

**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., 2<sup>nd</sup> 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.