

BWC Board of Directors

Investment Committee

Thursday, September 25, 2008, 12:00 p.m.

William Green Building

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

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

Members Absent: None

Other Directors Present: Charles Bryan, Kenneth Haffey, James Hummel, and
Thomas Pitts

CALL TO ORDER

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

MINUTES OF AUGUST 28, 2008

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

DISCUSSION ITEMS

COMMENTS OF THE CHAIR

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

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

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

MERCER FIVE STEP DECISION-MAKING FRAMEWORK

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

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

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

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

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

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

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

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

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

MERCER INVESTMENT TOPICS FOR EDUCATION

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

MONTHLY AND FISCAL YEAR-TO-DATE PORTFOLIO VALUE COMPARISONS

Mr. Dunn reported that the BWC portfolio exhibited good performance for the month of August. The stock investment portion grew by 1.4% and there was a similar performance by bonds. The cash balance grew \$319 million because of high premium collections.

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

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

CHIEF INVESTMENT OFFICER MONTHLY REPORT

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

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

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

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

CALENDAR OF EVENTS & REPORTS

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

ADJOURNMENT

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

Prepared by: Larry Rhodebeck, Staff Counsel
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September 30, 2008