statement presented to the Board on December 20, 2007. Roll call was taken and the motion passed 6-0.

### **Discussion Items**

#### **CIO Report – December 2007**

According to Mr. Dunn, the investment rate of return on the BWC total investment portfolio increased by 1.5% in October of 2007. The rate of return increased in November of 2007, as well.

#### **Calendar of Events**

Ms. Damsel indicated that the Board needed to select dates for the interviewing of finalist candidates in Columbus, Ohio for the full service investment consultant RFP. Ms. Damsel stated these interviews could be performed in one day. After discussion, it was determined that interviews of the finalist candidates shall be conducted at 9:00 AM, on January 9, 2008. Ms. Damsel and Mr. Dunn will grade and score RFP proposals submitted by the twelve eligible respondents. December 28, 2007 is the anticipated date for Mr. Dunn to provide the Board Members with the results of the grading.

## **Adjournment**

Motion was made by Mr. Caldwell and seconded by Mr. Price, to adjourn the meeting at 2:15 PM.

Prepared by Tom Woodruff, BWC Staff Counsel

DATE: February 14, 2008

TO: BWC Investment Committee

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Investment Policy Statement Recommended Revisions**  
**BWC Staff Responsibilities**  
**BWC Investment Consultants' Responsibilities**

It is recommended that the revisions of Section **III.B** of the Investment Policy Statement regarding BWC investment staff responsibilities reflected in the attached marked version be approved as follows:

(A) Current Section **III.B.iii** of the IPS be revised to include the obligation of the Chief Investment Officer to present a summary report each month of market value changes by investment asset class.

(B) New Section **III.B.xi** be added to the IPS to ensure that the BWC Board of Directors is informed of and approves of any significant change in investment strategy by approved investment managers and general partners of the Bureau. Approval of this recommendation will satisfy in part a recommendation of the BWC Internal Audit Division reflected in its 2QFY08 Executive Summary Report (MDL and Capital Coin Fund Control Review, page 8) being presented to the BWC Audit Committee at its February 28, 2008 meeting.

(C) Current Section **III.B.xiv** of the IPS be deleted and replaced with new Section **III.B.xv**. The reporting of the performance of the trust portfolios to the Board of Directors is the responsibility of the independent BWC Investment Consultant per industry best practices standards. New Section **III.B.xv** will require the CIO to provide an annual trade summary report identified by brokerage firm to the Board and to communicate any unusual trading activity conducted by Investment Managers to the Board on a timely basis.

It is also recommended that Current Section **III.E.v** of the Investment Policy Statement regarding Investment Consultants' Responsibilities be amended to be consistent with the current Bureau practice of reporting quarterly investment performance results of the Funds to the Board. Such amendment is consistent with the Scope of Services section of the investment consulting contract executed on February 6, 2008 between Mercer Investment Consulting, Inc. and the Bureau. Such recommended amended language for approval is reflected in the attached version of the IPS.

The new unmarked clean versions reflecting these recommended revisions to Sections **III.B** and **III.E** of the IPS are also provided as attached.

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

## 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.

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

### **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.

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

### 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 a quarterly basis regarding the performance of the portfolio and brokerage information for various time periods. 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.

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

### **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 ~~monthly~~ 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.

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

### **B. OBWC Investment 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 summary 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.

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

### **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).
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The Investment Consultant shall:

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

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

# The Ohio Bureau of Workers' Compensation



## Statement of Investment Policy and Guidelines

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

Amends Adoption of: January 25, 2008

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

**Table of Contents**

<b><u>General Policy</u></b>		<b><u>Page</u></b>
<b>I</b>	<b>Investment Objectives.....</b>	<b>3</b>
<b>II</b>	<b>Background.....</b>	<b>3</b>
<b>III</b>	<b>Roles and Responsibilities.....</b>	<b>4</b>
<b>IV</b>	<b>Investment Policy Guidelines.....</b>	<b>8</b>
<b>V</b>	<b>Performance Objectives.....</b>	<b>14</b>
<b>VI</b>	<b>Communications.....</b>	<b>15</b>
<b>VII</b>	<b>Target Asset Mixes and Ranges.....</b>	<b>16</b>
	<b>A. State Insurance Fund (SIF)</b>	
	<b>B. Coal Workers' Pneumoconiosis Fund (CWPF)</b>	
	<b>C. Marine Industry Fund (MIF)</b>	
	<b>D. Disabled Workers' Relief Fund (DWRF)</b>	
	<b>E. Public Work-Relief Employees' Fund (PWRF)</b>	
	<b>F. Self Insured Employers Guarantee Fund (SIEGF)</b>	
<b>VIII</b>	<b>Review Procedures.....</b>	<b>22</b>
<b>IX</b>	<b>Fair Consideration / Public Interest Policy.....</b>	<b>22</b>

# **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.

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

## **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.

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

### **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.

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

- 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.

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

- 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.

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

- 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.

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

## **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.

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

**Diversification**

The fixed income portfolio in the aggregate shall be diversified as specified below<sup>1</sup> to minimize the risk of losses:

***By Sector:***

<b><u>Sector Allocation</u></b>	<b><u>Max. % of Fixed Income</u></b>
<b>U.S. Governments:</b>	<b>100%</b>
Treasuries	100%
Agencies	100%
<b>Mortgages</b>	<b>40%</b>
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%
<b>Investment Grade Credit</b>	<b>70%</b>
Finance	35%
Industrial	35%
Transportation	35%
Utilities	35%
Yankees	15%
Asset Backed Securities (ABS) (must be rated AA or better)	10%
<b>Foreign Governments</b>	<b>5%</b>
<b>Below Investment Grade Credit</b>	<b>7.5%</b>

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<sup>1</sup> Percentages represent a maximum allocation and will not sum to 100%

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

### *By Credit Quality:*

<u>Credit Quality</u>	<u>Max. % of Fixed Income</u>	<u>Credit Name Max %</u>
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.

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

### **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.

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

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 expressly prohibited, with the exception of collateralized mortgage obligations (CMOs) and asset backed securities (ABS), and TBA mortgage-backed securities in accordance with the restrictions outlined below and in Section IV.C.ii above.

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. All forms of leverage, including, but not limited to, purchasing securities on margin, treasury rolls and reverse repurchase agreements.

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

- 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:

<u><b>Asset Class</b></u>	<u><b>Benchmark</b></u>
<b><i>Total Fixed Income:</i></b>	<b><i>N/A</i></b>
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
<b><i>U.S. Equity</i></b>	<b><i>Wilshire 5000</i></b>
Large Cap	S&P 500
Small/Mid Cap	Wilshire 4500 / Russell 2500
Alternative Investments	Wilshire 5000 + 5%
<b><i>Non-U.S. Equity</i></b>	<b><i>MSCI EAFE</i></b>
<b><i>Cash Equivalents</i></b>	<b><i>90-Day T-Bill</i></b>

**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.

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

## **C. Investment Managers**

On a timely basis, but not less than 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.

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

**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.

<u>Asset Class</u>	<u>Policy Target<sup>1</sup></u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<b><u>Total Fixed Income:</u></b>	<b><u>79%</u></b>	<b><u>76-82%</u></b>	<b><u>47%</u></b>	<b><u>32%</u></b>
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<b><u>Cash Equivalents</u></b>	<b><u>1%</u></b>	<b><u>0-6%</u></b>	<b><u>NA</u></b>	<b><u>NA</u></b>
<b><u>Total Equity</u></b>	<b><u>20%</u></b>	<b><u>17-23%</u></b>	<b><u>12%</u></b>	<b><u>8%</u></b>
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%

<sup>1</sup> 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

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

**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

<u>Asset Class</u>	<u>Policy Target</u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<b><u>Total Fixed Income:</u></b>	<b><u>79%</u></b>	<b><u>76-82%</u></b>	<b><u>74%</u></b>	<b><u>5%</u></b>
Long Duration	54%	51-57%	54%	0%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<b><u>Cash Equivalents</u></b>	<b><u>1%</u></b>	<b><u>0-6%</u></b>	<b><u>NA</u></b>	<b><u>NA</u></b>
<b><u>Total Equity</u></b>	<b><u>20%</u></b>	<b><u>17-23%</u></b>	<b><u>20%</u></b>	<b><u>0%</u></b>
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

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

**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<sup>2</sup> 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.

<u>Asset Class</u>	<u>Policy Target</u>
<u>Total Fixed Income:</u>	<u>99%</u>
Intermediate Duration	99% <sup>3</sup>
<u>Cash Equivalents</u>	<u>1%</u>
<u>Total Equity</u>	<u>0%</u>

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<sup>2</sup> Expected to be implemented by December 31, 2006

<sup>3</sup> 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.

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

### 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

<u>Asset Class</u>	<u>Policy Target</u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<b><u>Total Fixed Income:</u></b>	<b><u>79%</u></b>	<b><u>76-82%</u></b>	<b><u>47%</u></b>	<b><u>32%</u></b>
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<b><u>Cash Equivalents</u></b>	<b><u>1%</u></b>	<b><u>0-6%</u></b>	<b><u>NA</u></b>	<b><u>NA</u></b>
<b><u>Total Equity</u></b>	<b><u>20%</u></b>	<b><u>17-23%</u></b>	<b><u>12%</u></b>	<b><u>8%</u></b>
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%

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

### **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.

<u><b>Asset Class</b></u>	<u><b>Policy Target</b></u>
<u><b>Total Fixed Income:</b></u>	<u><b>99%</b></u>
Intermediate Duration	99% <sup>1</sup>
<u><b>Cash Equivalents</b></u>	<u><b>1%</b></u>
<u><b>Total Equity</b></u>	<u><b>0%</b></u>

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<sup>1</sup> 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.

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

**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.

<u>Asset Class</u>	<u>Policy Target</u>
<u>Total Fixed Income:</u>	<u>0%</u>
<u>Cash Equivalents</u>	<u>100%</u>
<u>Total Equity</u>	<u>0%</u>

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

**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.

**Qualified Ohio Managers - Criteria**

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

**Minority Managers – Criteria**

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.

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

<b>Asset Sector</b>	<b>Market Value 1/31/2008</b>	<b>% Assets</b>	<b>Market Value 12/31/2007</b>	<b>% Assets</b>	<b>Market Value Change</b>	<b>% MV Change</b>
<b>Bonds</b>	<b>\$14,008,137,116</b>	<b>79.1%</b>	<b>\$14,131,984,243</b>	<b>80.0%</b>	<b>(\$123,847,127)</b>	<b>-0.9%</b>
<b>Equity</b>	<b>3,400,285,973</b>	<b>19.2%</b>	<b>3,290,599,024</b>	<b>18.6%</b>	<b>109,686,949</b>	<b>3.3%</b>
<b>Net Cash</b>	<b>305,859,875</b>	<b>1.7%</b>	<b>239,932,465</b>	<b>1.4%</b>	<b>65,927,410</b>	<b>27.5%</b>
<b>TOTAL</b>	<b>\$17,714,282,964</b>	<b>100%</b>	<b>\$17,662,515,732</b>	<b>100%</b>	<b>\$51,767,232</b>	<b>0.3%</b>

An Asset Allocation Portfolio Rebalancing of the State Insurance Fund and Coal Workers Fund resulted in \$305,000,000 (\$300mm SIF; \$5mm Coal) in total market value being shifted from Bonds to Stocks on 1/31/2008. This movement of Assets is reflected in the values shown for 1/31/2008.



# BWC Investment Committee Calendar

February	March
<ol style="list-style-type: none"> <li>1. Investment Consultant Performance Report 4Q07</li> <li>2. IPS proposed revisions, first consideration, possible vote</li> <li>3. Mercer Proposed Work Plan</li> </ol>	<ol style="list-style-type: none"> <li>1. Reserve Setting Factors joint meeting with Actuarial Committee</li> </ol>
April	May
<ol style="list-style-type: none"> <li>1. Public Work-Relief / Marine Industry trust funds RFQ Finalist recommendation, approval vote</li> <li>2. Investment risk tolerance discussion/education with Investment Consultant</li> <li>3. Derivatives utilization discussion</li> </ol>	<ol style="list-style-type: none"> <li>1. Investment Consultant Performance Report 1Q08</li> <li>2. Commingled Index Manager RFP Finalist recommendations, approval votes</li> <li>3. Annual CIO review and BWC Investment staff review (certification/ethics/conflict of interests/compliance)</li> <li>4. Minority Manager/Consultant discussion</li> </ol>
June	July
<ol style="list-style-type: none"> <li>1. Commingled Index Manager RFP Finalist recommendations, approval votes</li> <li>2. Investment Division Goals FY2009</li> <li>3. Annual economist outlook presentation</li> </ol>	<ol style="list-style-type: none"> <li>1. BWC Investment Income Projections FY09</li> <li>2. IPS annual review</li> <li>3. Annual BWC Investment Division staffing review</li> </ol>
August	September
<ol style="list-style-type: none"> <li>1. Investment Consultant Performance Report 2Q08</li> <li>2. Minority Manager/Consultant RFP Finalist recommendation, approval</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual Investment Committee Charter Review</li> </ol>
October	November
<ol style="list-style-type: none"> <li>1. Annual Custodial Review</li> </ol>	<ol style="list-style-type: none"> <li>1. Investment Consultant Performance Report 3Q08</li> </ol>
December	January
<ol style="list-style-type: none"> <li>1. Investment Consultant Asset/Liability Report and recommendation, possible vote</li> </ol>	

**BWC Board of Directors – Investment Committee**  
**Bruce Dunn, SFA, Chief Investment Officer**  
**CIO Report January 2008**  
**Feb. 14, 2008**

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The Investment Division in January, 2008 continued to work on important investment initiatives. This report summarizes some of these activities, issues and action plans relating to the Ohio Bureau of Workers' Compensation Investment Division.

**Fiscal Year 2008 Goals**

The Investment Division has six major goals for fiscal year 2008. These goals are the following:

1. Execute and complete transition of BWC portfolios per new BWC Investment Policy
2. Complete establishment of new BWC Investment Division
3. Assist in establishment of new investment accounting system
4. Sell all 68 private equity funds
5. Establish proper investment controls and compliance procedures
6. Provide education to new BWC Board of Directors and Investment Committee

## **Strategic Goal One – PORTFOLIO TRANSITION**

A pool of three Transition Managers (Barclays, Russell, State Street) were approved by the former Workers' Compensation Oversight Commission (WCOC) at its September 28, 2006 meeting. At the discretion of the BWC Investment Division, these transition managers are selected to oversee and effectively manage one or more of the many specific asset class exchanges in fulfillment of the goals of the new BWC Investment Policy. The new Investment Policy was approved at the July 20, 2006 WCOC meeting for State Insurance Fund assets and at the September 28, 2006 WCOC meeting for the assets of the BWC ancillary trust fund portfolios. At the time of this approval, most invested assets of the State Insurance Fund and all assets of four ancillary trust funds (except operating cash) were invested in bonds in a customized commingled fund passively indexed managed to the intermediate-duration Lehman Aggregate benchmark index.

The State Insurance Fund (SIF) had approximately \$14.8 billion of investment assets involved in transitions to achieve its portfolio asset allocation and portfolio duration targets as per the new BWC Investment Policy. The State Insurance Fund asset transitions occurred over two stages between January, 2007 and April, 2007. These SIF asset transitions involved invested assets being sold, reinvested and transferred to respective approved passive indexed managers under the oversight and management of the respective transition managers chosen. Each such transition was very closely monitored by the BWC investment staff.

The transition of approximately \$1.4 billion of assets involving four ancillary funds was completed in two distinct stages in July, 2007 and September, 2007. The first stage of the ancillary fund transitions involved invested assets totalling \$21.4 million for the Ohio Public Workers Relief Fund (PWRF) and \$15.2 million for the Ohio Marine Industry Fund (MIF). These assets were transitioned in July, 2007 to the JPMorgan U.S. Government Money Market Fund. This money market fund serves as the current interim investment strategy for these two smaller ancillary funds.

The second stage of the ancillary trust funds asset transition strategy involved the transitioning of invested assets of the two large ancillary trust funds, the Disabled Workers Relief Fund (DWRF) and the Coal Workers Pneumoconiosis Fund (CWPF). These two trust fund transitions totaled approximately \$1.38 billion in invested assets, comprising approximately \$1.14 billion for DWRF and \$240 million for CWPF. These respective trust funds were transitioned in September, 2007 to three respective asset class mandates per the Investment Policy targeted asset class allocation. Similar to the SIF portfolio, these assets were all targeted to approved passive indexed managers.

As the result of the approval provided by the Board of Directors on November 21, 2007, all assets of PWRF and MIF will be transitioned to a commingled pooled intermediate duration bond fund indexed to the new intermediate duration fixed income benchmark also approved by the Board of Directors at the November, 2007 meeting. A Request for Quote document will be issued by BWC with the objective of identifying and recommending an experienced and low-fee passive indexed investment manager to manage these assets.

## **Strategic Goal Two – BUILD INVESTMENT STAFF**

The Investment Division began fiscal year 2008 commencing July 1, 2007 with a staff of seven individuals consisting of the CIO, Director of Investments, two Senior Investment Managers, two assistant Investment Managers and an administrative assistant. Two new additions to staff occurred in late July, 2007 with the hiring of an Investment Administration Manager and an Assistant Investment Manager. Both of these recent hires are making many immediate contributions.

One of the two Senior Investment Managers who was on staff at the start of fiscal year 2008 is no longer a member of the Investment Division team, effective November 9, 2007. To fill this vacancy, one of the Assistant Managers was offered and accepted the new position of Investment Manager. It is anticipated that the positions for a new senior investment manager and an assistant investment manager will be filled in the first quarter of 2008. There is also a job posting for an administrative assistant position. The necessary increase in positions of the BWC investment staff reflects the next stage of the building of a team of experienced investment professionals dedicated to serving the needs of the BWC and its customers with the highest of integrity and competence.

## **Strategic Goal Three – NEW INVESTMENT ACCOUNTING SYSTEM**

A RFP process that began in November, 2006 for a new investment accounting and reporting system resulted in the selection of an integrated outsourced vendor solution. BWC has now completed the conversion process and is currently near completion of the full implementation process to this web-based system. The BWC Investment Division is near the completion of this goal to have an improved accounting system available to BWC to accommodate the effective daily monitoring of both passive and active style asset managers in satisfaction of the current BWC Investment Policy. The investment staff is in the process of learning how to utilize many of the tools and resources offered by this accounting system through both formal training sessions and self education.

## **Strategic Goal Four – PRIVATE EQUITY SALE**

Progress continued in the month of January, 2008 towards the goal of selling all 68 private equity partnerships. The sale of an additional 3 private equity partnerships occurred in January for total proceeds of \$10.0 million. At the end of January, a total of 60 private equity partnerships have been sold by BWC for total proceeds of \$392.0 million. All such proceeds received from private equity partnership sales are reinvested in the passive indexed Large Cap S&P 500 Equity portfolio managed by Northern Trust. It is expected that the sale of most remaining private equity partnerships will be completed during the first quarter of 2008.

## **Strategic Goal Five – INTERNAL INVESTMENT PROCEDURES**

The Internal Audit Division is providing guidance and assistance in both the creation and further improvement of proper procedures and controls for the Investment Division. This is important as the Investment Division selects and very closely monitors existing and new investment managers who will manage specific mandates reflected from the new Investment Policy approved.

The Investment Division has focused on the management oversight of the passive style investment managers, performance reporting, and other investment activities to support the Investment Policy. Internal procedures for the monitoring of active style investment managers will be developed well in advance of the selection of such managers.

## **Strategic Goal Six – BOARD OF DIRECTORS EDUCATION**

An added goal of the Investment Division is to provide investment-related fundamental training to the new BWC Board of Directors. Such training will assist the Board of Directors in carrying out its fiduciary responsibilities to the BWC trust funds. The Investment Division will provide educational presentations (written and oral) on relevant topics at scheduled public meetings. The Investment Division will also provide training through informal discussion, as appropriate under the Ohio Sunshine Laws. The CIO and Director of Investments encourage Board members to contact them with inquiries, comments or concerns.

At the September meetings, there were formal presentations made by the Investment Division on (i) the fundamentals of investments as relevant to the BWC portfolio of assets and current investment strategy, (ii) the BWC RFP process for securing external investment management services/products, and (iii) the advantages/disadvantages of the two types of alternative custodial structures for investment asset management. The BWC RFP process for securing a full service investment consulting firm and the roles of an evaluation committee in the RFP process was addressed in the October meetings. Discussion on the fundamentals of securities lending was started in the November meeting and was continued and concluded at the December meeting. As determined by each of the Investment Division, BWC Investment Committee and Board of Directors, many additional investment topics will be addressed over the course of the current fiscal year.

## **Asset Allocation Rebalancing**

An asset allocation rebalancing occurred for both the State Insurance Fund (SIF) and the Coal Workers Pneumoconiosis Fund (CWPF) on January 31, 2008. The BWC Administrator and Chief Investment Officer exercised this portfolio rebalancing in their capacity per Section IV.B of the Investment Policy Statement. As mentioned at the January 24, 2008 meeting of the Investment Committee, the fixed income and equity allocations for these two trust funds had fallen outside the defined asset allocation market value ownership ranges for these two major asset classes. This development was the result of lower interest rates causing bond

prices (especially U.S. Treasuries which represents over 45% of total invested assets) to rise significantly in recent months in combination with the S&P 500 index falling 15% between 11/01/07 and 1/22/08 (10.7% decline between 1/01/08-1/22/08) before rallying at the end of the month.

Specifically, a total of \$300 million of SIF invested assets was shifted from bonds to stocks on January 31 as follows:

Sell \$200 million Long Duration Fixed Income Bonds;  
 Sell \$100 million U.S. Inflation Protected Bonds (TIPS);  
 Buy \$300 million S&P 500 Index stocks

A total of \$5 million of CWPF invested assets was shifted from bonds to stocks on January 31 as follows:

Sell \$3 million Long Duration Fixed Income Bonds;  
 Sell \$2 million U.S. Inflation Protected Bonds (TIPS);  
 Buy \$5 million S&P 500 Index stocks

As a result of these asset allocation movements, shown below is the asset allocation of these trust funds at market value as of January 31 close:

	<u>SIF</u>	<u>CWPF</u>	<u>Target</u>	<u>Policy Range</u>
Bonds	79.5%	78.7%	79%	76-82%
Equity	19.4%	19.7%	20%	17-23%
Cash	1.1%	1.6%	1%	0-6%

The asset allocation mix of these two trust fund portfolios is now comfortably within the defined Policy Range per the Investment Policy Statement.

## **Compliance**

The investment portfolios in the aggregate were in compliance with the BWC Investment Policy at the end of both December, 2007 and January, 2008.

## **Legislative Updates**

(comments herein provided by and courtesy of Gregory Paul, BWC Legislative Liaison and Laura Abu-Absi, BWC Deputy Legislative Liaison)

## Bills to Watch

### HB 456 (Raussen) Healthcare Reform – Ohio C.A.R.E.

Summary:

- The bill creates two BWC discount programs as an incentive to employers to implement wellness measures for their employees:
  - Up to a 15% discount, for up to three years, for qualifying employers who offer a qualifying health insurance plan to employees that previously did not offer such a plan.
  - Up to a 5% discount, for up to three years, for qualifying employers who offer a health and wellness program for their employers.
  - Employers eligible for both programs may receive up to a 20% premium discount on top of any other BWC premium discounts they are already receiving.
- The bill creates the Office of Pharmaceutical Purchasing Coordination (OPPC) within the Department of Administrative Services (DAS.)
  - All BWC pharmaceutical purchases would be made through this office unless written documentation were provided to DAS demonstrating that BWC was able to obtain prescriptions at the cost by which OPPC would obtain them.
- **Sponsor Testimony provided by Rep. Raussen on 2/06/08. Rep. Raussen indicated the bill is and will be a work in progress, a starting point. The House Health Care Access and Affordability Committee will continue to hear testimony in the weeks and months ahead. Hearings will be scheduled by subject matter. BWC discounts for businesses and Statewide purchasing pharmaceutical benefits are in Group 3. The earliest the committee would hear testimony on BWC-related issues is 3 weeks from now. (This information was misreported in the Hannah Report)**

### HB 397 (Szollosi, Wagoner) Coverage exemption

Summary: Exempts workers covered under federal Longshore and Harbor Workers' Compensation Act (FLHWCA) from state coverage unless it is elected by the employer

- Referred to House Commerce and Labor Committee (Brinkman, Chair; Yuko, Ranking Minority)
- Sponsor testimony delivered 1/15/08
- Interested party meeting 9am on 1/30/08
- **Proponent testimony provided for HCL 2/5/08—Keith Flagg, Federal Marine Terminals, Inc, Lauri Justen, Midwest Terminals of Toledo International, Inc., Tony Fiore, Ohio Chamber of Commerce.**
- **BWC has concerns that proposed language by OCC and OATL would expose BWC's State Insurance Fund to risks for which we are not collecting premium. BWC has drafted an alternative amendment which would clarify when an IW elects exclusive remedy under the FLWCA.**

## **HB 461 (Batchelder)/SB287 (Stivers)**

- Summary: Creates a deductible program for the first \$15,000 of every claim. The intent is to eliminate the first \$15,000 of any injury from an employer's experience rating.
  - The sponsors cite stats used in our group rating materials in terms of premium increases and their negative impact on employers to demonstrate need for the program.
- Would have all \$15K program claims managed by the MCO's and would enable employers to use BWC's fee schedule.
  - In the current \$15K medical-only program, employers completely bypass the BWC system, working directly with medical providers
  - This would be an increased administrative burden on BWC
  - The sponsors cite the fact that currently, claims in the \$15K medical-only program are the only state fund claims in any BWC program that cannot have their claims managed by the MCOs.
- **Referred to House Insurance Committee and Senate Insurance, Commerce and Labor Committee, respectively.**

## **HB 101 (Brinkman) BWC Placeholder Bill**

- 5/22/07 George Smith, Executive Director of MCO League presented information about managed care organizations
- 10/2/07 – Marsha testified in front of HIC. Testimony highlighted the team's progress toward efficiency and accountability in BWC's processes and progress on HB 100.
- 10/16/07 – Testimony from employer group "We've Had Enough"
- 10/23/07 – Testimony from Retail Merchants, NFIB on group rating.
- 10/30/07 – Testimony from Automobile Dealers Association, Construction Employers Association, Bruce DeMarco, and Cincinnati Chamber
- **No testimony expected until April/May 2008**

## **HB79 (Batchelder) BWC Investments**

- Per WCC statute, the bill will be reviewed by the WCC
- Referred to Senate Insurance, Commerce and Labor Committee – no hearing yet.
- Passed out of House Commerce and Labor on 10/16/07
- BWC Action
- At Representative Batchelder's request, Bruce Dunn and Lee Damsel appeared at HCLC to offer impact testimony. Addressed were the immediate issues of prohibition of hiring an outside investment consultant/manager and inclusion of all funds in scope of bill. (5/08/07)
- Bill was amended to include six BWC-suggested amendments (6/26/07)
- Bill was presented to Board of Directors as FYI by Bruce Dunn, particularly the scope of the bill that replaces the "prudent person" standard with a list of allowed investments. (9/26/07)

### **HB 151 (Mandel, Jones) Divestment of public funds from companies with ties to Iran/Sudan**

- To avoid statutory investment restrictions, retirement systems offered to voluntarily divest funds from specified companies by end of the calendar year.
- Ohio Retirement Study Council members challenged Ohio Police & Fire Pension Fund Director William Estabrook on his board's reluctance to address legislative concerns with the investments, with one House leader saying the failure to act violates an agreement the systems reached with Speaker Husted. (10/10/07)
- 12/19/07 – Speaker Husted quoted in Gongwer confirming his intention to take up legislation in response to pension funds that refused to voluntarily divest.

### **HB 125 (Huffman) “Healthcare Simplification Act”**

- **OSMA circulated potential amendments for Sub bill that would reinvolve MCOs – BWC not affected in these amendments.**
- Pete Mihaly has determined that all BWC concerns have been addressed in substitute versions – will continue to monitor through Senate.
- This (OSMA) bill proposes to establish uniform contract provisions between health care providers and third party payers, to establish standardized credentialing, and to require third party payers to give health care providers certain information concerning enrollees.
- 10/10/07 - Bill passed the House and has been referred to the Senate Judiciary Committee.
- **Expected to be voted out of Senate Judiciary Committee on 02/19/08.**

### **HB 179 (Blessing) BWC Claims – Employee Reimbursement.**

- This bill requires a health insurer, and allows an injured worker, during the time i/w's claim is pending approval, to pay for medical services, and requires BWC to reimburse i/w once the claim is deemed compensable.
- The bill has been internally circulated @ BWC for impact review and comment.
- One hearing in Commerce and Labor (5/15/07)

### **HB 308 (Domenick, Combs)**

- Not referred to committee
- This bill would prevent state agencies from distributing benefits to undocumented immigrants other than emergency medical services.

## Guidance Requested

### HB 151 (Mandel) State Retirement System Investments

- Since the agreement with ORSC – are there any necessary steps for BWC to take?

### HB 694, 126<sup>th</sup> GA

- Is this legislation going to be reintroduced in light of the recent ruling? If so, would this be an appropriate place to eliminate the BWC carve-out in the bill and put us on par with other state agencies?

## Legislative Developments

### PEC/Charter School Premium Collection

- Governor's office placed inquiry regarding PECs with outstanding premium owed to BWC; there is talk in Senate of offering an amendment to existing non-BWC language that would authorize the more aggressive collection of monies owed to BWC by charter schools than that granted in HB 100.

### Workers' Compensation Council

- Five non-legislative members still have not been appointed to Workers' Comp Council – caucuses still claim to be “very close” to finalizing appointments.

### MIRA II Technical Date Change – BWC proposed legislative change

- Changes deadline to completely transition to MIRA II on or before June 30, 2008 to July 1, 2008
- Deadline to end MIRA I contract of June 30, 2008 would remain the same to show BWC is in line with the spirit of the law as intended and will not be using MIRA I longer than as originally provided.
- **Very likely to be added to the Budget Corrections bill.**

### Interstate Jurisdiction – Senator Keith Faber (Vice-Chair, Senate Insurance, Commerce, and Labor Committee)

- Sen. Faber intent: legislation that would not enable injured workers to establish claims in multiple jurisdictions (Ohio and another state.)
- BWC legal provided comments to Faber's five different suggestions. He drafted legislation based on three of them; have BWC offer an all-states endorsement, recovering of issued benefits should IW file allowed claim in another state, and waiving of right to Ohio benefits should IW file in another state.
- An original bill draft was circulated, though I understand he **intends to redraft language** in the near future, taking into account input from the Ohio Trucking Association.
- **Seitz amendment** would eliminate the up-to 90 day waiver of coverage for out-of-state workers temporarily in Ohio who are based in non-reciprocating states (i.e. Kentucky)
  - Response letter delivered 1/11/08

### **Pneumoconiosis Fund – use of interest for Mine Safety Program.**

- 8/07 – memo prepared regarding the statutory constraints of using this fund for any other purpose than compensation for death or total disability as a result of this disease.
- 10/5/07 - Actuarial, Investments, Finance, and Legal met with Gov Office and ODNR to discuss process and legislation for using a portion of the interest for the Fund. Legal is researching all statutory changes that would be required; finance/investments is researching what kind of “triggers” should be in place to preserve the soundness of the fund.
- Internal deliverables have been delivered to the Governor’s office. BWC made no specific recommendation at this time as to whether triggers/distribution be in statute or rule.
- 10/26/07 – Marsha presented high-level concept as FYI to Board of Directors in her report
- ODNR and Governor’s office working with LSC and House/Senate leadership to draft bill language; sponsors for legislation not yet identified.
- **Senator Stivers has requested actuarial information on the solvency of the Coal-workers’ Pneumoconiosis Fund – information in progress.**
- **Deb Smith (Governor’s office) setting up meeting to go over information to be provided to Senator Stivers. Kris Long will be at meeting as well.**