BWC Board of Directors

Investment Committee

Wednesday, December 17, 2008, 12:00 p.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Robert Smith, Chair Alison Falls Larry Price David Caldwell James Harris William Lhota
Other Members Present:	James Hummel Thomas Pitts James Matesich Kenneth Haffey

CALL TO ORDER
Mr. Smith called the meeting to order at 12:00 pm.

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

Upon request by Mr. Smith, Bruce Dunn, Chief Investment Officer, discussed the current status of the Bureau investment portfolio. Bond yields have declined significantly to date during December 2008. There has been an estimated six percent increase in total portfolio value of the Bureau since the end of November 2008. There has been an estimated four percent decrease in the total rate of return of the portfolio year to date. Mr. Price thanked the Bureau staff for their hard work on investments.

APPROVE MINUTES OF THE NOVEMBER 20 MEETING
Upon motion of Mr. Caldwell, seconded by Mr. Price, the minutes of the Investment Committee Education Session and the Investment Committee Meeting of November 20, 2008 were approved, 6-0.

NEW BUSINESS /ACTION ITEMS:

INVESTMENT POLICY STATEMENT REVIEW

Mr. Dunn led a discussion of portfolio rebalancing issues. Market liquidity has increased, and the Bureau could execute a good portfolio rebalance. The Bureau currently has 13.7% of the portfolio invested in equity. Excluding any potential material cross trading opportunities, Mr. Dunn estimated it would take a two week period for an effective execution of a likely portfolio rebalance. There is growing demand for long duration bonds by institutional investors, and there are possible cross trading opportunities. It is possible to execute the rebalance in January 2009. There would be an estimated $800 million rebalance necessary based on the current asset allocation weightings of the affected portfolios at market value. Discussion was made by Ms. Falls and Mr. Smith concerning phasing in a rebalance for equities over a period of months rather than the proposed two week period.

There is an internal rebalancing committee. Mr. Dunn is to develop a proposal for early January 2009 on a rebalancing recommendation. Marsha Ryan, Bureau Administrator inquired as to whether or not the rebalancing policy should specify a range to fall within for rebalancing.

Discussion was made by Mercer Consulting, with regard to portfolio rebalancing. A memorandum prepared by Mercer, dated December 14, 2008, is incorporated into the minutes. According to Mercer none of their clients have followed through with rebalancing during this current calendar quarter. Some of their clients have temporarily expanded ranges for rebalance, but have not amended investment policies. Discussion was made of revising section IV.B of the Investment Policy, concerning portfolio rebalancing. Mercer Consulting presented on the portfolio rebalancing issue. A memorandum prepared by Mercer, dated December 8, 2008, is incorporated into the minutes. More specifically, detailed discussion was made of events that may trigger the need to rebalance. Mr. Smith requested that the internal rebalancing committee review recommendations of Mercer. Mr. Price expressed concern over the final decision making process of rebalancing. Mr. Dunn indicated that it is in the best interests of the Bureau that such rebalancing transactions not be publicized at the time they are being executed as such knowledge may impact activity on the market to the detriment of the Bureau. Mr. Dunn shall fully report rebalancing transactions once fully executed. Mr. Pitts questioned why time requirements were as long as they are for rebalancing. The Bureau was in compliance with its rebalancing policy as of September 30, 2008. Rebalance is anticipated for January 2009, and there has been no triggering event that would have required rebalancing any sooner. Ms. Falls requested the Bureau develop a plan for compliance if suspension of rebalancing is triggered, and promptly present such a plan to the Board. Mr. Price agreed with this. Mr. Price raised the issue of flexibility in a recommendation for a rebalancing policy. Flexibility involves where to rebalance at within a range.

Motion was made by Mr. Price, seconded by Ms. Falls, as follows: that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it replace current section IV.B of the Statement of Investment Policy and Guidelines regarding a rebalancing policy with language that is set forth in the Mercer memorandum dated December 8, 2008. The exact language of the new section IV.B adopted as a result of this motion will be incorporated in the minutes of this meeting of the committee. Roll call was taken and the motion passed 6-0.

Discussion was made with regard to section IV.C.iii of the investment policy. Mr. Dunn discussed equity portfolio diversification, and to allow for passive managers to exceed the current five percent portfolio ownership limit at market value per equity holding in domestic equity, with active managers remaining at the current five percent domestic equity ownership limit per holding. Motion was made by Ms. Falls, seconded by Mr. Harris, as follows: that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it amend current section IV.C.iii of the Statement of Investment Policy and Guidelines regarding equity portfolio diversification, for the reasons set forth in the memorandum of the Chief Investment Officer dated December 8, 2008. The exact changes adopted as a result of this motion appears in the Mercer Memorandum of December 7, 2008 and will be incorporated in the minutes of this meeting of the committee. Roll call was taken and the motion passed 6-0.

DISCUSSION ITEMS

MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO COMPARISONS
Mr. Dunn led the discussion of comparisons. Highlights of Mr. Dunn's report, incorporated into the minutes, included comparisons of November 2008 and October 2008, as well as November of 2008 and June of 2008.

MERCER PROGRESS REPORT ON ASSET LIABILITY MODELING
Presentation was made by Louis Finney, Guy Cooper, and Neil Cornell of Mercer Consulting. A report dated December 17, 2008 prepared by Mercer is incorporated into the minutes. Efficient frontiers of asset liability modeling were analyzed by Mercer, the results of which were presented to the Board. Analysis included statistical analysis, delivered via power point presentation, incorporated into the minutes. John Pedrick, Chief Actuarial Officer, participated in discussion of reserve discounting and duration of liabilities. Discussion was made of interest rate risk exposure, funding ratios, and modeling of such variables. Proposed alternatives with regard to asset mixes were thoroughly discussed. Evaluation of efficient mixes of asset allocation was focused upon. Mr. Smith raised discussion of current practice with regard to this issue. Dr. Finney set forth combinations of several approaches in the power point presentation, with a discussion of the impact of different methods and allocations. It was noted that high yield bonds and alternative investments may be attractive additional investment options in the

long run. The next step of the analysis will include taking the current allocation and evaluate at thirty percent, forty percent and fifty percent equity allocations. Further stochastic testing will be involved. Mr. Smith emphasized consideration of multiple scenarios.

ANNUAL CUSTODIAL REVIEW
Presentation was made by Lee Damsel, Director of Investments, and Mr. Dunn. A power point presentation was provided on the annual BWC custodial services review, and is incorporated into the minutes. The custodial team was acknowledged by Ms. Damsel, including representatives of the Ohio Treasurer of State who serves as the statutory custodian for the Bureau. Cindy Beck, Director of Securities Trust for the Treasurer of State, and JPMorgan representative Richard Hartzell were recognized by Ms. Damsel. JPMorgan serves as the sub-custodian for the Bureau and is assigned by the Ohio Treasurer of State. The BWC custodial team has focused on many assigned duties as listed in the presentation report throughout the entire year. The master record keeper of the Bureau's investment assets is BNY Mellon.

CIO REPORT NOVEMBER 2008

COMMITTEE CALENDAR
The above two reports were distributed but not discussed in the meeting.

Motion was made by Mr. Smith, seconded by Mr. Harris, to adjourn the meeting at 2:05 pm. Roll call was taken and the motion passed 6-0.

Prepared by: Thomas Woodruff, Interim Director Self Insured Department
December 23, 2008