

**BWC Board of Directors  
Investment Committee**

Thurs., April 24, 2008, 4:00 PM  
William Green Building  
Neil Schultz Conference Center  
30 W. Spring St., 2<sup>ND</sup> Floor (Mezzanine)  
Columbus, OH 43215

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

Members Absent: none

Other Directors Present:  
James Hummel  
James Matesich  
Philip Fulton  
Charles Bryan  
Kenneth Haffey

**Call to order**

Mr. Smith called the meeting to order at 4:00 pm and the roll call was taken. All members were present.

**Minutes of Feb. 28, 2008**

Motion was made by Mr. Price, and seconded by Ms. Falls to approve the March 27, 2008 minutes. The motion passed unanimously.

**New business/Action items**

**Request for Quotation for Commingled Passive Index Intermediate Duration Fixed Income Investment Manager**

Bruce Dunn, Chief Investment Officer, discussed the request for quotation (RFQ), approved for issuance in November 2007 and issued in March 2008. Mr. Dunn's presentation included a handout summarizing the RFQ process regarding the search for a commingled passive index intermediate duration fixed income investment manager for the Public Work-Relief Employees' Fund and Marine Industry Fund, incorporated into the minutes by reference. Two RFQ responses were considered, one from Barclays Global Investors and one from State Street Global Advisors. The respondents' RFQ submissions were scored, the scores were discussed by the RFQ evaluation committee, and Barclays was selected as the finalist candidate to be recommended for approval to the BWC Investment Committee and BWC Board of Directors. In particular, Mr. Dunn noted Barclays historical performance of its passively managed funds directed to this mandate

demonstrates impressive low tracking error to the benchmark index. Barclays is the largest passive index manager in the world, their trading execution costs are very low, and their management fee is competitive. Guy Cooper, of Mercer Consulting, noted that the RFQ selection process was one of great rigor, diligence, and thoroughness. Mr. Cooper was quite impressed with the Bureau's process and selection.

Presentations were made by two representatives of Barclays - Matt Tucker, head of fixed income investment solutions, and Timothy Parillo, global head of securities lending strategy and business development. A handout was included in the Barclays presentation, and is incorporated by reference. Barclays currently manages over two trillion dollars worldwide. The Bureau's two trust fund portfolios for this mandate would be managed in San Francisco, California. Barclays manages six hundred fifty billion dollars of fixed income assets, of which almost six hundred billion dollars currently are passively managed. The goal of Barclays' passive index management is to consistently provide performance closely matching respective benchmark index returns. The securities lending has been ongoing with Barclays since 1981. Barclays is currently the third largest securities lender by lending activity in the world, making six thousand to eight thousand loans per day. Barclays engages in research and innovation, optimization of revenue, and utilizes five risk mitigation practices. Ms. Falls raised an issue concerning managing counterparty risk. Mr. Parillo indicated that Barclays has a rigorous process for evaluating counterparty risk and is very selective in choosing acceptable counterparties. The Barclays securities lending group analyzes the financial statements and financial condition of both existing and prospective counterparties continuously and has strict exposure limits for each approved counterparty.

Motion was made by Ms. Falls, seconded by Mr. Price, as follows: that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it approve the selection of Barclays Global Investors (BGI) to serve as an intermediate duration U.S. Fixed Income Commingled Passive Index manager for the Bureau of Workers' Compensation, upon such terms as are outlined in BGI's response to the Request for Quote issued March 11, 2008 and such other terms as are favorable to the Bureau. Roll call was taken and the motion passed unanimously. Ms. Falls asked Mr. Dunn about the timing of implementation of this approved mandate. Mr. Dunn indicated that once Barclays has been approved, background checks will commence on the Barclays individuals identified as the investment management team assigned for the Bureau. This process is expected to take four to six weeks once completed fingerprint cards are received back from Barclays. Outside counsel to complete all related legal documentation will likely be hired as well. James Barnes, Chief Legal Officer, has been discussing the hiring of such outside counsel with the Office of the Attorney General. Ms. Falls inquired as to whether Barclays was authorized to engage in securities lending. Mr. Dunn answered yes. Securities lending activity is integrated with and included in the commingled pooled funds index management process employed by Barclays for the two Bureau trust funds pertinent to this recommendation.

## **Discussion items**

### **Monthly and Fiscal Year to Date Portfolio Value Comparisons**

Mr. Dunn provided market value comparisons of the investment portfolio of the Bureau. A handout is incorporated by reference into the minutes. Discussion was made of bonds, equity, and net cash investments. Mr. Dunn indicated the Bureau has experienced an estimated overall positive rate of return of 5.80% on its investment portfolio for the first nine months ending March 31, 2008. Mr. Dunn indicated there was a net cash balance decline in the month of March 2008 as a result of

investment activity with respect to bonds and equities. Balances in the report represent market values as of March 31, 2008, February 29, 2008, and June 30, 2007.

### **CIO Report – April 2008**

A written report, dated April 14, 2008, was included in Mr. Dunn's presentation and is incorporated into the minutes. An assistant investment manager has been hired and started at the end of March 2008. A second administrative assistant begins employment in April 2008. Sixty-five private equity partnerships have been sold through March 31, 2008, with three remaining to be sold.

### **Mercer Proposed Five Step Decision-Making Framework**

A presentation was made by Guy Cooper and Kristin Finney-Cooke, of Mercer Consulting, with regard to decision-making. A new handout was distributed prior to the presentation, replacing materials already prepared for the meeting. The new handout is incorporated into the minutes. The five step decision making framework includes the enterprise wide objective, five percent discount rate, investment objectives, asset allocation, and risk tolerances. The first two steps have been completed, and the Bureau needs to begin the third step. The third step needs to be consistent with steps one and two. Ms. Falls discussed the interplay between steps one and three, and the creation of and maintenance of a reasonable surplus.

The five step process must be sequential and linear. Assistance from Deloitte will be needed to define and calculate surplus, and to determine how much surplus is needed. There shall be future educational pieces presented by Mercer Consulting. Mr. Bryan suggested that education over the next three years be limited to asset classes in which the Bureau will actually invest. Mr. Smith, Mr. Fulton, and Mr. Matesich supported a broader scope for educational topics. Ms. Falls believes the opportunity cost of education needs to be considered, as well as the importance of diversification. Mr. Harris noted the Bureau's past negative history with hedge funds, and stated concern about this type of investment. Mr. Matesich left the meeting at 5:40 pm.

### **Calendar**

The calendar is tentatively set for the next twelve months. Mr. Dunn indicated that a vote may be necessary in May of 2008 with regard to the funding of the mine safety program. Mr. Dunn stated that portfolio rebalancing language in the investment policy was too vague, and will be addressed with proposed new language in either May 2008 or June 2008. There shall be a Mercer quarterly performance report to be provided and discussed in the May 2008 meeting. For the July 2008 meeting, there is targeted for submission a report summarizing completion of the private equity sale. Investment income projections and divisional goals are expected to be presented in the June 2008 meeting. Mr. Harris raised issues concerning the mine safety program and whether interest income earned from the Pneumoconiosis Fund would be utilized to fund the mine safety program. Ms. Ryan answered yes, it is her understanding the program would operate in that manner.

### **Adjournment**

Upon motion by Mr. Caldwell, seconded by Ms. Falls, the meeting was adjourned at 5:45 pm.

Prepared by Tom Woodruff, BWC Staff Counsel