DATE: October 19, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Asset Class Annual Report for Fiscal Year 2009**

Ohio Revised Code section 4121.12(F)(12) states that the BWC Board of Directors shall "submit a report annually on the performance and value of each investment class to the governor, the president and minority leader of the senate, and the speaker and minority leader of the house of representatives".

The following proposed Asset Class Annual Report for Fiscal Year 2009 in final draft form is provided for your review. This proposed Annual Report will be presented and discussed at the Investment Committee meeting on October 29, 2009.

Ohio Bureau of Workers' Compensation

Fiscal Year 2009 Investment Class Annual Report Comments

Background

The U.S. and global financial markets experienced an extreme level of volatility in valuation and performance over the 2009 fiscal year period from July 1, 2008 through June 30, 2009. This was brought about by a weakening economy aggravated by questionable lending underwriting practices and leveraged asset management strategies employed by a number of prominent financial institutions. These conditions resulted in the bankruptcy of Lehman Brothers and the U.S. federal government takeover of Fannie Mae, Freddie Mac and AIG in September 2008 as well as necessary financial support given by the U.S. Treasury to some of the largest U.S. commercial banks, insurance companies and investment banks. These developments created significant stress on the daily functioning of certain credit markets over 4Q2008 and 1Q2009 and resulted in a worldwide flight by investors away from perceived risky assets to safe liquid assets.

The investment portfolio of the Bureau held up relatively well in market value during the very challenging period of fiscal year 2009, especially when compared to most public fund institutional portfolios. The portfolio provided a total return of negative 1.1% (net of investment management fees) during this period. This is attributable to the emphasis placed on high quality fixed income investments by the investment policy of the Bureau. The average credit quality of the fixed income portfolio of the Bureau was "AA" over the fiscal year. At the beginning of fiscal 2009, the investment policy asset allocation targets were 80% fixed income (including 1% cash) and 20% equities for each of the three largest trust funds of the Bureau (State Insurance Fund, Disabled Workers' Relief Fund and Coal Workers' Pneumoconiosis Fund) which aggregate over 99% of invested assets of the Bureau.

The Board of Directors of the Bureau in April 2009 approved a change in asset allocation targets for the State Insurance Fund to 70% fixed income and 30% equities, with the 10% increase in equities allocated to international equities (formerly 0% allocation) and the 10% reduction in fixed income reducing long duration bond exposure. In addition to this portfolio asset allocation change, there were several asset allocation target changes made within the portfolio fixed income classes also approved by the Board to further reduce average duration of the bond portfolio. These decisions were made by the Board after several careful reviews of a rigorous asset-liability modeling study requested of the Bureau's investment consulting firm. The new asset allocation mix for the State Insurance Fund, representing approximately 92% of total Bureau invested assets, is expected to increase its portfolio return and lower its variance or dispersion of expected annual portfolio return over the long term.

Due to the necessary planning and preparation period required to carefully transition asset classes of large size, the new asset allocation targets were not yet reflected in the State Insurance Fund portfolio at the end of fiscal year 2009. The transitioning of such assets to the new investment policy allocation targets are being implemented and executed at a carefully planned systematic pace during the first six months of fiscal year 2010 ending December 2009. At the request of the Board, similar asset-liability studies will be performed on four additional Bureau trust funds by the Bureau's investment consultant. The outcome of these studies could result in additional asset class allocation target changes beneficial to these trust funds as well.

Valuation and Performance

Total investment assets at fair value held by the Bureau were $17,077 million on June 30, 2009, a decrease of $208 million when compared to $17,285 million on June 30, 2008. As stated earlier, the total rate of return on invested assets of the Bureau for the fiscal year 2009 ended June 30, 2009 was a negative 1.1% net of investment management fees. Net investment income reported for fiscal year 2009 was a negative $195 million, comprised of $738 million in interest and dividend income less $928 million in decrease in fair value of investments and $5 million in investment expenses, including $3 million in investment manager fees. These investment fees represented an average annual fee of less than 2 basis points (2/100 of 1%) of total average month-end value of bond and stock assets managed by outside passive indexed managers for fiscal 2009.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2009 was 76.4% bonds, 20.6% stocks and 3.0% cash and cash equivalents. This asset mix compares to 79.4% bonds, 18.4% stocks and 2.2% cash and cash equivalents on June 30, 2008.

There were two significant portfolio quarterly rebalancing events executed during fiscal year 2009 as well as several investment manager redemption events initiated for either operational cash purposes or for minor portfolio rebalancing purposes involving redeployment of month-end bond cash interest income received. These activities are important to highlight in that they had a material impact on the respective fair value levels of both the bond and equity portfolios over the course of fiscal 2009.

Each identified bond and equity asset class in the Bureau's investment policy has a target portfolio allocation and a defined asset allocation range. During the tumultuous period of the first nine months of fiscal 2009 ending March 31, 2009 in which U.S. stocks significantly underperformed bonds during each of the first three quarters, the stock portfolio allocation of the Bureau's total investment portfolio fell below the defined minimum target range of 17% for stock ownership at the end of each of the calendar quarters ending December 2008 and March 2009. This development triggered the need to rebalance the investment portfolio of each affected trust fund per the investment policy of the Bureau. The investment policy requires purchasing the asset class that is below minimum ownership percentage and selling the asset class that is above targeted ownership percentage in sufficient amounts so as to achieve a portfolio asset mix whereby each asset class is once again within acceptable ownership ranges as consistent with the investment policy.

As a result of the above, the two major quarterly portfolio rebalancing events that occurred in early January 2009 and early April 2009 involved a total of $979 million of additional investments made in stocks (passive managed S&P index funds) that were funded from bond portfolio directed redemptions of $899 million in value ($739 million from long duration bonds and $160 million from TIPS) and $80 million of operational cash. Remaining asset redemption activity during the fiscal year resulted from (i) the need to raise cash to fund operations ($253 million all from long duration bond portfolio redemptions), (ii) monthly rebalancing activity from long duration bond cash interest redirected to stocks ($126 million) and (iii) the deployment of $39 million in cash to fund initial commingled intermediate duration bond fund investments for the Public Work-Relief Employees' Fund and Marine Industry Fund.

To summarize these portfolio rebalancing and operational need redemption activities, the bond portfolio had net investment manager redemptions of $1,239 million consisting of $1,118 million from long duration bonds and $160 million from TIPS, offset by $39 million invested in intermediate duration bonds. The stock portfolio of S&P 500 indexed stocks had a net inflow of funds totaling $1,093 million from directed portfolio rebalancing purchases.

The total fair value of the bond portfolio of the Bureau was $13,050 million on June 30, 2009 compared to $13,724 million on June 30, 2008, representing a reduction of $674 million. As explained herein, the bond portfolio had net investment manager redemptions of $1,239 million during the fiscal year period initiated for several purposes. Excluding these net redemptions, the bond portfolio had an increase in fair value of $565 million for fiscal year 2009. The total rate of return of bonds owned by the Bureau was 4.1% for fiscal year 2009. Virtually all bonds owned during fiscal year 2009 were passively managed by several index managers under contract to match targeted benchmark index returns.

A total fair value of $7,424 million of bonds directly owned (excluding $40 million in commingled funds) or approximately 57% of total bonds owned at fair value on June 30, 2009 represented direct U.S. government obligations, including $3,456 million of U.S. Treasury inflation protected securities (TIPS) representing 26% of total bonds owned at fair value and 20% of total Bureau invested assets owned at fair value. The total rate of return of the TIPS portfolio was a negative 1.4% for fiscal year 2009.

The total fair value of $13,050 million for the bond portfolio of the Bureau on June 30, 2009 was comprised of $9,554 million of long duration index bonds, $3,456 million of TIPS index bonds and $40 million of intermediate duration bonds represented in a commingled index fund. This compares to June 30, 2008 fair values of $10,061 million for long duration bonds and $3,663 for TIPS, with no ownership of intermediate duration bonds. A long duration bond is defined as having a final remaining maturity of ten years or longer. An intermediate duration bond has a final remaining maturity of between one and ten years.

The long duration bond portfolio of the Bureau had a total rate of return of 5.9% for fiscal year 2009. The intermediate duration bond investments in a commingled index fund were made in February 2009 by the Public Work-Relief Employees' Fund and the Marine Industry Fund in the amount of $39 million funded by cash held. These intermediate duration bond investments had a total rate of return of 1.5% from February 2009 inception through June 30, 2009.

The total fair value of the equities portfolio of the Bureau was $3,516 million on June 30, 2009 compared to $3,180 million on June 30, 2008, representing an increase of $336 million. As mentioned earlier, the equities portfolio had net inflow of funds of $1,093 million from directed portfolio rebalancing purchases. If these portfolio rebalancing inflows are excluded, the equities portfolio had a decrease in fair value of $757 million. The total rate of return of equity investments of the Bureau was negative 26.0% for fiscal year 2009 which matched the S&P 500 index return over this period. All but $4 million of miscellaneous equity investments in the Bureau's equity portfolio on June 30, 2009 were represented by passively managed S&P 500 indexed portfolios.

At the end of fiscal year 2008 ending June 30, 2008, a total of 66 private equity partnerships had been sold by the Bureau since June 2007 for total proceeds of $399 million, with all such proceeds reinvested in an S&P 500 indexed portfolio. The last remaining private equity fund investment targeted for sale was sold in fiscal year 2009 on October 2008 for proceeds of $0.9 million. There currently remains one private equity partnership owned by the Bureau on June 30, 2009 that is being liquidated via its own portfolio sales. A cash distribution of $1 million was received by the Bureau from this partnership in fiscal year 2009, reducing its carrying value to under $0.2 million on June 30, 2009.

The Bureau received cash distributions totaling $13.1 million from the capital coin fund during fiscal year 2009, representing liquidation proceeds and legal settlements achieved from the coin fund liquidation firm contracted by the State of Ohio to oversee the liquidation of remaining coin fund assets. As a result of these significant coin fund distributions in fiscal 2009, the Bureau has now received a total of $54.5 million, net of coin-related expenses paid directly by the Bureau, compared to its total coin fund investment of $50 million. All remaining unencumbered coin and collectible assets not reserved for litigation claims were liquidated in fiscal year 2009 with the completion of several small auctions and a direct sale transaction with a dealer. There are believed to be sufficient funds retained in a capital coin fund bank account to pay future projected professional fees and possible litigation settlements.

Total cash and cash equivalents of the Bureau had a fair value of $504 million on June 30, 2009 compared to $378 million on June 30, 2008. The Bureau utilized an institutional U.S. government money market fund offered by its custodian bank throughout fiscal year 2009 to earn interest income on its short-term invested assets. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was 1.2% for fiscal year 2009.

The following table provides a summary of asset class valuations, relevant funds transfer activity and performance returns as stated herein.

Ohio Bureau of Workers' Compensation
Asset Class Fair Value/Performance Summary
Fiscal Year 2009 Ending June 30, 2009

($millions)	**(A)**	**(B)**	**(C)**	**(D)**	**(E)**	**(F)**	**(G)**	
Asset Class	Fair Value 6/30/09	Fair Value 6/30/08	Actual Fair Value Change	Net From Portfolio Rebalancing	Net For Fundings	Total Inflow/ (Outflow)	Adjusted Fair Value Change	FY 2009 Annual Return
Long Duration Bonds	$ 9,554	$ 10,061	$ (507)	$ (865)	$ (253)	$ (1,118)	$ 611	+ 5.9%
U.S. TIPS	3,456	3,663	(207)	(160)		(160)	(47)	- 1.4%
Commingled Fund Bonds	40	-	40		39	39	1*	+ 1.5%*
Total Bonds	13,050	13,724	(674)	(1,025)	(214)	(1,239)	565	4.1%
U.S. Equities	3,516	3,180	336	1,105	(12)	1,093	(757)	-26.0%
Miscellaneous	6	3	3				3	-
Cash & Equivalents	504	378	126	(80)	225	145	(19)	+ 1.2%
Net Change			$ (208)	0	0	0	$ (208)	
Total Invested Assets	$17,077	$17,285	$ (208)					- 1.1%

Column Definitions

C = A minus B
F = D plus E
G = C minus F

Asset Class fair values shown exclude accrued investment income and trade payables/receivables

Amounts rounded to nearest $1 million as reflective in several summations in table

* Return since February 2009 inception with fair value appreciation of $1 million

OBWC Board of Directors
Investment Committee Charter

Purpose

The purpose of the Investment Committee is to ensure that the assets of the Ohio Bureau of Workers' Compensation (OBWC) are effectively managed in accordance with the laws of the State of Ohio, and the Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines. The Investment Committee:

- assists the Board of Directors in the review and oversight of the State Insurance Fund and each Specialty Fund (collectively the Funds) assets;
- develops and monitors the implementation of the BWC's investment policy; and
- other duties and responsibilities as assigned by the Board.

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

The Committee shall be composed of a minimum of five (5) members. Two ~~of the~~ members shall be the members of the Board who are the investment and securities experts. The Board, by majority vote, shall appoint at least three additional members of the Board to serve on the Investment Committee and may appoint additional members, ~~either from the Board or someone not on the Board~~who are not Board members, as the Board determines necessary. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions~~.~~ (RC 4121.129(C)(1)). Bureau management personnel cannot serve as a Committee member.

The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. If the Board chair is not a member of the Committee, he/she shall be an ex-officio member. As an ex-officio member, the Board chair shall not vote if his/her vote will create a tie.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Members of the Investment Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the members of the Committee who are the investment and securities expert members of the Board.

Meetings

The Investment Committee will meet at least nine (9) times annually. The Committee Chair will provide a report of the meeting at the next subsequent Board meeting. The Board grants the Committee authority to have additional meetings. Additional meetings may be requested by the Committee Chair, 2 or more members of the Committee, or the Chair of the Board.

A quorum shall consist of a majority of Committee members. Committee meetings will be conducted according to Robert's Rules of Order. All Directors are encouraged to attend the Committee meetings.

The Committee will invite members of management, investment advisors, fiduciary counsel and/or others to attend meetings and provide pertinent information as necessary

Minutes for all meetings of the Committee will be prepared to document the actions of the Committee in the discharge of its responsibilities.

Duties and Responsibilities

The Investment Committee is charged with overseeing all investment-related matters and activities of the BWC. The Committee evaluates proposals requiring Board action and makes recommendations for consideration by the Board. The Committee shall:

1. Assist the Board in meeting the following statutory requirements:
   - Develop and recommend the strategic asset allocation and investment policy for the Funds in accordance with RC 4123.442 and submit to the Board for approval.
   - Periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. (RC 4121.12(F)(7))
   - Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties. (RC 4121.12(F)(8))
   - Prohibit, on a prospective basis, any investment the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval (RC 4121.12(F)(9)).
   - Recommend the opening and closing of each investment class and submit to the Board for approval. (RC 4121.12(F)(10))
   - Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval. (RC 4121.12(F)(11))

- Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives. (RC 4121.12(F)(12))
- Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer (RC 4121.129(C)(2)(c)).
- Recommend outside investment counsel with whom the Board may contract to assist the Investment Committee in fulfilling its duties (RC 4121.129(C)(2)(d)).
- Review the performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds (RC 4121.129(C)(2)(e)).
- Consult with the Administrator and recommend to the Board the appointment of the Chief Investment Officer. (RC 4123.441)

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2. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.
~~4~~3. Monitor and review the investment performance of the Funds on a quarterly basis to determine achievement of objectives and compliance with this investment policy.
4. Coordinate with other Board committees on items of common interest.
5. At least annually, review this charter and submit any proposed changes to the Governance Committee and to the Board for approval.
6. Create, by majority vote, a subcommittee consisting of one or more Directors on the Committee. In consultation with the Chair, other Board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. Each subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.
7. Perform such other duties required by law or otherwise as are necessary or appropriate to further the Committee's purposes, or as the Board may from time to time assign to the Committee.

InvestmentCommitteeCharter.doc Review & Approved 112107, Bob Smith, Chair Revised 012408 Revised 092408 Annual Review and Revision 112108 Annual Review and Revision 112009

Ohio Bureau of Workers' Compensation
Invested Assets Market Value Comparison
TOTAL FUNDS

Asset Sector	Market Value Sept 30, 2009	% Assets	Market Value Aug 31, 2009	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2009	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	13,131,731,342	70.1%	13,225,056,440	71.9%	(93,325,098)	-0.7%	$13,230,413,310	76.9%	(98,681,968)	-0.7%
Equity	4,925,314,599	26.3%	4,340,579,657	23.6%	584,734,942	13.5%	3,522,150,726	20.5%	1,403,163,873	39.8%
Net Cash - OIM	77,997,946	0.4%	95,377,089	0.5%	(17,379,143)	-18.2%	27,624,432	0.2%	50,373,514	182.4%
Net Cash - Operating	556,171,619	3.0%	673,081,272	3.7%	(116,909,653)	-17.4%	366,634,742	2.1%	189,536,877	51.7%
Net Cash - SIEGF	53,949,662	0.3%	51,505,849	0.3%	2,443,813	4.7%	54,583,234	0.3%	(633,572)	-1.2%
Total Net Cash	688,119,227	3.7%	819,964,210	4.5%	(131,844,983)	-16.1%	448,842,408	2.6%	239,276,819	53.3%
Total Invested Assets	$18,745,165,168	100%	$18,385,600,307	100%	$359,564,861	2.0%	$17,201,406,444	100%	$1,543,758,724	9.0%

OIM: Outside Investment Managers
SIEGF: Self-Insured Employers' Guaranty Fund

Market Value of Bonds and Stocks includes accrued investment income.

Net Cash includes the impact of net trade receivables/payables, accrued money market earnings, and accrued investment manager fees.

September 2009/August 2009 Comparisons

- Net investment income in September 2009 was $463 million representing a monthly net portfolio return of +2.5% (unaudited).
- Bond market value decrease of $(93.3) mm comprised of $42.6 mm in interest income and $254.3 mm in OIM realized/unrealized gains ($37.3 mm net realized gain), offset by $390.2 mm in OIM/TM net sales/redemptions, representing a monthly net return of +2.2% (unaudited).
- Equity market value increase of $584.7 mm comprised of $6.3 mm of dividend income, $160.0 mm in net realized/unrealized gains ($8.6 mm net realized loss) and $418.4 mm in OIM/TM net purchases, representing a monthly net return of +3.9% (unaudited).
- Net cash balances decreased $(131.8) mm in September 2009 largely due to decreased operating cash balances ($116.9 mm) and by decreased OIM cash balances ($17.4 mm). JPMorgan US Govt. money market fund had 30-day average yield of 0.17% for September 2009 (0.20% for Aug09) and 7-day average yield of 0.14% on 9/30/09 (0.19% on 8/31/09).

September 2009/June 2009 FYTD Results

- Net investment income for FYTD2010 was $1,361 million comprised of $205 mm of interest/dividend income, $1,157 mm of net realized/unrealized gains ($74 million net realized loss), offset by $1 mm in fees, representing a FYTD2010 net portfolio return of +7.9% (unaudited).
- Bond market value decrease of $(99) mm for FYTD2010 comprised of $183 mm in interest income, $611 mm of net realized/unrealized gains ($54 mm net realized loss), offset by $838 mm in OIM/TM net bond sales and $55 mm in OIM rebalancing redemptions, representing a FYTD2010 net return of +6.1% (unaudited).
- Equity market value increase of $1,403 mm for FYTD2010 comprised of $21 mm in dividend income, $546 mm in realized/unrealized gains ($20 mm net realized loss), $781 mm in OIM/TM net purchases and $55 mm in portfolio rebalancing purchases directed to OIM, representing a FYTD2010 net return of +15.6% (unaudited).

Ohio Bureau of Workers' Compensation
Investment Asset Allocation - Combining Schedule
As of September 30, 2009

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 11,945,197	69.5%	$ 944,668	78.7%	$ 200,389	78.3%	$ 23,740	99.0%	$ 17,737	98.2%	$ -	0.0%	$ -	0.0%	$ 13,131,731	70.0%
Long Credit	5,014,272	29.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,014,272	26.7%
Long Government	1,303,340	7.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,303,340	7.0%
Long Gov/Credit		0.0%	698,066	58.2%	148,840	58.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	846,906	4.5%
TIPS	3,265,523	19.0%	246,602	20.5%	51,549	20.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,563,674	19.0%
Aggregate	2,361,500	13.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,361,500	12.6%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	23,740	99.0%	17,737	98.2%	-	0.0%	-	0.0%	41,477	0.2%
MSCI ACWI ex-U.S.	562	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	562	0.0%
Stocks	4,618,940	26.9%	253,115	21.1%	53,260	20.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,925,315	26.3%
Russell 3000	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
MSCI ACWI ex-U.S.	798,661	4.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	798,661	4.3%
S&P 500	3,810,503	22.3%	252,760	21.1%	53,186	20.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,116,449	22.0%
Dividends Receivable	5,883	0.0%	355	0.0%	74	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	6,312	0.0%
Miscellaneous	3,893	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,893	0.0%
Net Cash & Cash Equivalents	625,272	3.6%	2,263	0.2%	2,294	0.9%	230	1.0%	324	1.8%	53,950	100.0%	3,786	100.0%	688,119	3.7%
Total Cash & Investments	$ 17,189,409	100.0%	$ 1,200,046	100.0%	$ 255,943	100.0%	$ 23,970	100.0%	$ 18,061	100.0%	$ 53,950	100.0%	$ 3,786	100.0%	$ 18,745,165	100.0%

Market value of bonds includes accrued investment income.

Net cash and cash equivalents includes the impact of net trade receivables/payables, accrued money market earnings, and accrued investment manager fees.

State Insurance Fund (SIF)

Overall SIF allocation from 80% bonds/20% stocks to 70% bonds/30% stocks continued in September, 2009 (new asset allocation transitions began in July, 2009). The international equity transition (initiated in August, 2009 with a targeted 10% policy allocation) continued to progress in September, 2009 with an additional 2.5% shift for the mandate (MSCI ACWI ex-U.S.). As a result, the total SIF stock allocation increased from 24.0% to 26.9% with this second tranche initiation. In addition, the long government allocation decreased from 10.1% to 7.6% to further fund the ACWI ex-U.S. mandate. Transitions are effectively complete for the Barclays US Aggregate and the Long Credit/Government split. Transitions are anticipated to continue throughout the remainder of 2009 and into First Quarter, 2010.

The S&P 500 index continued its strong month over month performance increase up 3.7% for September, 2009 as well as the MSCI ACWI ex-U.S. Index performance up 5.1% for the month. Also, the monthly bond performance of SIF bond portfolios increased between 1.9% to 3.0%. In particular, Barclay's Capital Long Credit portfolio increased 3.0% for September, 2009 (which comprises 28% of SIF's total policy target allocation).

Cash allocations decreased from 4.5% at end of August to 3.6% at end of September due to a reduction in SIF operating cash.

Disabled Workers' Relief and Coal Workers' Pneumoconiosis Funds (DWRF and BLF)

Mercer Consultants anticipate completion of an asset/liability study in the Fall of 2009.

PWRF, MIF, SIEGF

No changes to asset allocations are anticipated in Fiscal Year 2010.

Fund Asset Allocation:

	Equity	Bonds	Cash	Total
SIF	30%	69%	1%	100%
DWRF	20%	79%	1%	100%
BLF	20%	79%	1%	100%
PWRF		99%	1%	100%
MIF		99%	1%	100%
SIEGF			100%	100%
ACF	Not Applicable			

SIF:	State Insurance Fund	DWRF:	Disabled Workers' Relief Fund	PWRF:	Public Workers' Relief Fund	SIEGF:	Self-Insured Employers Guaranty Fund
		BLF:	Coal Workers' Pneumoconiosis Fund	MIF:	Marine Industry Fund	ACF:	Administrative Cost Fund

Ohio Bureau of Workers' Compensation
Investment Asset Allocation - Combining Schedule

As of August 31, 2009

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 12,070,405	71.5%	$ 917,326	78.4%	$ 196,188	78.7%	$ 23,546	99.0%	$ 17,591	99.0%	$ -	0.0%	$ -	0.0%	$ 13,225,056	71.9%
Long Credit	4,814,950	28.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,814,950	26.2%
Long Government	1,712,265	10.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,712,265	9.3%
Long Gov/Credit	-	0.0%	675,558	57.7%	145,546	58.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	821,104	4.5%
TIPS	3,201,629	19.0%	241,768	20.7%	50,642	20.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,494,039	19.0%
Aggregate	2,341,561	13.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,341,561	12.7%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	23,546	99.0%	17,591	99.0%	-	0.0%	-	0.0%	41,137	0.2%
Stocks	4,045,388	24.0%	243,876	20.8%	51,316	20.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,340,580	23.6%
Russell 3000	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
MSCI ACWI ex-U.S.	355,760	2.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	355,760	1.9%
S&P 500	3,675,679	21.8%	243,316	20.8%	51,198	20.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,970,193	21.6%
Dividends Receivable	10,056	0.1%	560	0.0%	118	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	10,734	0.1%
Miscellaneous	3,893	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,893	0.0%
Net Cash & Cash Equivalents	756,218	4.5%	9,205	0.8%	1,631	0.7%	244	1.0%	178	1.0%	51,506	100.0%	982	100.0%	819,964	4.5%
Total Cash & Investments	$ 16,872,011	100.0%	$ 1,170,407	100.0%	$ 249,135	100.0%	$ 23,790	100.0%	$ 17,769	100.0%	$ 51,506	100.0%	$ 982	100.0%	$ 18,385,600	100.0%

Market value of Bonds includes accrued investment income.

Net Cash and Cash Equivalents includes the impact of net trade receivables/payables, accrued money market earnings, and accrued investment manager fees.

<u>State Insurance Fund (SIF)</u>

Overall SIF allocation from 80% bonds/20% stocks to 70% bonds/30% stocks continued to progress in August, 2009 (transitions initiated in July, 2009). The remaining Long Credit/Government split (75% completed last month) was completed (the remaining 25%) as well as the US Aggregate in August, 2009. The International Equity transition (MSCI ACWI ex-U.S.) was initiated in August (targeted at 10% at full implementation anticipated for late 2009). SIF stock allocation increased from 21.9% to 24.0% as a result of the initiation of this international equity mandate. Transitions are anticipated to continue throughout the remainder of 2009 and into First Quarter, 2010.

The S&P 500 Index continued its month over month performance increase albeit at a slower pace - up 3.6% for August, 2009. All bond performance indices increased as well ranging between 0.88% to 2.29% for August, 2009. In particular, Barclays Capital Long Credit Index increased 2.29% for August, 2009 (28% of SIF's total target allocation).

Cash allocations increased as a result of SIF operating cash increases largely due to premium collection and transition activity, resulting in a month end allocation of 4.5% versus 3.3% month end July, 2009.

<u>Disabled Workers' Relief and Coal Workers' Pneumoconiosis Funds (DWRF and BLF)</u>

Mercer Consultants anticipate completion of an asset/liability study in the Fall of 2009.

<u>PWRF, MIF, SIEGF</u>

No changes to asset allocations are anticipated in Fiscal Year 2010.

Fund Asset Allocation:

	Equity	Bonds	Cash	Total
SIF	30%	69%	1%	100%
DWRF	20%	79%	1%	100%
BLF	20%	79%	1%	100%
PWRF		99%	1%	100%
MIF		99%	1%	100%
SIEGF			100%	100%
ACF	Not Applicable			

SIF:	State Insurance Fund	DWRF:	Disabled Workers' Relief Fund
		BLF:	Coal Workers' Pneumoconiosis Fund
PWRF:	Public Workers' Relief Fund	SIEGF:	Self-Insured Employers Guaranty Fund
MIF:	Marine Industry Fund	ACF:	Administrative Cost Fund

INVESTMENT DIVISION

TO: Marsha Ryan, Administrator
BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: October 22, 2009

SUBJECT: CIO Report September, 2009

Fiscal Year 2010 Goals

The Investment Division has three major goals for the new fiscal year 2010. These goals and brief comments on action plans for each goal follow:

1. Provide support and execute new BWC Investment Policy resulting from investment consultant Asset-Liability studies.

2. Explore for investment consideration and subsequently initiate implementation processes pertaining to appropriate identified subject matters.

3. Continued establishment and execution of appropriate internal investment controls and compliance procedures.

Strategic Goal One – PORTFOLIO TRANSITION

BWC investment consultant Mercer completed an asset-liability study and related investment strategy recommendation for the State Insurance Fund that was approved by the Investment Committee and BWC Board of Directors at their respective March, 2009 meetings. A new Investment Policy Statement reflecting the new approved investment strategy target asset allocation for the State Insurance Fund was approved by the Investment Committee and BWC Board of Directors at their respective April, 2009 meetings.

As a result of these important actions, the Investment Division issued an RFP document on July 2, 2009 for Passive Index Management Services inviting proposals from qualified passive index investment managers for one or more of eight investment class mandates, six of which are the benchmark index mandates for the State Insurance Fund under its new targeted portfolio asset allocation as well as two holdover benchmark index mandates that remain applicable for the Disabled Workers Fund and the Coal Workers Fund.

The Bureau received four qualified responses to this RFP on August 4, 2009. The RFP Evaluation Committee has begun to evaluate these RFP responses and will conduct a thorough and complete RFP evaluation process with the intention to present finalists for recommendation to the Investment Committee and Board of Directors at the monthly scheduled meetings over the period September through December, 2009.

During the interim period until these finalist managers are identified and ultimately approved by the Board and under contract, a detailed asset allocation transition implementation plan approved by the Investment Committee and BWC Board of Directors at their respective May, 2009 meetings is being executed by the Investment Division with recently approved BWC transition managers. This plan identified five distinct asset class transitions and prioritized each transition with an expected timeline. This plan will enable the State Insurance Fund to achieve its targeted asset class mandate exposure for its approved new asset class mandates (intermediate duration bonds, international equities, small/mid cap U.S. equities represented in the Russell 3000 index) months sooner than when a new target asset manager can be funded.

The Investment Division will support investment consultant Mercer as necessary to perform and complete asset-liability studies on each of four speciality trust funds (Disabled Workers Fund, Coal Workers Fund, Public Work-Relief Employees Fund, Marine Industry Fund) for the purpose of presenting investment strategy recommendations for each of these funds for consideration by the Investment Committee and Board.

The Investment Division will also provide assistance as desired by the Investment Committee in revising the BWC Investment Policy Statement to accommodate the implementation and execution of new asset class mandates for all affected BWC portfolios.

Strategic Goal Two – NEW INVESTMENT CONSIDERATIONS

Over the course of fiscal year 2010, the Investment Division intends to explore for investment consideration certain additional identified asset classes as well as the potential employment of active investment management of certain to be identified asset classes. The employment of active management is closely associated with any prospective minority manager program to be implemented by the Investment Division upon consideration and approval by the Investment Committee and Board.

The Mercer asset-liability study for the State Insurance Fund presented to the Investment Committee in March, 2009 suggests in its Mix 5 strategy that a 5% asset allocation to high yield bonds and a further 5% asset allocation to alternative investments (2 ½ % to each of private equity and real estate) provides a higher long-term expected portfolio rate of return and lower standard deviation of expected returns than alternative mixes presented in this Mercer study that either exclude one or both of these two asset classes.

A three-step phase timeline for addressing investment policy decisions was presented by Mercer in its asset-liability study that logically addresses each of these investment considerations mentioned above. The Investment Division is in the process of implementing Phase 1 presented in this study for the State Insurance Fund as reflected in the Investment Policy Statement revisions approved in April, 2009 by the Investment Committee and Board. It is anticipated that Phase 1 will largely be completed by sometime in the January-March, 2010 quarter. Phase 2 and Phase 3 presented in the Mercer study addresses high yield bonds, alternative investments, active management and minority manager engagement. Once Phase 1 is largely completed, the Investment Division will focus on Phase 2 and Phase 3 topics in close coordination with Mercer and the Investment Committee over the second half of fiscal year 2010 (Jan-June 2010). Appropriate and necessary education will be provided to the Investment Committee by Mercer working closely with the Investment Division.

One important additional subject that will be explored during the second half of fiscal year 2010 involves the daily cash management of all trust fund portfolios by the Investment Division. The BWC Fiscal and Planning Division currently manages all cash balances of each of these portfolios, including operating cash, with virtually all cash being invested in a single U.S. government money market fund managed by JP Morgan that is utilized as an overnight cash sweep vehicle. The Investment Division intends to explore expanding the use of other higher yielding money market funds available as well as direct investments in short-term money market investments (commercial paper, certificates of deposit, repurchase agreements, etc.) in order to improve investment income and returns on its cash investments while maintaining desired liquidity.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

The Investment Division will continue to establish and improve upon internal investment policies and procedures. Such procedures will be written and mapped through the use of the Web Methods schematic mapping process. Among the procedures recently addressed in fiscal year 2010 were policies and procedures regarding the selection of transition managers. The BWC Internal Audit Division will be engaged as appropriate in auditing the Investment Division internal policies and processes.

The Investment Division has previously focused on establishing internal policies and processes on management oversight of the passive style investment managers, compliance, performance reporting, portfolio rebalancing, RFP/RFQ/RFI processes vendor invoice payments, as well as other investment activities to support the BWC Investment Policy. Internal processes will also be developed for the monitoring of active style investment managers in advance of the anticipated selection and engagement of any such managers as an outcome of any new active investment strategy approved. The formulation of proper detailed policies and processes with regards to potential Investment Division cash management of portfolio assets will also be essential.

Transition Activity Update

The Priority #1 Transition for the State Insurance Fund (SIF) involving the investment in fixed income securities of the broad Barclays Capital U.S. Aggregate Index commenced in late July, 2009 and was essentially completed in mid-August, 2009 by the transition manager chosen by the BWC transition Manager Evaluation Committee. This U.S. Aggregate Index has a targeted 15% asset allocation for the SIF portfolio under its new Investment Policy Statement. A total of approximately $2,327 million of invested assets were allocated to this transition whereby approximately $2,204 million of assets at market value were contributed from the Long Government bond portfolio (mostly bonds with some cash) and the remaining approximately $123 million in market value were contributed from the Long Credit bond portfolio. All of these Long Credit bonds were in-kind transferred to the transition account to be strategically retained by the transition manager to represent the long credit bond portion (approximately 5%) of the target U.S. Aggregate Index. Over approximately a three-week period, the BWC transition manager sold longer duration bonds received from the legacy Long Government bond portfolio and purchased shorter duration bonds represented in the target benchmark index. The transition manager reduced the duration of this $2.3 billion transition account bond portfolio from 11.7 years to the target benchmark index duration of 4.4 years by the end of the second day of heavy trading. This significant achievement was accomplished by selling the longest duration bonds first and accumulating short duration securities and cash in order to achieve the portfolio duration target of the U.S. Aggregate bond index as quickly as feasible. Once the duration target of the target benchmark bond index was achieved, additional trading was conducted by the transition manager to both maintain the duration target of this transition account consistent with the target benchmark index while also continually reducing tracking error to the index by accumulating additional bonds represented in the target benchmark index for the transition account portfolio to better match the asset sector profile of the index.

Since mid-August 2009 when the Priority #1 transition account portfolio was determined by the transition manager to be sufficiently correlated in performance to the target benchmark index, the BWC transition manager is and will be serving as an interim index investment manager for the Bureau until the final target manager(s) for this fixed income mandate is recommended by the RFP Evaluation Committee for consideration and approval by the Investment Committee and Board. Necessary background checks on the identified index management team of the approved target asset manager(s) and legal contracting of the management services agreement must occur before the services of the transition manager are no longer needed by the Bureau, enabling the transition account assets to be transferred to the chosen final target manager(s).

The first two phases of the Priority #2 transition for SIF involving investments in non-U.S. equities of the All Country World Index (ACWI) Index occurred in two stages between late August and early October, 2009. The BWC transition manager chosen by the BWC Transition Manager Evaluation Committee for this specific transition largely sold Long Government bonds transferred in-kind to the new transition account for the purpose of funding the purchase of non-U.S. equities with an approximate market value of $810 million to date. This Priority #2 Transition will continue to be implemented in two additional stages over the fourth quarter.

A transition manager for the Priority #3 mandate for SIF involving the transition of the domestic U.S. equity portfolio ($3.8 billion current market value) has been chosen by the BWC Transition Manager Evaluation Committee. This transition involves a change in the benchmark index for this 20% targeted asset allocation mandate to the broad Russell 3000 Index from the large-cap stock S&P 500 Index. This Priority #3 transition was executed recently in October, 2009. A summary of this U.S. equity transition will be provided next month in the October 2009 CIO Report.

Passive Index Management Services Master RFP

There were four qualified responses received by the Bureau on August 4, 2009 for its RFP for Passive Index Management Services that was issued on July 2, 2009. This master RFP includes eight investment class mandates consisting of each of the six bond or stock benchmark index mandates under its new targeted portfolio asset allocation for the State Insurance Fund as well as two holdover benchmark index mandates that remain applicable for the Disabled Workers Fund and the Coal Workers Fund.

The four respondents to this RFP were Barclays, Mellon, Northern Trust and State Street. Three of these four respondents provided proposals on each of the eight distinct asset class mandates of the RFP. The other respondent provided proposals on all but one mandate, the exception being the international equities mandate.

The BWC RFP Evaluation Committee has completed the grading of the RFP proposals. The RFP Evaluation Committee has identified preliminary investment manager finalists for each of the six asset class mandates for the State Insurance Fund. Further due diligence analysis will be conducted by members of the RFP Evaluation Committee with each prospective investment manager finalist for each mandate, including full-scale on-site meetings, before any investment manager finalists are confirmed by the RFP Evaluation Committee for presentation to the Investment Committee.

It is the intention of the Evaluation Committee to present investment manager finalists for recommendation to the Investment Committee and Board for consideration at the monthly scheduled meetings over the period September through December, 2009.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of September, 2009.

Quarterly Investment Manager Meetings Summary (Second Quarter 2009)

Barclays Global Investors (Passive Long Duration Fixed Income)

The BWC Chief Investment Officer and Director of Investments visited the offices of Barclays Global Investors (BGI) in San Francisco on August 19, 2009 for the dual purposes of conducting an on-site quarterly investment manager meeting as well as to visit with additional BGI professionals in requested focus areas. The remaining BWC investment staff participated in this quarterly meeting via conference call.

Pete Wilson, head of BGI Fixed Income Strategy, provided an update on the impending merger of BGI with BlackRock. He indicated there is not much overlap in specific focused product areas of the two firms other than certain fixed income strategies such as core active and core plus strategies. Both firms emphasize technology in the investment management process, with BGI relying more on a model-driven quantitative approach and BlackRock more on a portfolio manager centric analytical approach to fixed income management. BlackRock has a huge short-term cash management business compared to BGI. The small amount of BlackRock passive indexed management business will be absorbed by BGI. All indications are that the quantitative indexed fixed income business of BGI will be undisturbed with the merger.

Performance for 2Q09 for the State Insurance Fund LDFI portfolio managed by BGI had a total return of 2.80% as reported by BGI compared to the 2.78% benchmark index return. The BGI LDFI portfolio had a market value of $1.6 billion on June 30, 2009. The credit portion of the Barclays U.S. Long Government/Credit index had a strong performance in 2Q09 (+12.9%) and the government portion of the index had a negative return of -6.7% in 2Q09. There was a heavy issuance of credit bonds in 2Q09 that were well received in the marketplace and absorbed by investors, causing credit spreads to narrow over the quarter. Credit spreads narrowed faster and more significantly than most investors (including BGI) thought over this period. The yield spreads between the Government segment and Credit segment of the Long Government/Credit benchmark index narrowed from 4.15% to 2.52% over the second quarter, a huge tightening of credit yield spreads. The taxable municipal Build America Bonds were especially large in new issue supply during the period and attracted many investors, especially pension funds looking to diversify their bond portfolios. As a result of the heavy credit issue supply adding new issues to the benchmark index, BGI is holding back more cash to be allocated to purchase new issue index additions at the end of each month.

Northern Trust (Passive Large Cap U.S. Equity)

The BWC Chief Investment Officer and Director of Investments visited the offices of Northern Trust in Chicago on August 21, 2009 for the dual purposes of conducting an on-site quarterly investment manager meeting as well as to meet with additional Northern Trust professionals on requested focused topics. The remaining BWC investment staff participated in this quarterly meeting via conference call.

Northern Trust Chief Investment Strategist James McDonald provided his observations and comments on the economy and the financial markets. The U.S. economy and financial markets have recovered and normalized faster than expected. Investors have been adding risk to portfolios in recent months with a significant improvement in secondary market liquidity for fixed income markets. He believes the housing market has bottomed and will go sideways for awhile before recovering. Global trade bottomed in 1Q09 and is recovering quicker than expected with strong growth from China. He believes the U.S. will probably experience increases in unemployment for another 6-9 months but the labor market is a lagging indicator. He expects there will be job growth across most sectors of the economy within 12-18 months and investors should tilt active managed equity portfolios towards the industrial and commodity side of the economy and away from consumer consumption. Small and mid-size business is still having trouble in obtaining credit. He believes a five-year economic growth projection in the U.S. will be only at 2% per annum versus norm of 3.5% with consumer savings rate going up to 8% of income compared to 5% now. The role of the Fed is to remove excess reserves presently in the banking system before becoming an inflation problem. He believes the U.S. dollar is likely to experience a controlled secular decline in exchange rates and the challenge will be to keep this trend as relatively non-inflationary. A positive aspect of U.S. household savings is the purchasing of more U.S. Treasuries by households. Mr. McDonald believes interest rates over the next five years will remain relatively low. He made the point that five-year municipal bonds declined 85 basis points in yield during 2009 through mid-August whereas five-year Treasuries have increased 85 basis points over the same period.

The total return of the State Insurance Fund portfolio was 15.86% for 2Q09 versus 15.93% for the benchmark S&P 500 index. The S&P 500 indexed separate accounts of both specialty funds were closed on June 29, 2009 with proceeds converted to a commingled fund offered and managed by Northern Trust. These two separate accounts has 2Q09 performance returns thru 6/29/09 of 16.82% for the Disabled Workers Fund (DWRF) and 16.84% for the Coal Workers Fund (CWPF) versus the 16.91% benchmark index return. The quarterly underperformance is attributable to the unfavorable effect of cash holdings during a period of significant positive equity returns. The financial and technology sectors led the S&P 500 index recovery in the second quarter of 2009. There were a number of secondary offerings of new financial company shares during the quarter as banks especially took advantage of obtaining available equity capital to improve their capital ratios at the encouragement of bank regulators. If the total number of new shares offered in the secondary market for an issuer exceeds 5% of shares outstanding, such secondary shares are then added to the S&P 500 index. Some of these secondary shares of financial companies were offered at discounts of 5-10% below the previous day’s closing share price. These secondary offerings tapered off in July-August 2009.

There was some discussion on the use of futures contracts employed by the Northern Trust managed commingled fund in which the two specialty funds are now invested. Futures contracts, specifically the S&P 500 mini futures with a notional value of $50,000, are used to equitize cash and dividend receivables income in which the portfolio reinvests the dividend immediately by establishing the futures position on the ex-dividend date to minimize tracking error as the S&P 500 index automatically assumes investment of the dividend on the ex-dividend date. Northern Trust as portfolio manager typically has an average 2% of the total commingled fund portfolio invested in futures contracts for this purpose. The Common non-securities lending fund in which the two specialty funds are investors totals approximately $1.1 billion in value, of which these specialty funds account for almost $300 million in assets ($235 million DWRF, $45 million CWPF).

State Street Global Advisors (Passive Long Duration Fixed Income; Passive Intermediate Duration Fixed Income; Passive TIPS)

On August 25, 2009 at the Investment Division offices, the BWC Investment Staff met with the State Street Global Advisors (SSGA) primary BWC relationship manager, the Long Duration Fixed Income (LDFI) portfolio manager who also serves as the Intermediate Duration Fixed Income (IDFI) portfolio manager, and a portfolio manager in the SSGA strategic asset allocation group. The portfolio manager of the U.S. TIPS accounts joined the meeting by phone.

The parent company of SSGA, State Street Bank & Trust, passed all financial strength stress tests conducted by the Federal Reserve and completed in May, 2009. Parent State Street Corp. subsequently repaid the U.S. Treasury the entire $2 billion in TARP funds received in 2008. State Street Corp. had a 5.0% tangible equity ratio on 6/30/09 which is its internal target. SSGA has had a $45 billion net inflow of assets under management for 2009 through mid-August, exclusive of market value movements. Total assets under management is $1.6 trillion. A Wells notice was delivered on 6/25/09 to State Street by the SEC regarding several of its former active fixed income strategies in 2007 (since discontinued) pertaining to insufficient risks disclosure provided to participating clients. State Street established a $625 million loss reserve for this matter on 6/30/07 and a $193 million loss reserve remains.

The total return of the State Insurance Fund LDFI portfolio on 2Q09 was 2.96% reported by SSGA compared to 2.78% for the benchmark index. Total 2Q09 return of the DWRF and CWPF LDFI portfolios reported by SSGA were 2.73% and 2.79%, respectively. The outperformance of the SIF portfolio was due to strong performance of sampling of credit issues in the SIF portfolio compared to overall credit benchmark returns combined with a slight overweight (within 0.5% of index) of credit issues and slight underweight of government issues during this quarter. The credit portion of the benchmark index outperformed the government portion of the index by over 19% (credit +12.9%; government -6.7%) during this quarter. LDFI portfolio manager mentioned there was strong growth in fixed income passive exchange traded funds managed by SSGA in first half of 2009. LDFI manager also mentioned an important addition to the fixed income beta management staff who will initially concentrate on data analysis. LDFI portfolio manager also indicated portfolio was underweighted in the fast growing taxable municipal Build America Bonds segment of the benchmark index due to lower than desired new issue allocations from brokers due to high interst from competing investors, especially insurance companies. The two specialty funds (Public Workers-Relief Employees Fund and Marine Industry Fund) investment in the commingled IDFI fund managed by SSGA had a return of 1.60% versus a benchmark return of 1.67% for 2Q09.

The TIPS portfolios managed by SSGA for each of SIF, DWRF and CWPF had positive returns of 0.66% for 2Q09 as represented by SSGA which exactly matched the benchmark index return for the quarter. This was the first quarter in over a year where different pricing vendors were in line for TIPS pricing with little variance. The bid/ask spreads for U.S. TIPS has significantly narrowed since last autumn. These bid/ask spreads are now only 0.15% versus 2.0% when the markets were highly volatile in the fourth quarter of 2008. The TIPS portfolio manager indicated that there has been a significant increase in demand for TIPS in recent months with future inflationary expectations more uncertain. The asset class is being viewed in terms of its total return potential by more investors rather than simply a diversifying asset for a portfolio. Price return is a larger driver of demand for TIPS in recent months rather than the inflation adjusted interest income return. The TIPS portfolio manager indicated that the U.S. Treasury is committed to new TIPS issuance with more frequent auctions of 10-year TIPS (six times per year rather than quarterly) and the likelihood of 30-year maturity issuance rather than 20 years due anticipated likely large demand in the marketplace, especially by liability-driven investors such as corporate pension funds. The portfolio manager expects the duration of the U.S. TIPS benchmark index will increase as a result of this likely change of issuance to longer maturities with new five-year maturity issuance staying fairly constant.

12-month Investment Committee Calendar

Date	October	Notes
10/29/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Investment class performance/value annual report [ORC 4121.12(F)(12)], possible vote 3. SIF Transition Activity Update (in CIO Report)	
	November	
11/19/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Investment Consultant Performance Report 3Q09 3. Specialty Funds (DWRF, Coal) Asset/Liability report and recommendation, first review 4. SIF Transition Activity Update (in CIO Report)	
Date	**December**	
12/17/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Specialty Funds (DWRF, Coal) Asset/Liability report and recommendation, second review, possible vote 3. Custodian annual review 4. SIF Transition Activity Update (in CIO Report)	
Date	**January**	
1/21/2010	1. Mercer High Yield Bond education 2. SIF Transition Activity Update (in CIO Report)	
	February	
2/25/2010	1. Investment Consultant Performance Report 4Q09 2. Mercer Alternative Asset classes education, session one	
	March	
3/25/2010	1. Investment Consultant contract renewal, possible vote 2. Mercer Alternative Asset classes education, session two	

BWC Invested Assets
Estimated and Unaudited
As of October 28, 2009

Oct09 MV Decrease Bonds…………. .... - $ 35 million (-0.3% return)
Oct09 MV Decrease Equities……………- $ 65 million (-1.3% return)

Oct09 MV Decrease Bonds+Equities...... - $ 100 million
(-0.5% Oct09 MTD portfolio return including Cash)

BWC Net Assets 6/30/08……………..$2,503 million
BWC Net Assets 12/31/08……………..$2,312 million (-$191 mm FY09TD)
BWC Net Assets 3/31/09……………..$1,523 million (-$980 mm FY09TD)
BWC Net Assets 6/30/09……………..$2,515 million (+$ 12 mm FY09)
BWC Net Assets 7/31/09……………..$2,950 million (+$435 mm FY10TD)
BWC Net Assets 8/31/09……………..$3,493 million (+$978 mm FY10TD)
BWC Net Assets 9/30/09……………..$3,848 million (+$1,333 mm FY10TD)

BWC Asset Allocation MV 10/28/09

Bonds*…………	$13,138 million	71.2%
Equities*………	4,895 million	26.5%
Cash……………	426 million	2.3%
TOTAL………...	$18,459 million	100.0%

* includes nominal cash held by outside managers

Portfolio Return Calendar 2008……….-2.3% (-$444 million net inv. income)
Portfolio Return Fiscal Year 2009…….-1.1% (-$195 million net inv. income)

Fiscal Year 2010 YTD

Portfolio Return July-Sept09…………+ 7.9%

Prepared by: Bruce Dunn, CFA
BWC Chief Investment Officer