BWC Board of Directors

Investment Committee Agenda

March 27, 2008
OCOSH
Room D & E
12:00 pm – 1:00 pm

Call to Order

Bob Smith, Committee Chair

Roll Call

Tom Woodruff, Scribe

Approve Minutes of the February 28, 2008 Meeting

Bob Smith

Discussion Items

1. Portfolio Monthly Value Comparison
   February 2008/January 2008
   Bruce Dunn

2. CIO Report – February 2008
   Bruce Dunn

3. Calendar of Events/Reports
   Bob Smith and Bruce Dunn

4. First Discussion on Investment Risk Tolerance
   Bob Smith and Mercer Team

Adjourn

Next Meeting: April 24, 2008

BWC Board of Directors

Investment Committee

Thurs., Feb. 28, 2008, 12:00 PM

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

Members Present: Robert Smith, Chairman
Alison Falls, Vice Chair
David Caldwell
James Harris
Larry Price
William Lhota, ex officio member

Other Board Directors Present:

James Hummel
Jim Matesich
Philip Fulton
Charles Bryan

Call to order

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

Approval of minutes

Motion was made by Mr. Caldwell, and seconded by Mr. Harris to approve the January 24, 2008 minutes. The motion passed 6-0. Motion was made by Ms. Falls and seconded by Mr. Price, to approve the revised December 19, 2007 minutes. The motion passed 6-0. Motion was made by Mr. Lhota, and seconded by Ms. Falls, to approve the Evaluation Committee minutes. The motion passed 6-0.

New business / Action items

Investment Policy Statement Review

Bruce Dunn, Chief Investment Officer, discussed his request to revise the Investment Policy Statement to address BWC staff responsibilities. Specifically, Mr. Dunn requested that Section III.B.iii be revised to include the obligation of the Chief Investment Officer to present a monthly summary report of market value changes by investment asset class. In addition, Mr. Dunn discussed adding new paragraph xi of Section III.B of the Investment Policy to ensure that the BWC Board of Directors is informed of and approves any significant change in investment strategy by approved investment managers. This addition to the Investment Policy Statement is primarily applicable to active managers. Mercer Consulting participated in the discussion. The discussion focused on maintaining control over investment decisions of managers. Mr. Dunn also recommended that Section III.B.xiv of the Investment Policy Statement be deleted and replaced with new Section III.B.xv. New Section III.B.xv will require the Chief Investment Officer to provide to the Board an annual trade summary report identified by brokerage firm and to communicate to the Board on a timely basis any unusual trading activity conducted by investment managers.

Motion was made by Mr. Smith, and seconded by Ms. Falls, as follows: that the Investment Committee recommends that the Workers' Compensation Board of Directors amend current Section III.B of the Statement of Investment Policy and Guidelines for the purpose of revising the responsibilities of the Bureau Investment Staff, consistent with the Chief Investment Officer's recommendations as contained in his memorandum dated February 14, 2008. A roll call vote was taken, and the motion passed 6-0.

There was discussion of revisions to Section III.E of the Investment Policy Statement. Mr. Dunn noted that changes focused on investment consultant responsibilities and performance. He recommended that the Investment Policy Statement be amended to reflect the investment consultant's responsibility to produce quarterly investment performance reports to the Board. A motion was made by Mr. Smith, and seconded by Mr. Price as follows: that the Investment Committee recommends that the Workers' Compensation Board of Directors amend current section Section III.E. of the Statement of Investment Policy and Guidelines for the purpose of revising the reporting responsibilities of the Bureau's Investment Consultant, consistent with the Chief Investment Officer's recommendations as contained in his memorandum dated February 14, 2008. A roll call vote was taken, and the motion passed 6-0.

Discussion items

Portfolio Performance

Mr. Dunn discussed the fourth quarter investment performance prepared by the previous investment consultant, Wilshire Consulting. The total return on all funds was 6.6 percent. A power point presentation was included with Mr. Dunn's report, and is incorporated by reference, into the minutes.

Portfolio Monthly Value Comparison

A presentation was made by Mr. Dunn regarding the Portfolio Monthly Value Comparison. The market value of BWC assets as of December 31, 2007 ($17.6 billion) was compared with the market value of BWC assets as of January 31, 2008 ($17.7 billion). Discussion was made of a rebalancing from bonds to equity that occurred on January 31, 2008. Mr. Dunn indicated a total of $300 million of fixed income assets comprising $200 million of long duration bonds and $100 million of TIPS were sold from the Fixed Income portfolio managed by State Street for the State Insurance Fund portfolio. All $300 million in sale proceeds were reinvested in the S&P 500 index portfolio managed by Northern Trust. For the Coal Workers Fund, $5 million of bonds were sold ($3 million long duration; $2 million TIPS) with all $5 million in proceeds reinvested in the S&P 500 index portfolio.

There was discussion made of the future portfolio rebalancing process. A handout provided by Mr. Dunn presenting the BWC portfolio rebalancing procedure and approval process adopted internally on February 25, 2008 was discussed and incorporated by reference into the minutes. Mr. Dunn indicated that the objective of any portfolio rebalancing action by BWC is to achieve a resulting portfolio asset allocation that is once again much nearer the stated asset allocation targets defined in the Investment Policy Statement. Mr. Dunn will work with Mercer and the Administrator to further refine this process.

Mercer Consulting

Kristin Finney-Cooke, Guy Cooper, Rich Nuzum, and Kweku Obed of Mercer Consulting made a presentation to the Investment Committee regarding its proposed Work Plan. The presentation included a power point presentation incorporated by reference into the minutes. The presentation focused on the Work Plan for calendar year 2008. Objectives were discussed at length, and it was noted that objectives may be added to the plan as it progresses. Mr. Smith emphasized following mandated processes for decision making. Mercer noted that it will be working with Deloitte-Touche as Deloitte-Touche conducts its actuarial audit of BWC. Investment policy is the best way to achieve goals, and modeling policy choices is important.

Mr. Smith asked Mercer for its opinion on whether the Board should move forward to reconsider the asset allocation targets of the Bureau with the data now available. Mercer recommended against moving now on any asset allocation target revision, and noted that its Work Plan includes attention to that issue. Ms. Falls emphasized the urgency and need for the Board to accomplish new asset allocation policy goals within six months. She also noted that risk appetite must be considered within the context of achieving goals, and that risk appetite can be considered before Mercer completes its asset allocation analysis. Ms. Falls, Mr. Smith and Mr. Bryan expressed interest in Mercer addressing asset allocation within the next six months. Mr. Price asked what impact an accelerated work plan for Mercer would have on BWC and its staff. Ms. Ryan answered that BWC can offer cross functional support to assist Mercer in achieving goals within six to nine months. She also noted that it may be difficult to achieve goals within three to six months, due to actuarial resources being very focused with the implementation of MIRA II.

The first Mercer quarterly performance report shall be issued in May 2008. There will be documentation of good governance, asset allocation and managers. BWC staff, the investment consultant, and the Board shall work together to achieve goals under the proper governance structure. Coordination shall include conference calls between Mercer and the Investment Committee Chair both prior to and after the Investment Committee meetings. The Board Liaison, Don Berno, will facilitate those conference calls. Mr. Smith emphasized the need to communicate to avoid triangulation and surprises. Mr. Lhota reminded the Investment Committee that Open Meetings Act requirements must be considered and followed when developing communication structures. Special meetings may be called for the Investment Committee if official business must be conducted.

Calendar

Mr. Dunn discussed the plan for a joint meeting with the Actuarial Committee in March of 2008, to discuss reserve setting factors. Mr. Dunn discussed a request for quote ("RFQ") concerning passive investment management for the public workers relief fund and the marine industry fund ancillary accounts. Recommendation regarding the RFQ is targeted to be made in the April 2008 Investment Committee meeting. Future meetings will also focus on investment risk tolerance and derivatives utilization. Recommendation for finalists for the request for proposal for commingled index managers for three separate passive indexed mandates is targeted for the May and June 2008 meetings. There will be a minority manager discussion scheduled for the May 2008 meeting.

CIO Report – February 2008

Materials regarding fiscal year 2008 goals were discussed, and incorporated by reference, into the minutes.

Adjournment

Motion was made by Mr. Lhota and seconded by Mr. Price, to adjourn the meeting at 1:40 PM. Roll call was taken, and the motion passed 6-0.

Prepared by Tom Woodruff, BWC Staff Counsel.

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

Asset Sector	Market Value 2/29/2008	% Assets	Market Value 6/30/2007	% Assets	Change	% Change
Bonds	$13,999,790,371	77.8%	$13,506,132,582	80.1%	$493,657,789	3.7%
Equity	3,292,397,450	18.3%	3,094,056,499	18.3%	198,340,951	6.4%
Net Cash	702,409,784	3.9%	264,978,763	1.6%	437,431,021	165.1%
TOTAL	$17,994,597,605	100%	$16,865,167,844	100%	$1,129,429,761	6.7%

Market Value of Bonds and Stocks includes accrued investment income.

Net Cash includes the impact of net trade receivables/payables.

Ohio Bureau of Workers' Compensation

Invested Assets Market Value Comparison

TOTAL FUNDS

Asset Sector	Market Value 2/29/2008	% Assets	Market Value 1/31/2008	% Assets	Change	% Change
Bonds	$13,999,790,371	77.8%	$14,008,137,116	79.1%	($8,346,745)	-0.1%
Equity	3,292,397,450	18.3%	3,400,285,973	19.2%	(107,888,523)	-3.2%
Net Cash	702,409,784	3.9%	305,859,875	1.7%	396,549,909	129.7%
TOTAL	**$17,994,597,605**	**100%**	**$17,714,282,964**	**100%**	**$280,314,641**	**1.6%**

Market Value of Bonds and Stocks includes accrued investment income.

Net Cash includes the impact of net trade receivables/payables.

BWC Board of Directors

BWC Investment Committee

CIO Report February, 2008

Bruce Dunn, CFA, Chief Investment Officer

March 13, 2008

The Investment Division in February, 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 Quotation document was finalized and issued by BWC on March 11, 2008 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 more recent hires are making many 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 Investment Managers was offered and accepted the new position of Investment Manager. The positions for a new Senior Investment Manager and an Assistant Investment Manager were intended to be filled at the end of the first quarter of 2008. The leading identified candidate for the Assistant Investment Manager position accepted the Investment Division employment offer and will commence BWC employment as an investment staff member at the end of March, 2008. The clear leading candidate for the new Senior Investment Manager position initially accepted the Investment Division employment offer in late January, 2008 but retracted such acceptance in late February, 2008 to accept an alternative employment offer. This development occurred before the background check of this chosen candidate was completed by BWC. The Investment Division is reposting this Senior Investment Manager position with the hope and goal that such position can be filled by another outstanding candidate sometime this summer. Interviewing of identified finalist candidates for a posted Administrative Assistant position is occurring in March, 2008.

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 offered by BNY Mellon. BWC has now completed the accounting conversion process and is currently in the process of completing the full implementation process to this web-based system. The BWC Investment Division is focusing on the goal to have an improved accounting system available to the investment staff 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 analytical, compliance and performance measurement tools and resources offered by this accounting system through both formal training sessions and self education. Certain individuals at Mercer Investment Consulting are now being utilized by the Investment Division to assist in the education and implementation of analytical and compliance tools available. The transition of all performance data from Wilshire Associates to Mercer is also occurring so that Mercer will have the capability of producing and presenting a first quarter 2008 performance report to the Investment Committee and Board of Directors.

Strategic Goal Four – PRIVATE EQUITY SALE

Progress continued in the month of February, 2008 towards the goal of selling all 68 private equity partnerships. The sale of an additional 3 private equity partnerships occurred in February for total proceeds of $0.4 million. At the end of February, a total of 63 private equity partnerships have been sold by BWC for total proceeds of $392.4 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 several of the 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 the Investment Division and Mercer in collaboration with the Administrator, BWC Investment Committee and Board of Directors, as appropriate, additional investment topics for general education will be addressed over the course of the current fiscal year.

Compliance

The investment portfolios in the aggregate were in compliance with the BWC Investment Policy at the end of February, 2008.

Quarterly Investment Manager Meetings Summary

Northern Trust (Passive Large Cap U.S. Equity)

Investment staff meeting with portfolio manager (PM) and three relationship managers occurred on January 15, 2008 at the Investment Division offices. The two ancillary funds (Disabled Workers and Coal Workers) total return for 4Q07 exactly met the benchmark S&P 500 index performance of -3.33% whereas State Insurance Fund performance was -3.28% (0.05% higher than index) due largely to timing in cash investments from the reinvestment of proceeds of many private equity sales that occurred during 4Q07. There was an insightful discussion with PM Brett Reeder on intra-day trading tendencies exercised, quarterly portfolio rebalancing strategies, and S&P index changes. Good performance summary and quite pleased with tight tracking performance results to benchmark. At the prompting of Investment Division staff, the Northern Trust servicing team will begin to provide timely communication to staff on index changes when announced. The NT servicing team also offered to arrange periodic conference calls between staff and the firm's Chief Investment Officer of Global Quantitative Management on topical subject matters.

State Street Global Advisors (Passive Long Duration Fixed Income; Passive TIPS)

Investment staff meeting with the respective portfolio managers of both Long Duration Fixed Income (LDFI) and TIPS as well as the primary relationship manager occurred on January 16, 2008 at the Investment Division offices. Performance for 4Q07 was exceptional for LDFI portfolios for both the State Insurance Fund (4.01% SIF vs. 3.85% index return) and two ancillary portfolios (4.15% ancillaries combined vs. 3.85% index). For each portfolio, this unusual excess performance was the result of the overweighting of U.S. government bonds and underweighting of corporate bonds due to unavailability of many corporate bonds for purchase given their increasingly reduced liquidity in a challenging environment due to accelerated subprime mortgage-related pressures impacting the important financial services sector of the bond market. LDFI PM John Kirby discussed the reduced liquidity observed for credit issues in 4Q07 and poor new issue market.

TIPS out performance for the ancillary funds (5.11% ancillaries combined vs. 4.97% index return) versus the benchmark index for 4Q07 largely due to timing of the initial purchase transition in early October, 2007 from the Lehman Aggregate indexed accounts. State Insurance Fund TIPS assets had close tracking error with benchmark index at 4.94% SIF return vs. 4.97% index return for 4Q07. Excellent in-depth discussion led by TIPS PM Jay Mauro on TIPS market update and explanation for TIPS superior performance in 2007. Jay also discussed his present 2008 TIPS portfolio management strategy for active managed accounts.

Investment staff asked and received update on the recent high-level management changes that took place at State Street from fallout of large subprime exposure of certain actively managed bond portfolios that caught many SSGA clients by surprise. Among the changes was the appointment of an interim CEO for 90-120 days replacing the ousted former CEO until a permanent CEO is selected. There will now be four distinct Chief Investment Officers at SSGA and it was learned that the former Director of Fixed Income – North America is no longer with the firm. LDFI PM John Kirby expressed that recent changes were a positive for his passive Fixed Income management team and gave assurance that there were no management changes affecting the BWC accounts. Investment staff was reassured by SSGA that all resources will continue to be available to service clients well. Investment staff also discussed strategy with both PM's on potential BWC asset allocation rebalancing that may occur as a result of recent disparate performance between U.S. equity and fixed income markets.

Barclays Global Investors (Passive Long Duration Fixed Income)

Investment staff meeting with portfolio manager (PM) and three relationship managers as well as Head of Client Advisory Group occurred on January 17, 2008 at the Investment Division offices. Performance for 4Q07 for State Insurance Fund portfolio managed by Barclays (BGI) was very good (3.93% SIF `vs. 3.85% index return) due to modest overweight in US Treasuries and modest underweight in corporates due to lack of liquidity in certain issues.

It was learned that BGI assets under management at YE07 was $2.2 trillion with good growth in LDFI, Lehman Aggregate and TIPS products. BGI added an impressive $7 billion in Lehman Long Government/Corporate (LGC) assets in 2007, including $4.5 billion passive. The BGI Defined Contribution business is growing rapidly with continued movement away from Defined Benefit Plans. BGI indicated their technology platform is considered several years ahead of competition with continued emphasis towards funding enhancements. Client Service team indicated they were pleased from their viewpoint with the recent BWC accounting conversion to BNY Mellon via custodian JPMorgan. Good discussion on BGI Pricing Committee process with pricing of illiquid issues in
general becoming quite challenging recently. PM Matt Tucker is spending more time on alpha platform product development and discussed both their enhanced index LGC and active LGC products gaining significant interest. PM confirmed that BGI is not permitted to use derivatives for commingled LDFI accounts. The Head of BGI Client Advisory Group introduced the BWC team to "Portfolio Works" software analysis product and discussed Liability Driven Investing. Portfolio Works appears to be an intriguing tool for "what if" exercises, asset class mix testing and mean variance analysis. Discussions ensued on efficient frontier analysis, alpha generation, information ratio and systematic elements of medical inflation. BGI offered to provide BWC with Portfolio Works disk and to educate staff on its application, which the Investment staff will pursue when time permits.

6-month Investment Committee Calendar

Date	Agenda	Notes
	March	
3/27/2008	1. Discount Rate/Reserves Setting Factors joint meeting with Actuarial Committee 2. First discussion on investment risk tolerance with Investment Consultant	
	April	
4/24/2008	1. Public Work-Relief / Marine Industry trust funds RFQ Finalist recommendation, approval vote 2. Securities Lending implementation recommendation 3. Portfolio Rebalancing discussion/education with Investment Consultant	
	May	
5/29/2008	1. Investment Consultant Performance Report 1Q08 2. Investment risk tolerance discussion/education with Investment Consultant 3. IPS Portfolio Rebalancing statement revision recommendation, approval vote	
	June	
6/26/2008	1. BWC Investment staff review regarding certification/ethics/conflict of interests/compliance 2. Investment Division Goals FY2009 3. BWC Investment Income Projections FY09 4. Active Manager/Minority Manager discussion/education with Investment Consultant 5. Derivatives utilization discussion	
	July	
7/24/2008	1. Commingled Index Manager RFP Finalist recommendations, approval votes 2. IPS annual review 3. Private Equity sale completion report	
	August	
8/28/2008	1. Commingled Index Manager RFP Finalist recommendations, approval votes 2. Investment Consultant Performance Report 2Q08	

BWC Board of Directors
Investment Committee

Risk Tolerance Discussion Introduction

Bruce Dunn, CFA, Chief Investment Officer
March 14, 2008

There will be an initial discussion on the important topic of Risk Tolerance at the March Investment Committee meeting. Included in this tab is a sample template offered by Mercer posing questions intended to gauge and assess the general risk tolerance sentiments of the BWC Investment Committee and Board of Directors. The questions address and focus on weighing the balance and tradeoff between (a) portfolio market value fluctuations and net asset (surplus) variability and (b) expected higher long-term investment rates of return.

Mercer typically presents a survey of this nature to the governing investment policy committees of its new clients early in its advisory role engagements in order to obtain a sense of the risk tolerance sentiments of such committee members towards investment strategy and objectives.

This sample template is presently intended to serve only as a reference point for discussion. It is the desire of Mercer to present a risk tolerance survey to each member of the BWC Board of Directors for written responses once there is sufficient general discussion and understanding of this critical subject matter.

MERCER

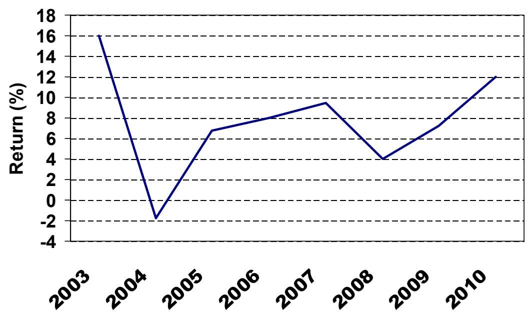
MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Ohio Bureau of Workers' Compensation (Sample Template)

Risk Tolerance Analysis

1. Please check which of the following you would be more willing to accept for the Ohio Bureau of Workers' Compensation Total Fund:

More Volatile, Higher Return



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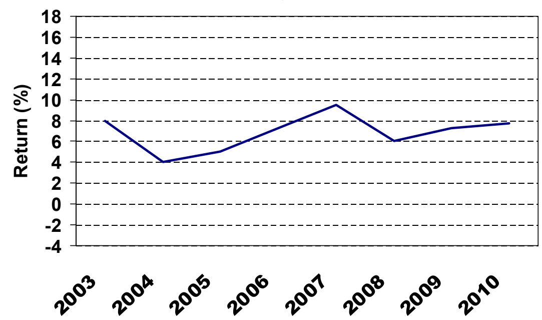
Less Volatile, Lower Return



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2. Given that negative returns may occur in the short term in an attempt to achieve higher longer term results, what is your attitude towards a negative return over the following time periods? (Check one response per column period.)

	One Year	Three Years	Five Years
Acceptable, but not desirable			
Would create a hardship			
Not tolerable			

3. What is the worst realized loss that is acceptable over a one year period? (Check one response)

   a) $100 Million ____________________

   b) $200 million ____________________

   c) $300 million ____________________

   d) $500 million ____________________

   e) Other ____________________

4. What is the maximum equity allocation that you feel comfortable with for the Total Fund – the current target allocation is approximately19%? (Check one response)

0%	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**

5. What is the maximum alternative asset allocation – not including real estate (private equity, hedge funds, commodities and infrastructure etc.) that you feel comfortable with for the Total Fund? Note that these are considered illiquid assets. (Check one response)

0%	**3%**	**6%**	**9%**	**12%**	**15%**

6. On a scale of 1 to 10, where would you rank yourself in terms of the level of "innovation" you are willing to see within the Total Fund? A '1' would be "unwilling to deviate from central practices of key competitors" through to '10' "happy to spend time on non-standard ideas and adopt 'cutting edge' positions if suitably attractive". (Identify a number.)

   ____

7. Ohio Bureau of Workers' Compensation is approximately surplus of $X, I believe we should (Check one response):

   A) Increase Equity to keep current surplus status ____________________
   B) Decrease Equity to protect surplus status ____________________
   C) Attempt to maintain surplus status by adding alternatives ____________________
   D) Enhance returns by increasing alternative investments ____________________

8. Please note any asset class you would be unwilling to invest in at the conclusion of the ALM (Asset Liability Modeling) Study, regardless of the results of the study - knowing that further educational sessions would be needed before actually investing. (Check all that apply).

   A) Hedge Funds ____________________
   B) Private Equity ____________________
   C) Increasing Real Estate ____________________
   D) Commodities ____________________
   E) Infrastructure ____________________

9. What other considerations should be incorporated in the assessment of the Ohio Bureau of Workers' Compensation (through the ALM Study)?

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

Table of Contents

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

I. INVESTMENT OBJECTIVES

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

II. BACKGROUND

A. Purpose

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

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

B. Fiduciary Standard

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

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

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

III. ROLES AND RESPONSIBILITIES

A. Board Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. OBWC Staff Responsibilities

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

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

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

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

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

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

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

vii. Implement the directives of the Board.

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

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

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

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

xii. Monitor manager trade execution.

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

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

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

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

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

C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. General Partners' Responsibilities

Each General Partner shall:

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

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

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

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

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

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

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

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

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

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

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

iv. Assist in the development of performance measurement standards.

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

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

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

viii. Establish a procedural due diligence search process.

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

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

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

IV. INVESTMENT POLICY GUIDELINES

A. Asset Allocation Guidelines

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

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

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

B. Rebalancing Policy

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

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

C. General Guidelines

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

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

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

ii. **Fixed Income Investments**

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

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

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

Diversification

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

By Sector:

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

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

By Credit Quality:

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

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

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

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

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

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

iii. U.S. Equity

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

<u>Diversification</u>
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.

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

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

iv. Alternative Investments

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

Future investments in Alternative Investments are not presently anticipated.

v. **Cash Equivalents**

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

vi. **Securities Lending**

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

vii. **Derivatives**

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

The use of derivatives by the Funds or their Investment Managers is 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.

c. Coins, artwork, horses, jewelry, gems, stamps, antiques, artifacts, collectibles, and memorabilia.
d. Direct or indirect investments in vehicles that target specified assets, which includes unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity and that lack readily determinable valuation.

V. PERFORMANCE OBJECTIVES

A. Total Fund

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

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

B. Asset Class Composites

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

C. Investment Managers

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

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

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

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

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

VI. COMMUNICATIONS

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

VII. TARGET ASSET MIXES AND RANGES

A. State Insurance Fund (SIF)

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

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

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

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

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

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

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

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

B. Coal Workers' Pneumoconiosis Fund (CWPF)

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

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

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

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

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

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

C. Marine Industry Fund (MIF)

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

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

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

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

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

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

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

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

D. Disabled Workers' Relief Fund (DWRF)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F. Self Insured Employers Guarantee Fund (SIEGF)

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

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

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

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

VIII. REVIEW PROCEDURES

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

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

IX. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

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

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.

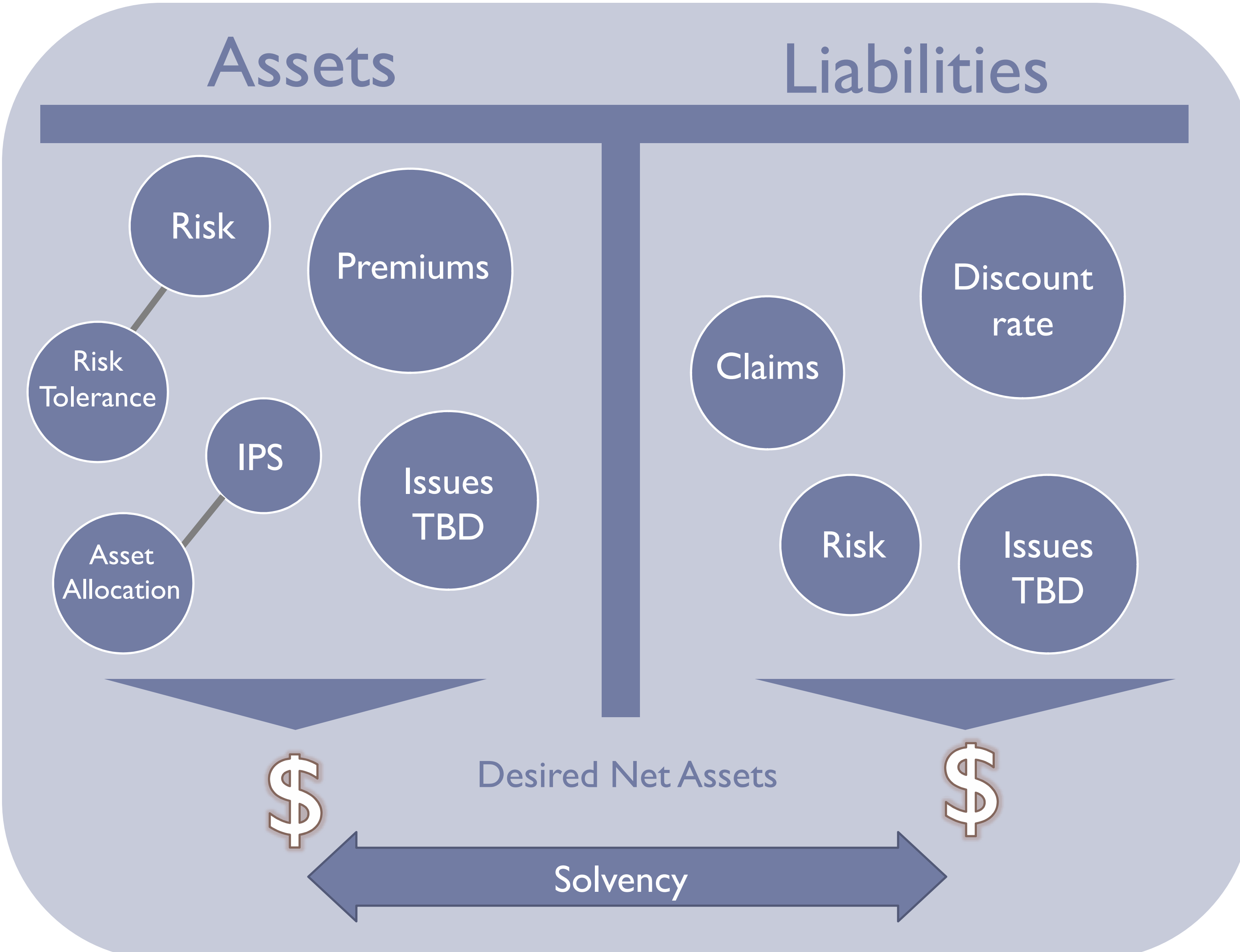
It is the Board's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the Board is not obligated to hire any qualified Ohio manager, minority or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty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

The following presentation was given during a joint meeting of the Investment and Actuarial Committees held on Thursday, March 27, 2008

Setting the Discount Rate

Marsha P. Ryan, Administrator

March 27, 2008



RC 4123.34: "…fix and maintain…the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund…"

Discount rate

The discount rate is NOT

- Investment policy
- It does not change the amount of assets we have today to make future claims payments
- It does not change the amounts we will pay in the future for claims.

The discount rate IS

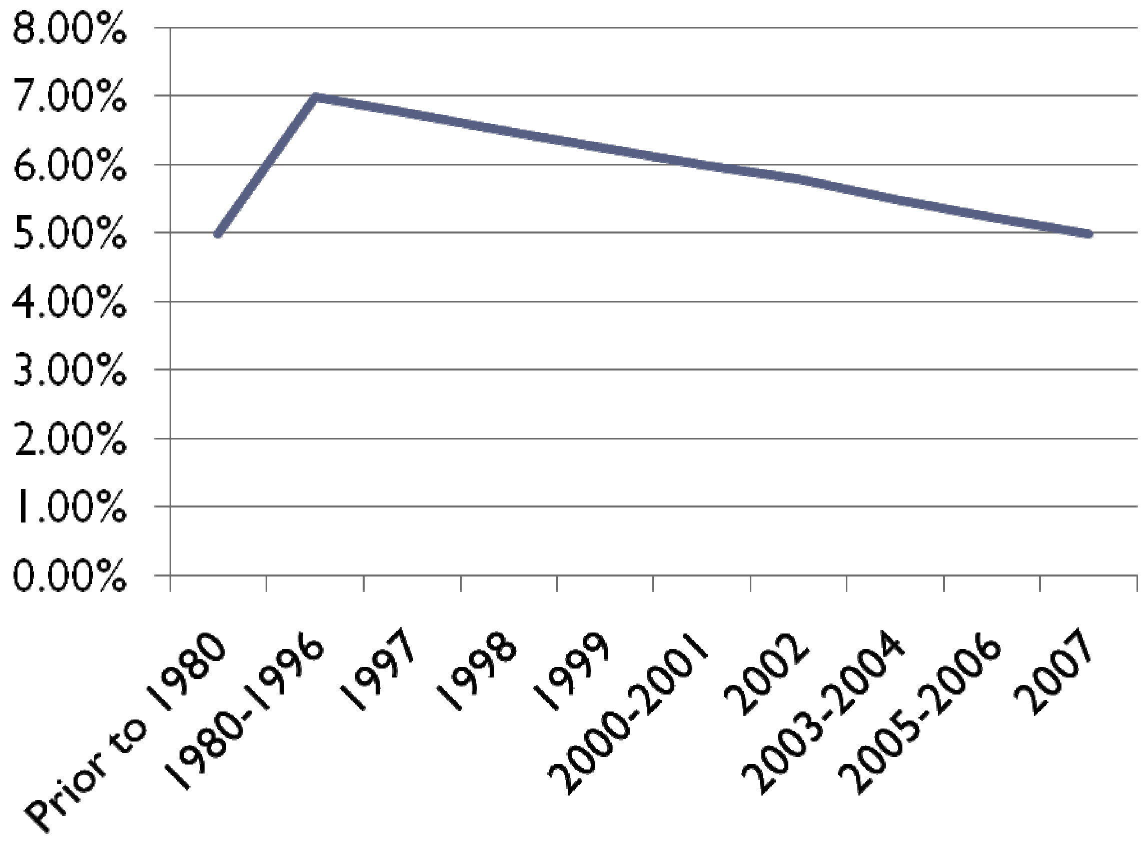
- Recognition of the time value of money
- $1 of future claims liability can be paid by setting aside less than $1 today due to expected investment earnings
- The minimum investment return over the next 50+ years in which we are highly confident

Goals

- Establishment of a conservative discount rate using a methodology supported by accounting and actuarial literature
  - Should be established with a long term view to reduce volatility in our balance sheet and premiums
  - Should not exceed highly dependable investment returns over long periods of time
  - Should enable management to focus on business enterprise goals, such as financial strength and operational excellence

Discount rate

History of the Reserve Discount



Discount rate

How is the discount rate set?

Factors are provided in GASB 10

- Investment yields
  - BWC performance
  - Long-term “riskless” investment
- Cash flow patterns
  - On an annual basis, cash inflows approximate cash outflows
- Settlement rates

Discount rate

Investment factors included in BWC's methodology

- As a point of reference, the average 30-year treasury constant maturity index yield for the five-year period ended June 30, 2007 was 4.859%
- Annual returns on State Insurance Fund for the past seven years have ranged from 14.4 % in 2003 to -4.7% in 2002.
- Consideration of the time value of money using a low-risk rate of return

Discount rate

BWC avg. annual total investment returns

2004-07	6.7%
2003-07	8.2%
2001-07	4.7%

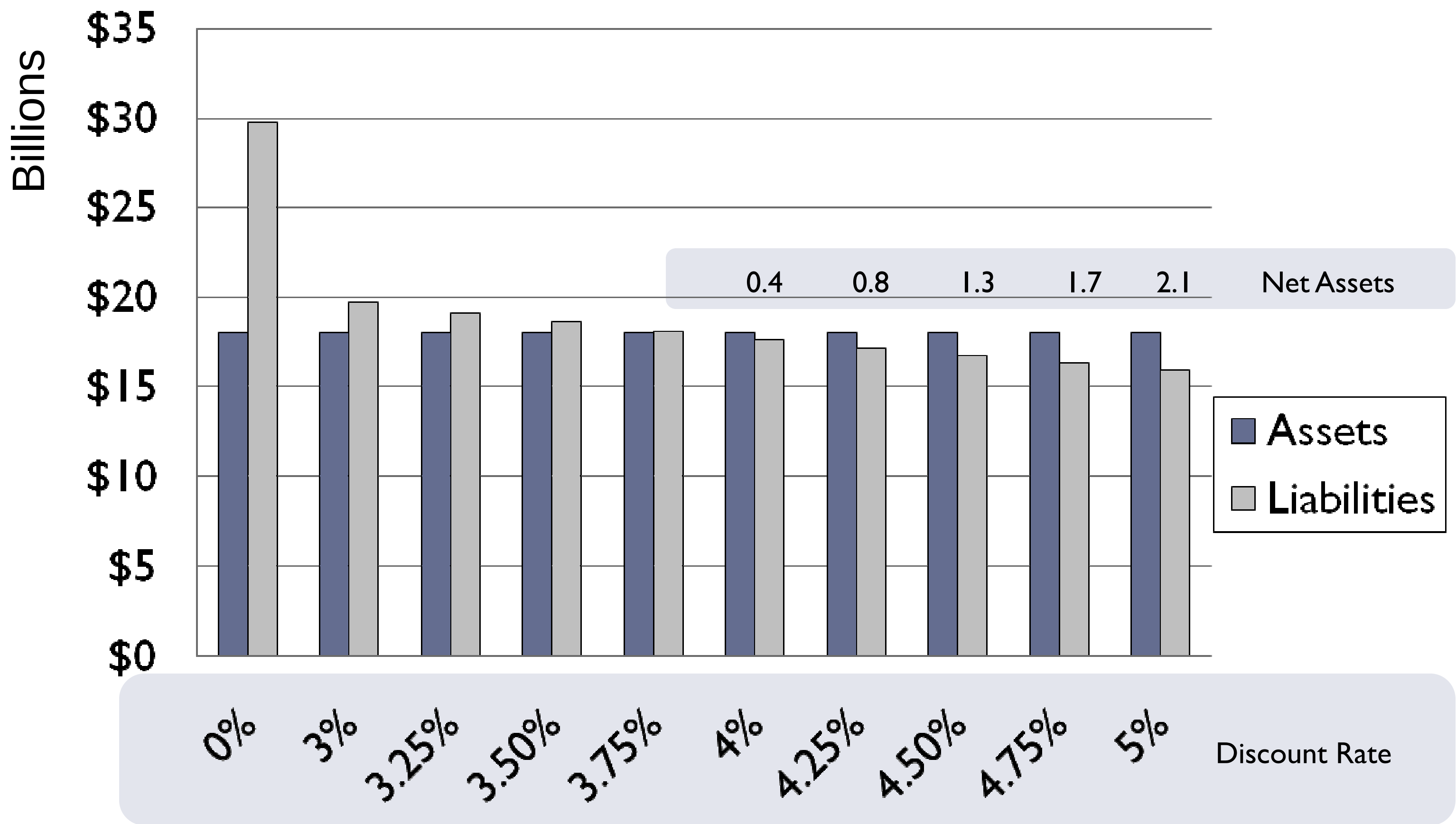
Discount rate

Actuarial considerations included in BWC's methodology

- Timing of future payments is uncertain
- Amount of future payments is uncertain
- Historical patterns analyzed using today's knowledge may not estimate future costs with complete accuracy
- Investment returns vary annually

Discount rate

Balance Sheet Impacts



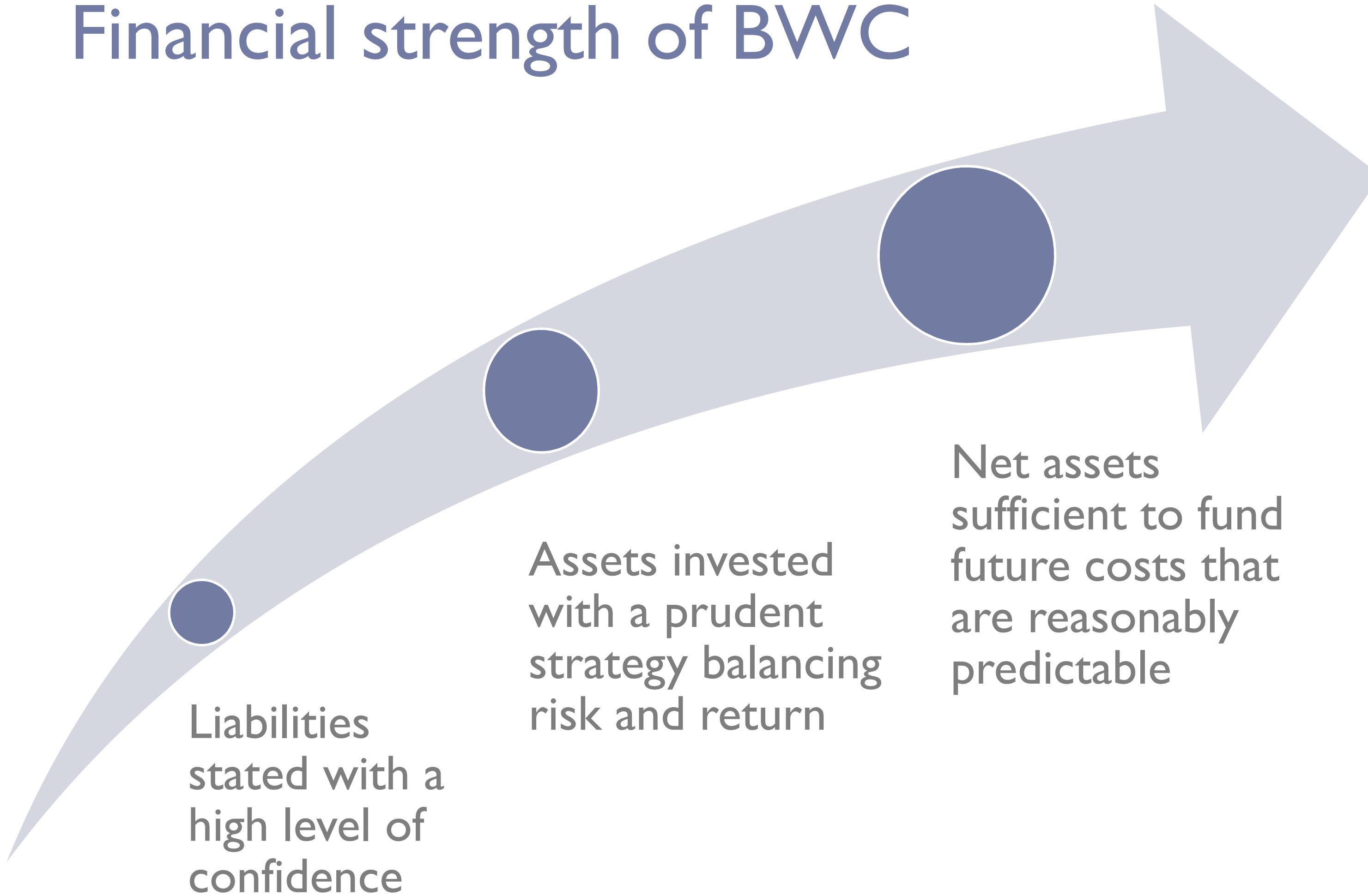
Discount rate

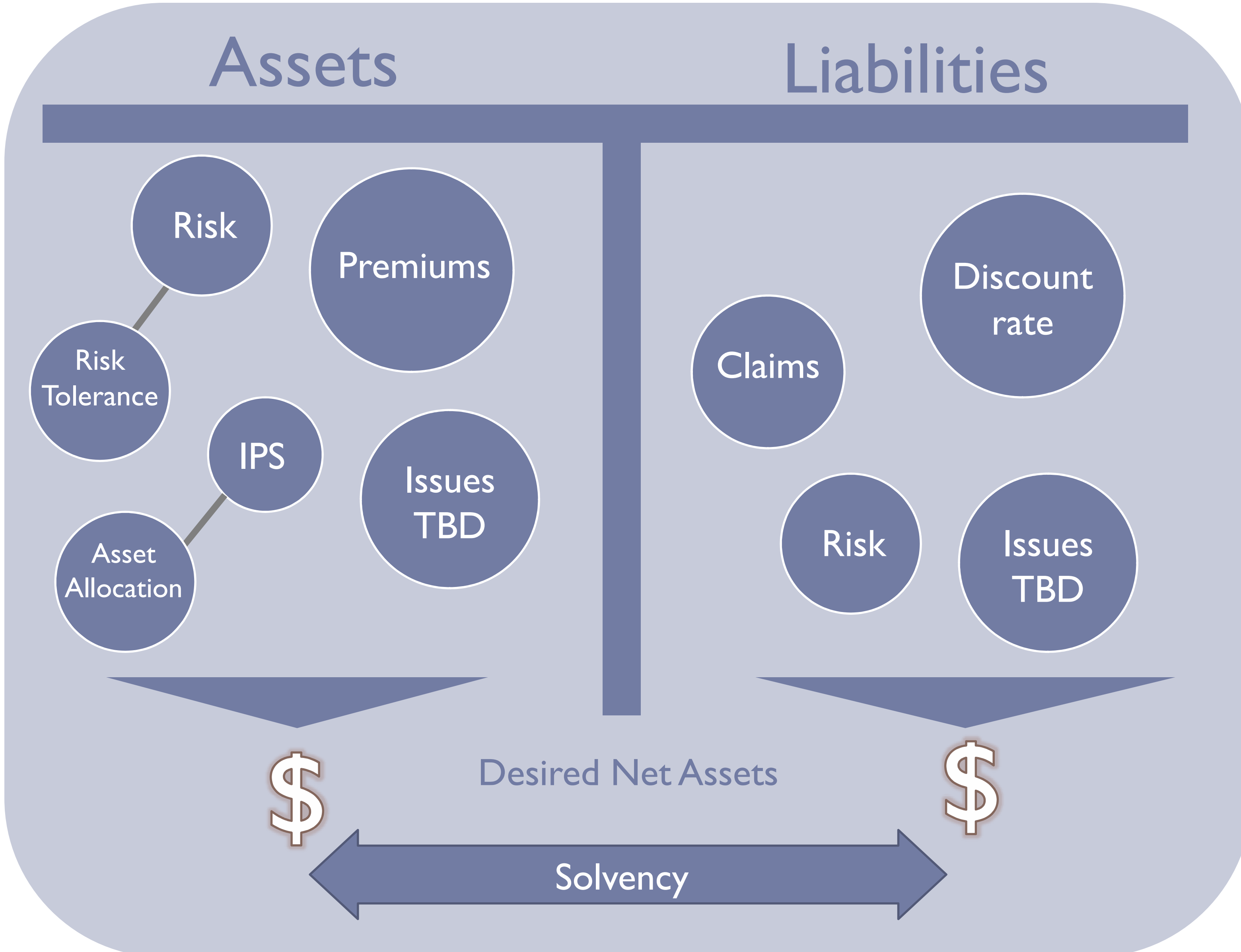
Next Steps:

- Set rate for this policy year beginning July 1, 2008
  - Will use the most recent data for all of the items we have discussed today.
- Complete catastrophic analysis next policy year using information from Deloitte and other studies
- Will re-examine discount rate annually

Discount rate

Financial strength of BWC





RC 4123.34: "…fix and maintain…the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund…"