BWC Board of Directors

Investment Committee

Thurs., March 27, 2008, 12 PM
William Green Building

Ohio Center for Occupational Safety and Health
Conference Room B
13430 Yarmouth Drive
Pickerington, OH 43147

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

Other Members Present:

James Hummel
Jim Matesich
Philip Fulton
Charles Bryan
Ken Haffey

Others Present:

Marsha Ryan, Administrator
Lee Damsel, Director of Investments
Bruce Dunn, Chief Investment Officer
James Barnes, Bureau General Counsel
Ellen Wentzel, Bureau Assistant General Counsel
Don Berno, Board Liaison
John Williams, Assistant Attorney General
Guy Cooper, Mercer Consulting
Rich Nuzum, Mercer Consulting
Kweku Obed, Mercer Consulting

Scribe: Tom Woodruff

Call to order

Ms. Falls called the meeting to order at 12:00 pm and the roll call was taken. Mr. Smith was not present at the meeting, however, Mr. Smith participated via conference telephone call. Mr. Smith abstained from deliberation or voting.

Minutes of Feb. 28, 2008

Motion was made by Larry Price, and seconded by David Caldwell to approve the February 28, 2008 minutes. The motion passed 5-0.

Discussion items

Portfolio Monthly Value Comparison

Bruce Dunn, Chief Investment Officer, provided a monthly value comparison between January 2008 and February 2008 as well as a year-to-date comparison with June 2007. A handout is incorporated by reference into the minutes. Discussion was made of bonds, equity, and net cash investments. Mr. Dunn indicated there has been a shift from bonds to stocks so far in fiscal year 2008 due to ancillary portfolio transitions, portfolio rebalancing requirements and a one-time $150 million redemption requested by the Bureau from a bond account manager to meet Bureau cash payment requirements. There has been good performance in the portfolio, especially with bonds. The best performing asset class has been TIPS. Alison Falls inquired whether the high total return for bonds was unusual. Mr. Dunn indicated the Bureau has over a 40% overall portfolio weighting in U.S. Treasury bonds and this asset sector has provided strong performance in fiscal year 2008 to date. Mr. Dunn indicated this continued strong performance of U.S. Treasury holdings is likely unsustainable. Guy Cooper, with Mercer Consulting, agreed with Mr. Dunn. Mr. Price inquired about what adjustments are being considered, as a possible recession may impact investments. Guy Cooper recommended that the Board stick with its defined asset targets. Ms. Falls indicated that a commitment to strategic allocation targets was important to avoid any inclination to time the markets and should be included in future investment policy discussions. Ms. Falls asked Mr. Dunn about cash management strategy. Mr. Dunn indicated that all invested cash is currently invested in a money market fund. He indicated that any money market fund vehicle employed by the Bureau must not be subject to potential loss of principal. Mr. Dunn indicated that the current money market fund utilized by the Bureau is managed by its custodian JPMorgan and such fund invests only in U.S. government backed investments. Mr. Dunn indicated that a high quality JPMorgan managed non-government money market fund was reviewed by him as a possible alternative to the existing selected fund in order to capture a higher yield since the recent trend was a widening of yield spreads between these two JPMorgan managed funds. Mr. Dunn indicated he rejected the use of this alternative higher yielding fund at this time because of that fund's high exposure to foreign bank credits. Mr. Dunn indicated that money market funds are very good short-term investment vehicles in declining interest rate environments such as the present period, because their yields decline more slowly than alternative maturity direct investments. He indicated there is currently no yield advantage to making direct short-term investments, but this is being evaluated closely. Jim Matesich discussed the issue of a change of investment mix. The discussion included what elements are presented to the Board, resulting in a change to the asset mix. Guy Cooper suggested that Mercer present a series of alternatives, with varying combinations of risk and reward.

CIO Report – February 2008

A written report was included in Mr. Dunn's presentation and is incorporated into the minutes. Six fiscal year 2008 goals were discussed. A newly hired assistant investment manager starts next week. The new investment accounting analytical system is tracking performance on a daily basis. Ms. Falls inquired as to when the new accounting system will be implemented. Mr. Dunn indicated that the new investment accounting system has been used by the Financial Reporting Department since December, 2007. He indicated the related but separate BNY Mellon performance and analytical system is being learned by the investment staff and may be fully implemented by June, with an internal deadline date of September 2008 for full implementation being made to the Administrator. Marsha Ryan, Bureau Administrator, indicated that it is important for the investment staff to be able to understand and utilize this analytical system. Mr. Dunn indicated that there will be a summary section in the CIO Report of quarterly investment manager meetings the investment staff conducts with its outside investment managers. Mr. Dunn discussed the three quarterly manager meeting summaries that were presented in this February, 2008 written report. Ms. Falls indicated that these written summaries were excellent and beneficial in order to keep the Investment Committee informed.

Risk Tolerance

A presentation was made by Guy Cooper and Rich Nuzum of Mercer Consulting, with regard to developing an investment strategy, whether for the purpose to validate the current strategy or to develop a new strategy when the timing is deemed appropriate. The critical inquiries are, what are the objectives, what is available, and what is the Bureau's risk tolerance. A collective decision is to be fashioned, utilizing such tools as computer analysis, historical data, probability modeling, and survey analysis. Surplus must be measured and defined. There must be an evaluation of asset allocation. Ms. Falls raised the issue of while evaluating probabilities, how is the risk in outlier scenarios measured? Mr. Cooper indicated that the risks of all asset classes are not normally distributed.

A discussion of risk tolerance was conducted among by committee members with the other Board members present. The discussion, focusing on weighing the balance and trade-off between risk, measured as variability in the market value of the portfolio or net assets, and long term total return was led by Ms. Falls. Mr. Bryan indicated he favored taking risk in the underwriting business and taking minimal risk on investments. Mr. Cooper indicated that this strategy was typically the highest cost strategy. Mr. Matesich emphasized the importance of achieving relatively strong total returns on the portfolio in order to keep premiums competitive. Ms. Falls emphasized the importance of a suitable risk tolerance survey to be provided by Mercer to the Board members for response.

Adjournment

Motion was made by Mr. Caldwell and seconded by Mr. Harris, to adjourn the meeting at 1:40 pm. Roll call was taken, and the motion passed 5-0.

Prepared by Tom Woodruff, BWC staff counsel.