BWC Board of Directors

Investment Committee Agenda

William Green Building
Thursday, March 19, 2009
Level 2, Room 2
12:30 p.m. – 2:30 p.m.

Call to Order
Bob Smith, Committee Chair

Roll Call
Tom Woodruff, Scribe

Approve Minutes of the February 19, 2009 Meeting
Bob Smith, Committee Chair

New Business/Action Items

1. Mercer Investment Consulting, Inc. Contract First Renewal Option (Possible Vote to recommend renewal to the Board of Directors)
   Bob Smith, Committee Chair

2. Mercer Updated Report on Asset-Liability Modeling State Insurance Fund (Possible Vote on Bonds/Equities/Cash asset allocation to recommend approval to the Board of Directors)
   Mercer Team
   Bob Smith, Committee Chair

3. Disabled Workers' Relief Fund and Coal Workers' Pneumoconiosis Fund Large Cap Equity Separate Account Portfolios
   - Passive Index Manager Information Update and Proposal
     Bruce Dunn, Chief Investment Officer
   - Recommendation to convert Large Cap Equity account of Disabled Workers' Relief Fund from passive management separate account to passive management commingled account (*Possible* Vote to recommend approval to the Board of Directors)
     Bob Smith, Committee Chair
     Bruce Dunn, Chief Investment Officer
     Mercer Team

- Recommendation to convert Large Cap Equity account of Coal Workers' Pneumoconiosis Fund from passive management separate account to passive management commingled account (Possible Vote to recommend approval to the Board of Directors)
  Bob Smith, Committee Chair
  Bruce Dunn, Chief Investment Officer
  Mercer Team

Discussion Items

1. Monthly and Fiscal Year to Date Portfolio Value Comparisons
   - February 2009/January 2009
     Bruce Dunn, Chief Investment Officer
   - February 2009/June 2008
     Bruce Dunn, Chief Investment Officer

2. Brokerage Activity Summary Report – Fiscal Year 2008
   Lee Damsel, Director of Investments

3. CIO Report – February 2009
   Bruce Dunn, Chief Investment Officer

4. Committee Calendar
   Bob Smith, Committee Chair
   Bruce Dunn, Chief Investment Officer

Adjourn

Bob Smith, Committee Chair

Next Meeting: Wednesday, April 29, 2009 12:00 pm - 2:00 pm **3/9/2009 7:32:14 AM**

DATE: March 6, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Mercer Investment Consulting, Inc.**
Investment Consulting Contract Renewal

Background

A Request for Proposals (RFP) was issued on October 30, 2007 by the BWC for the services of an Investment Consulting firm. The purpose of this RFP was to identify an investment consulting firm that could provide a comprehensive range of consulting advice and services to assist and advise the BWC Board of Directors, its Investment Committee and BWC staff in carrying out its fiduciary duties and oversight responsibilities with regards to the BWC invested assets.

After a review and evaluation was made of 12 eligible respondents to this RFP by an initial Evaluation Committee determined by the BWC Investment Committee to consist of the BWC Chief Investment Officer and Director of Investments, the decision was made by the BWC Investment Committee to interview the three highest scoring RFP respondent firms at the William Green Building. After such interviews occurred and a finalist was determined with further onsite due diligence at the offices of such finalist, the BWC Board of Directors approved by vote on January 25, 2008 that Mercer Investment Consulting, Inc. (Mercer) serve as the new BWC investment consultant. An investment consulting contract dated February 6, 2008 was executed by BWC and Mercer. A copy of this contract is provided with this report.

Contract Terms

The investment consulting contract with Mercer is for an initial 17-month period ending June 30, 2009 with the ability, at the sole discretion and option of BWC, to renew such contract for up to two additional one-year terms. The contract specifies the scope of services to be provided by Mercer. The initial 17-month retainer fee of the contract is $39,583 per month ($474,996 annualized) with both the first one-year term period extension ending June 30, 2010 and the second one-year term period extension ending June 30, 2011 having a monthly retainer fee of $40,833 ($490,000 per annum) or 3.16% higher than the initial 17-month term retainer fee.

Among the scope of investment consulting services provided by Mercer and included at no additional fee to BWC under the current contract are an asset-liability study during the initial contract term, quarterly performance monitoring and reporting, a defined number of traditional investment manager searches, investment policy strategy and guidelines, education sessions, market research, and participation in 12 Investment Committee meetings per year as well as BWC Board meetings on an as needed basis. The current contract allows for 8 traditional (active or passive) manager searches for the initial term ending June 30, 2009 and a cumulative 13 traditional manager searches over the first two contract terms ending June 30, 2010. Since Mercer has assisted in only one traditional manager search (intermediate duration passive fixed income manager for two small ancillary funds) since the inception of their contract, Mercer could participate in up to 12 additional traditional manager searches for BWC if the Mercer contract is renewed through June 30, 2010 without any possible additional fee charged BWC. The investment consulting contract with Mercer also provides examples of out of scope services that would require additional defined fees for extra manager searches and certain operations/monitoring services that may be exercised at the discretion of the Bureau.

Action Item

With the initial 17-month term of the Mercer contract expiring on June 30, 2009, a decision must be made by the BWC Investment Committee and Board of Directors in March, 2009 to address the optional one-year renewal period of the contract effective from July 1, 2009 through June 30, 2010. If the decision is made not to renew the current contract with Mercer, sufficient lead time must be given to BWC staff to issue a new RFP for investment consulting services with the objective and goal of selecting a new investment consulting firm for the Bureau effective around July 1, 2009 so as to prevent any gap in coverage to the Bureau of an investment consulting firm.

If the Board of Directors votes to renew Mercer for an additional one-year term, an addendum to the current contract would be executed by both parties to reflect such action taken.

It must be mentioned that although the Mercer contract states renewal terms in annual periods, Section 7.6 (p. 28) of the applicable Investment Consultant RFP included with this report allows for the BWC Board of Directors to terminate such contract *for convenience* by giving Mercer not less than 30 days advance notice in writing regarding the BWC intent to terminate.

AGREEMENT
Between
OHIO BUREAU OF WORKERS' COMPENSATION
And
Mercer Investment Consulting, Inc

This is an Agreement by and between Mercer Investment Consulting, Inc, (hereinafter referred to as the "Consulting Firm"), having offices at 10 South Wacker, Chicago, IL 60606, and the State of Ohio, Bureau of Workers' Compensation (hereinafter referred to as the "Bureau"), having offices at 30 W. Spring Street, Columbus, Ohio 43215-2256, entered into the day, month and year set out below.

Whereas, the Bureau issued a Request for Proposals Number B08010 for SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT to serve as consultant to the Bureau, and the Consulting Firm submitted a proposal determined by the Bureau to be the best responsive and responsible response to the Request for Proposals;

Now, therefore, the parties hereto mutually agree to perform the contract in accordance with the Request for Proposals and the Consulting Firm's Proposal, which are hereby incorporated by reference as if fully rewritten herein. Furthermore the parties agree that if there is any conflict between the Request for Proposals and the Consulting Firm's Proposal, the Request for Proposals controls.

SCOPE OF SERVICES. The Consulting Firm agrees to perform the services described in the RFP under Scope of Services, Sections 3.1 through Section 3.6 and in Appendix A of this contract.

The Consulting Firm shall report to the Bureau. When so directed by the BWC Board of Directors, the Consulting Firm shall advise and consult with the BWC Investment Staff to implement any recommendations to the Bureau Investment Policy.

CONDITIONS PRECEDENT. The parties agree that as a condition precedent, any applicable approvals of the Office of Budget and Management must be given before obligations under this Agreement commence. If at any time sufficient funds are not available to continue funding the payments due under this Agreement, the Bureau shall provide written notice to the Consulting Firm immediately of such circumstance, and this Agreement will terminate on the date the funding ceases to be available.

FEES. The Bureau, in consideration of the Consulting Firm's promise to perform services in accordance with the terms of this Agreement, agrees and promises to pay the Consulting Firm for services performed according to the following terms:

- The parties agree that the Consulting Firm shall submit monthly invoices for services rendered not to exceed the amounts described on the attached Scope of Services. Notwithstanding any terms to the contrary, total costs for the Scope of Services within the initial Contract period of February 6, 2008 until June 30, 2009 (17 months) shall not exceed the amount of $673,000 dollars.

The Bureau shall use its best efforts to pay the Consulting Firm within thirty (30) days upon receipt of Consulting Firm's properly submitted invoice. Failure to pay the Consulting Firm promptly within thirty (30) days entitles the Consulting Firm only to interest on the amount due and payable at the rate allowed by law in accordance with the provisions of Ohio Revised Code Section 126.30. Failure to promptly pay within thirty (30) days shall not be deemed to constitute default on the part of the Bureau.

TERM. The parties agree that services under this contract shall commence on February 6, 2008, and shall continue until June 30, 2009. At the sole discretion of the Bureau, and subject to all Conditions Precedent, this Contract can be renewed for two (2) additional one (1) year terms.

In witness whereof, the parties hereunto affix their signatures this 6th day of February 2008.

Mercer Investment Consulting, Inc.
TAX ID: 61-0736136

Kristin Finney-Cooke
Kristin Finney-Cooke
Senior Consultant

STATE OF OHIO, BUREAU OF WORKERS' COMPENSATION

Marsha P. Ryan
Marsha P. Ryan
Administrator

Appendix A

Scope of Services:

The scope of investment consulting services that Mercer will provide to the Bureau is the following:

- **Asset Allocation and Liability Study (once only, during initial contract term)**
- **Strategic Asset Allocation, Portfolio Structure, and Risk Budgeting**
- **Investment Policies, Strategies and Guidelines**
- **Quarterly Performance Monitoring and Reporting**
- **Ongoing Due Diligence for Public Market Managers**
- **5 Traditional Manager Searches per year**
- **Market Research**
- **Education Sessions**
- **Transition Management Services**
- **Participation in 12 Investment Committee Meetings and on an as needed basis for Full Board Meetings**

Additional Traditional Manager Searches Outside Scope of Services:

Given that the initial contract period is 17 months with 2 one year extensions at the sole discretion of the Bureau, the following detail is provided regarding Traditional Manager Searches. In the first 17 months, the Bureau can conduct up to 8 Traditional Manager Searches and remain within scope. If the Bureau utilizes the renewal option of one one-year extension or two one-year extensions on the contract, then the Bureau can complete 5 Traditional Manager searches per each one-year renewal period with no limitations on when within the one-year period extension or two one-year period extensions the searches must be completed and remain within scope of the contract. If the Bureau conducts fewer than 8 allowable Traditional Manager Searches over the first contract term or 13 allowable Traditional Manager Searches over the first two contract terms, the Bureau may defer any unused searches and apply them towards the next renewal term period limits provided for allowable Traditional Manager Searches if the Bureau exercises its option to renew this contract for an additional one-year term.

If the Bureau conducts more than (i) 8 allowable Traditional Manager Searches over the first contract term, (ii) 13 allowable Traditional Manager Searches over the first two contract terms or (iii) 18 allowable Traditional Manager Searches over the first three contract terms, the first three additional Traditional Manager Searches above the allowable number of Traditional Manager Searches over the respective time period contract terms stated herein will be charged separately at the fee amount stated below for Traditional Passive Manager Searches, and any additional Traditional Manager Search above the first three extra searches per contract term will be charged at the fee amount stated below for Traditional Active Manager Searches; provided, however, that the Bureau may defer the fees associated for these extra searches and apply them towards the next renewal term period limits provided for allowable Traditional Manager Searches if the Bureau exercises its option to renew this contract for an additional one-year term. If the Bureau does not exercise its one-year term contract extension renewal option, the Bureau will be obligated to pay all such out of scope Traditional Manager Search fees to the Consulting Firm upon the termination of this Agreement.

Fees:

- Contract period of February 6, 2008 until June 30, 2009 the monthly retainer fee is $39,583 ($673,000 for entire 17 months)
- First 1 year extension – monthly retainer fee is $40,833 ($490,000 annually)
- Second 1 year extension – monthly retainer fee is $40,833 ($490,000 annually)

- Out of scope of services manager search fees
  -Traditional Passive Manager Search – $11,000
  -Traditional Active Manager Search – $25,000
  - Alternative Asset Class Manager Search - $30,000

Additional Services/Fees:

Sentinel Services (estimated costs for illustrative purposes only):

- Operations review ranges from $20,000 to $50,000
- Custodian Search - $45,000
- Security Lending Review - $25,000
- Monitoring Security Lending - $25,000 (semi-annual)
- Investment Manager Operations/ Implementation Risk
  -$25,000 for long only investment manager
  -$40,000 for alternatives investment manager
- Investment efficiency (operational and implementation) ranges from $30,000 to $100,000

If desired by the Bureau, Additional Services offered by the Consulting Firm such as those described above and their associated Fees will depend upon the actual scope of services agreed upon by the Bureau and the Consulting Firm.

REQUEST FOR PROPOSALS

by the

STATE OF OHIO

BUREAU OF WORKERS' COMPENSATION

for the

SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT

October 30, 2007

Bid # B08010

The term of the contract shall commence upon execution and shall end June 30 2009, renewable at the BWC's sole discretion for no more than two (2) subsequent one (1) year periods, and subject to all Conditions Precedent, including appropriations.

The contract with the selected consulting firm may be terminated if any changes are made to the authority of the BOD over BWC's investment activities.

7.4 Contract Compliance

During the term of this contract, BWC shall be responsible for monitoring the consulting firm's performance and compliance with the terms and conditions of the contract. It is specifically understood that the nature of the services to be rendered pursuant to any contract resulting from this RFP are of such a nature that BWC is the sole judge of the adequacy of such services.

7.5 Contract Termination

If for any reason the consulting firm fails to fulfill its obligations under the contract in a timely and professional manner, or if the consulting firm violates any of the covenants, agreements, or stipulations of the contract or applicable Ohio statutes, BWC shall have the right to terminate the contract by giving one (1) day written notice to the consulting firm for defaults not subject to cure, and fifteen (15) days written notice to the consulting firm for defaults subject to cure. Failure to maintain commercial general liability coverage or workers' compensation coverage will immediately terminate any agreement made pursuant to this RFP. Notification of such termination will be by Certified U.S. Mail. If BWC's representative observes any infraction(s), such shall be documented and conveyed to the consulting firm for immediate correction. Continued failure on the consulting firm's part to comply with the terms and conditions of the ensuing contract may result in the immediate termination of the consulting firm from the contract by BWC. In the event that BWC executes its right to terminate the contract, the consulting firm shall not be relieved of any liability for damages sustained by BWC by virtue of any breach by the consulting firm, and BWC may withhold any payment due to the consulting firm, whether the payment is due to the consulting firm under the contract or otherwise, for the purpose of set off until such time as damages to BWC are determined.

7.6 Termination for Convenience

Notwithstanding section 7.5, above, BWC, in its sole determination, may terminate the contract with the consulting firm for convenience by giving not less than thirty (30) days notice in writing to the consulting firm of its intent to so terminate for convenience and the effective date of such termination. In the event that termination under this provision is elected, the contractor shall receive payment for work satisfactorily performed as determined by BWC to the date of termination.

DATE: March 16, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Chief Investment Officer Recommendation**
Asset Allocation Strategy
State Insurance Fund

The BWC Chief Investment Officer (CIO) is supportive of the asset allocation mix represented as Mix 5 for the State Insurance Fund (SIF) investment portfolio that is reflected in the Mercer ALM summary dated March 19, 2009 to be presented to the BWC Investment Committee by Mercer. Mix 5 provides a broad asset allocation weighting of 70% fixed income (including cash) and 30% equity, representing a 10% shift in total invested assets from fixed income towards equities from the current 80/20 fixed income/equity target asset allocation for SIF.

As the asset mix table on page 9 of this Mercer ALM summary illustrates, Mix 5 provides a significantly higher long-term expected rate of return of 6.74% compared to the expected rate of return of 6.22% under the current 80/20 fixed income/equity implemented policy while also providing a materially lower 7.94% expected standard deviation or variability of returns versus 8.77% for the implemented policy. The powerful combination of higher expected returns and lower expected deviations of returns year-to-year results in a geometric widening of the gap in projected higher funding ratio levels for SIF between these two strategies with the passage of time. This significant trend evolving from the modeling performed by Mercer is the logical result of the combination of (1) publicly traded equities having a significantly higher expected annual rate of return (in the 3.0% to 3.4% incremental range) compared to the targeted fixed income classes (excluding high yield bonds) as well as (2) the low expected rate of return correlations (0.10 to 0.20 range) between public equity and these fixed income classes, as reflected on page 10 of the Mercer ALM summary presentation. The addition of a 10% allocation increase in equities in combination with the resulting 10% allocation decrease in fixed income for the SIF portfolio provides the very beneficial positive result of a better balanced and more diversified investment portfolio producing higher expected returns with lower projected variations of returns year-to-year when compared to the current asset allocation targeted mix.

The CIO believes the more balanced duration portfolio weighting of fixed income classes provided in Mix 5 under the Smoothed Discount Rate method (32% long duration bonds; 15% intermediate average duration bonds; 17% TIPS; 5% high yield bonds; 1% cash) is much more preferable for the SIF portfolio to either the current implemented policy (59% long duration bonds, 20% TIPS; 1% cash) or the Mixes 2 and 3 portfolio weightings (42% intermediate average duration bonds; 22% TIPS; 5% high yield bonds; 1% cash) illustrated in the Mercer ALM summary. The current target weighting of 59% long duration bonds for SIF is highly volatile and incurs large price swings for relatively small changes in interest rate levels, especially in the current low yield environment for government related debt which presently represents approximately one-half of the benchmark index market value weighting for this specific asset class sector. The SIF portfolio is very susceptible to large market value declines if longer maturity yield levels for U.S. Treasury bonds increase, which is a likely trend over the next several years as the large and growing federal budget deficit and huge federal government stimulus program will promote higher inflationary pressures and a presumed rebound in economic activity. U.S. Treasury bonds alone comprise over 40% of the Barclays long duration bond benchmark index. Higher inflation is anathema to the positive performance of long duration debt.

On the other hand, the fixed income portfolio allocation weightings provided under each of the three proposed mixes under the Static Discount Rate approach depicted in the Mercer ALM summary presentation are devoid of any long duration bonds. This is not an acceptable fixed income allocation mix in the opinion of the CIO. The estimated duration of total liabilities for SIF is approximately ten years, whereas the duration of these proposed fixed income portfolios is much less than ten years for each of these three mixes provided for consideration, creating a huge imbalance between duration of assets and liabilities for SIF. Approximately one-half of total liabilities of SIF are longer-term indemnity payments that require a reasonable similarity in duration of fixed income assets to support these future liability payment streams. The proposed fixed income portfolio represented in Mix 5 under the Smoothed Discount Rate method has an estimated duration that is approximately 3 years longer than the fixed income portfolio duration of Mixes 1-3. The fixed income asset classes consisting of long duration bonds (32%), intermediate average duration bonds (15%) and high yield bonds (5%) in the aggregate have a 53% targeted portfolio weighting in Mix 5. These fixed income asset classes would serve to support longer-term indemnity liability payments for SIF. Mix 5 has a much more suitable and balanced fixed income portfolio construct than any of these Static Discount Rate mixes for the SIF account.

The other approximate one-half of SIF liabilities are medical payments to injured workers which are highly correlated to medical costs and medical expense inflation. Under the portfolio distribution represented by Mix 5, there is a 17% weighting towards Treasury Inflation Protection Securities (TIPS) and a 30% weighting towards equity classes which are both asset classes that offer the SIF portfolio some balanced protection against rising inflationary trends. The combined 47% weighting of these asset classes in Mix 5 approximates the proportion of SIF liabilities sensitive and correlated to future inflation rates.

The CIO is supportive of a 2:1 proportion of U.S. and non-U.S. equity allocation within the 30% equity class asset allocation weighting for SIF represented by Mix 5. It is appropriate and beneficial to diversify the SIF equity assets towards ownership of foreign equities. The projected growth rates of foreign economies and their demands for goods and services in the aggregate are higher than the projected growth rates of the U.S. economy. The total market capitalization of publicly owned stocks in foreign equity markets is now comparable to the U.S. equity markets. With respect to the U.S. public equity portfolio, a shift to the Russell 3000 index benchmark recommended by Mercer from the S&P 500 index benchmark is endorsed by the CIO. This public equity benchmark change will increase the diversity of stock holdings for the SIF portfolio to include small-cap stocks and increase exposure and ownership of mid-cap stocks. This is evidenced on page 15 of the Mercer ALM summary presentation.

The portfolio asset class weightings represented in Mix 5 that includes a 5% asset allocation to alternative investments (2.5% each to private equity and private real estate) is favored by the CIO over Mix 6 that excludes any weighting for these two alternative investment asset classes. Private Equity offers high beta capital gain rates of return potential for SIF. Real Estate also offers good return potential and is an asset class that has provided inflation protection and positive correlation with inflation rates. The CIO has extensive experience over many years in the selection and management of both real estate related assets and private equity partnerships. It is the opinion of the CIO that both asset classes are likely to improve overall SIF portfolio returns and provide additional portfolio diversification and correlation to future inflation rates. It is expected that educational sessions devoted to each of these two additional asset classes, led by the investment consulting firm, would be necessary and appropriate for the Investment Committee/Board prior to implementation and execution by the BWC investment staff of any definitive investment strategy that may be approved by these committees for any such alternative investment asset class.

The CIO also recommends for consideration specific refinements in investment strategy pertaining to the management of long duration fixed income assets and TIPS assets for the SIF portfolio. In the opinion of the CIO, each of these refinements will further improve long-term rates of return for the SIF portfolio. The rationale for these specific refinements to investment strategy applicable for SIF invested assets will be addressed at an upcoming future Investment Committee meeting.

In summary, the shift in asset allocation strategy for SIF to a 30% equity weighting from the present 20% targeted level combined with a more balanced duration and credit quality fixed income portfolio that includes intermediate duration investment grade and high yield bonds (reducing the large current portfolio exposure to highly volatile long duration bonds by almost half) will result in higher long-term expected portfolio returns and lower standard deviation of returns when compared to the current implemented investment strategy for the SIF portfolio. The CIO recommends the asset allocation targets represented by Mix 5 of the Mercer ALM presentation summary.

The CIO also recommends that consideration be given for proposed modifications regarding each of the long duration and TIPS fixed income strategies. It is proposed by the CIO that these desired modifications be addressed for consideration by the Investment Committee at its next monthly meeting scheduled after any approval action taken by the Investment Committee and Board of Directors regarding a new asset allocation mix for the SIF portfolio. It is the understanding of the CIO that proposed changes applicable to the BWC Investment Policy Statement addressing any new asset allocation strategy approved by the Board would also be presented jointly by the CIO and Mercer for consideration by the Investment Committee at such scheduled meeting.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

DATE: March 19, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Guy Cooper, Rich Nuzum, Jordan Nault (Mercer)

SUBJECT: **State Insurance Fund Asset Mix Recommendation**

We are pleased to convey our strategic asset allocation recommendation for the State Insurance Fund.

Recommended Strategic Asset Allocation – Asset Mix 6		
		Current Policy Allocation
Equity Portfolio – 30% of Total		20%
20%	Russell 3000 Index Fund	0%
10%	MSCI All World Ex-US Index Fund	0%
Fixed Income Portfolio – 70% of Total		80%
32%	Long Duration Fixed Income (Indexed)	59%
17%	Treasury Inflation Protected Securities (Indexed)	20%
15%	Barclay's Aggregate Bonds (Indexed)	0%
5%	High Yield Bonds (Actively Managed)	0%
1%	Cash Equivalents	1%

This recommendation is based on our modeling of the Bureau's assets and liabilities and is supported by the following observations:

Overall Asset Mix

1. The recommended asset mix adds 10 percentage points to the Bureau's current equity allocation of 20%. Our modeling results suggest that this increment in equities will increase the probability of the Bureau achieving a funding ratio in excess of 1.25 within ten years.

2. As summarized below, our modeling results suggest that the downside risk in terms of funding ratio result for the current investment strategy is worse than the downside risk in terms of funding ratio result for the recommended strategy. In addition, the

downside risk in terms of funding ratio result for the recommended strategy is no worse than the downside risk associated with other asset mixes that we have studied.

	5% Probability	1% Probability
Current Investment Strategy	Funding Ratio will be .92 or less ten years from now	Funding Ratio will be .82 or less ten years from now
Recommended Investment Strategy	Funding Ratio will be 1.01 or less ten years from now	Funding Ratio will be .85 or less ten years from now

3. The recommended asset mix seems likely to produce the desired funding ratio results without having to immediately invest in alternative asset classes such as real estate and private equity.

Composition of Equity Portfolio

1. The current equity portfolio is confined to investments in stocks that comprise the Standard and Poor's 500 Stock Index. The recommended equity portfolio replaces this with a mixture of the Russell 3000 Index and the MSCI All World ex-US index.

2. The Standard and Poor's 500 Stock Index is comprised of stocks of the 500 largest publicly traded domestic companies. The Russell 3000 Index is a domestic equity index comprised of the 500 large stocks in the S&P 500 and 2500 smaller capitalization stocks. By investing in the Russell 3000, the Bureau's equity portfolio will be better and more appropriately diversified among large and small capitalization stocks.

3. The Bureau currently is not invested in stocks of companies domiciled outside the United States. By directing a portion of the equity portfolio to non-U.S. stocks the recommended equity portfolio will achieve better diversification and better return potential.

4. A division of the equity portfolio of 2/3 invested in U.S. stocks and 1/3 in stocks outside the United States is in Mercer's opinion an appropriate (but still conservative) division of the equity portfolio for a U.S. investor.

Realignment of the Fixed Income Portfolio

The current fixed income portfolio is, in our opinion, insufficiently diversified, overly invested in U.S. Government Bonds, and characterized by an overly long duration and maturity which may produce less than optimal results given the discount rate setting policy of the Bureau as we understand it. The recommended realignment of the fixed income portfolio is designed to address those issues.

Timing for implementing the recommended changes

In our report "Asset and Liability Projection Model Summary – State Insurance Fund" dated March 19, 2009 we suggest a phased approach to implementing the recommended asset mix. Details of this include:

1. The increase in the allocation to equities will take place in a phased and measured way. We do not propose that the Bureau invest additional large sums in either the U.S. or non-U.S. stock markets immediately. In any event, the investment staff needs to select investment management providers for the recommended mandates and this activity is unlikely to be accomplished any sooner than the fall of 2009.

2. Although the prior oversight body had adopted a target allocation to high yield bonds, a convincing case for the inclusion of high yield bonds in the fixed income portfolio has not yet been made to the current Investment Committee. We would expect to devote time to addressing this case in the balance of the year and would not expect this allocation to be implemented until more discussion and education takes place.

3. We suggest the question of whether real estate, private equity, and other alternative asset classes have a place in the investment portfolio of the State Insurance Fund be taken up again at a later date. The modeling results do not suggest a compelling, urgent case for including these asset classes, and there is much other work to be accomplished in implementing the most important aspects of the recommended strategy, without taking up alternatives in further detail at this time.

4. We have discussed other possible refinements to the fixed income strategy with the Bureau's investment staff that include:

    - Overweighting long corporate bonds and underweighting long government bonds in the Long Duration Fixed Income portion of the fixed income portfolio
    - Overweighting long maturity TIPS and underweighting shorter maturity TIPS in the TIPS portion of the portfolio

We are supportive of exploring these options but view them as refinements to be taken up after the implementation of the principal elements of the recommended investment policy is well underway.

MERCER

Consulting. Outsourcing. Investments.

MMC MARSH MERCER KROLL GUY CARPENTER OLIVER WYMAN

March 19, 2009

Asset and Liability Projection Model Summary State Insurance Fund

Investment Committee Meeting
Ohio Bureau of Workers' Compensation

Guy M. Cooper
Jordan Nault
Rich Nuzum

Contents

Analysis

Asset Mixes

- In this report we examine four asset mixes.
  – The current asset mix of 80% bonds and 20% stocks
  – 75% bonds and 20% stocks, 2 ½% Real Estate, 2 ½% Private Equity
  – 70% bonds and 25% stocks, 2 ½% Real Estate, 2 ½% Private Equity
  – 70% bonds and 30% stocks, no Real Estate or Private Equity
- In each of the last three asset mixes, we assume 5% of the assets are invested in High Yield Bonds. This 5% allocation is part of the fixed income allocation.

Summary of Key Statistics
4% Static Rate and Smoothed

Summary of Key Statistics - Net Asset and Funding Ratio
4% Discount Rate for Liabilities

		Current 80% Bonds No Alt	Mix 1 75% Bonds 5% Alt	Mix 2 70% Bonds 5% Alt	Mix 3 70% Bonds No Alt
Expected Results					
Median	Net Asset - 2013 [1]	936	1,883	2,043	2,070
	Net Asset - 2018 [1]	1,341	3,161	3,554	3,586
Expected Results					
Median	Funding Ratio - 2013	108%	117%	118%	119%
	Funding Ratio - 2018	115%	135%	140%	140%
Downside Risk					
1% probability	Funding Ratio - 2013	77% or less	85%	84%	84%
	Funding Ratio - 2018	71%	87%	85%	85%
5% probability	Funding Ratio - 2013	85%	94%	93%	93%
	Funding Ratio - 2018	83%	100%	99%	101%
Upside Potential					
25% probabilty	Funding Ratio - 2013	120% or more	128%	130%	131%
	Funding Ratio - 2018	132%	153%	161%	161%

[1] In Millions

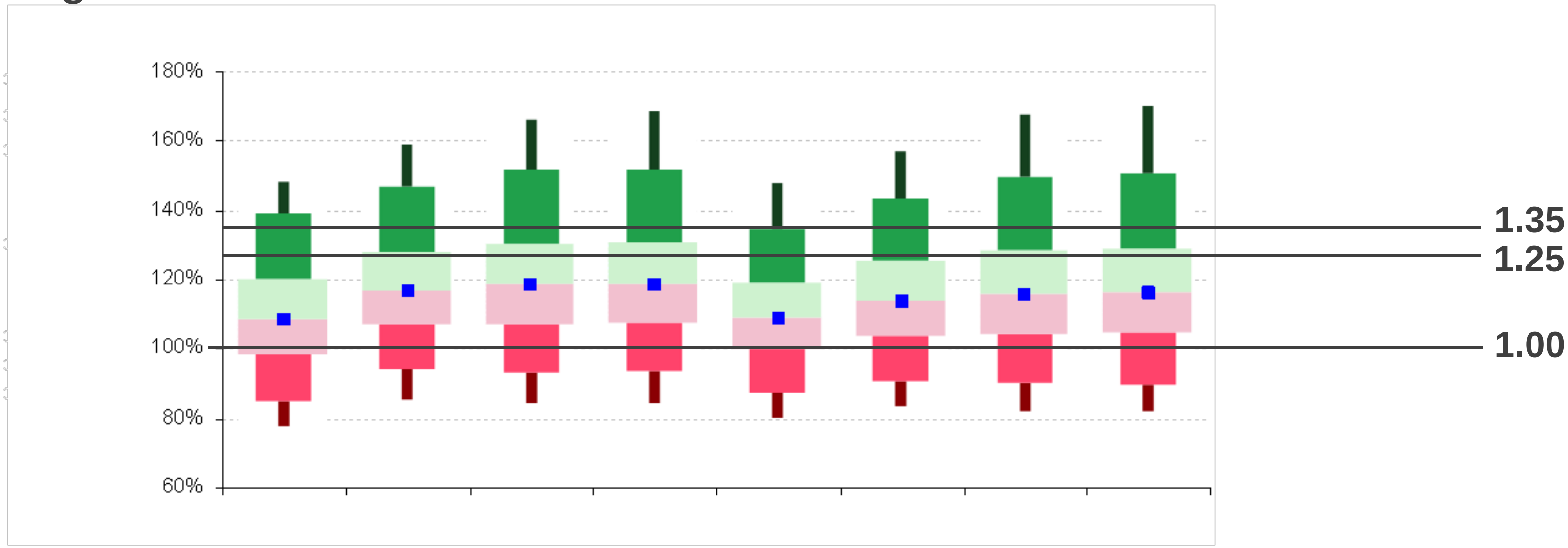
Summary of Key Statistics - Net Asset and Funding Ratio
'Smoothed' Discount Rate for Liabilities

		Current 80% Bonds No Alt	Mix 4 75% Bonds 5% Alt	Mix 5 70% Bonds 5% Alt	Mix 6 70% Bonds No Alt
Expected Results					
Median	Net Asset - 2013 [1]	1,009	1,516	1,698	1,743
	Net Asset - 2018 [1]	2,002	3,123	3,578	3,512
Expected Results					
Median	Funding Ratio - 2013	109%	114%	116%	116%
	Funding Ratio - 2018	125%	138%	143%	143%
Downside Risk					
1% probability	Funding Ratio - 2013	80% or less	83%	82%	82%
	Funding Ratio - 2018	82%	86%	85%	85%
5% probability	Funding Ratio - 2013	87%	90%	90%	90%
	Funding Ratio - 2018	92%	101%	100%	101%
Upside Potential					
25% probabilty	Funding Ratio - 2013	119% or more	125%	128%	129%
	Funding Ratio - 2018	139%	156%	165%	166%

[1] In Millions

Comparison of Portfolios

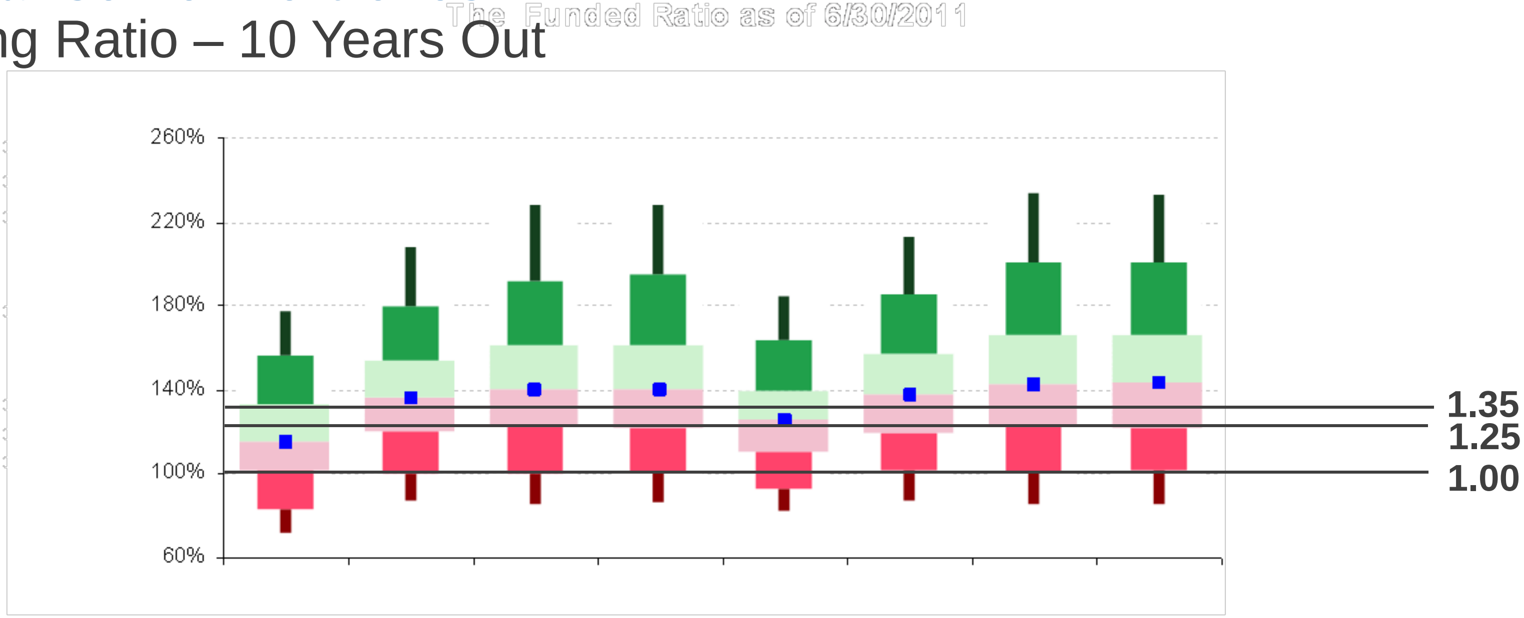
Funding Ratio – 5 Years Out



	Current	Mix 1	Mix 2	Mix 3	Current	Mix 4	Mix 5	Mix 6
	Discount Rate = Static				Discount Rate = Smoothed			
	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33
99th	148%	159%	166%	169%	148%	157%	167%	170%
95th	139%	146%	151%	151%	134%	143%	150%	150%
75th	120%	128%	130%	131%	119%	125%	128%	129%
50th	108%	117%	118%	119%	109%	114%	116%	116%
25th	98%	107%	107%	107%	100%	104%	104%	105%
5th	85%	94%	93%	93%	87%	90%	90%	90%
1st	77%	85%	84%	84%	80%	83%	82%	82%
75th - 25th	22%	21%	23%	23%	19%	22%	24%	24%
99th - 1st	71%	73%	82%	84%	68%	73%	85%	88%
50th - 25th	10%	10%	11%	11%	9%	10%	11%	11%
50th - 1st	31%	32%	34%	34%	29%	30%	34%	34%

Comparison of Portfolios

Funding Ratio – 10 Years Out

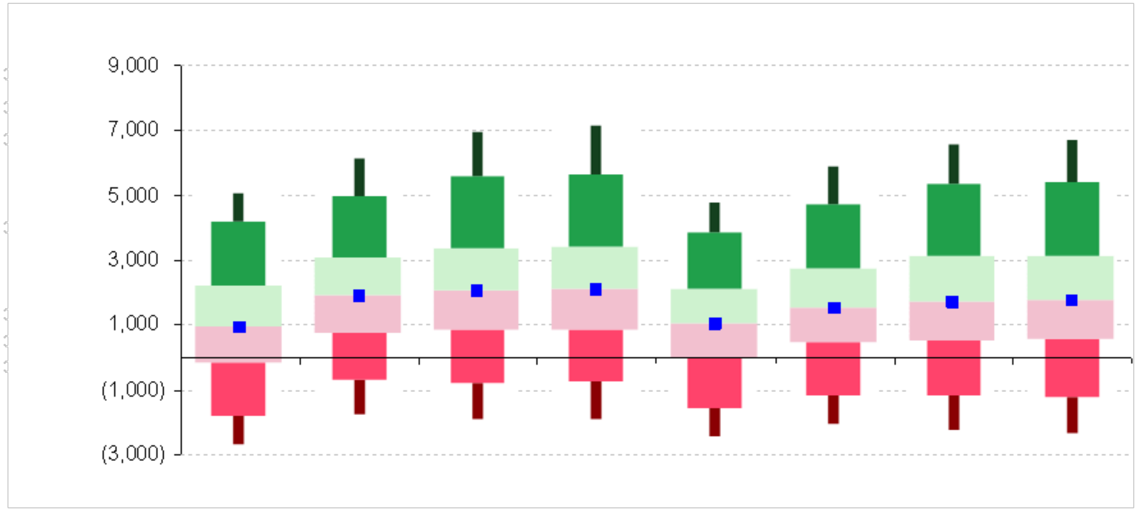


		Current	Mix 1	Mix 2	Mix 3	Current	Mix 4	Mix 5	Mix 6
		Discount Rate = Static				Discount Rate = Smoothed			
		20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33
99th		177%	207%	228%	227%	184%	212%	233%	232%
95th		156%	179%	192%	194%	164%	185%	200%	201%
75th		132%	153%	161%	161%	139%	156%	165%	166%
50th		115%	135%	140%	140%	125%	138%	143%	143%
25th		101%	120%	122%	121%	110%	119%	122%	122%
5th		83%	100%	99%	101%	92%	101%	100%	101%
1st		71%	87%	85%	86%	82%	86%	85%	85%
75th - 25th		31%	34%	39%	40%	30%	37%	44%	44%
99th - 1st		106%	121%	143%	142%	102%	126%	148%	147%
50th - 25th		14%	16%	18%	19%	16%	19%	21%	21%
50th - 1st		44%	49%	55%	54%	43%	51%	58%	57%

Comparison of Portfolios

Net Asset – 5 Years Out

The Net Assets (MVA - Reserves) as of 6/30/2013

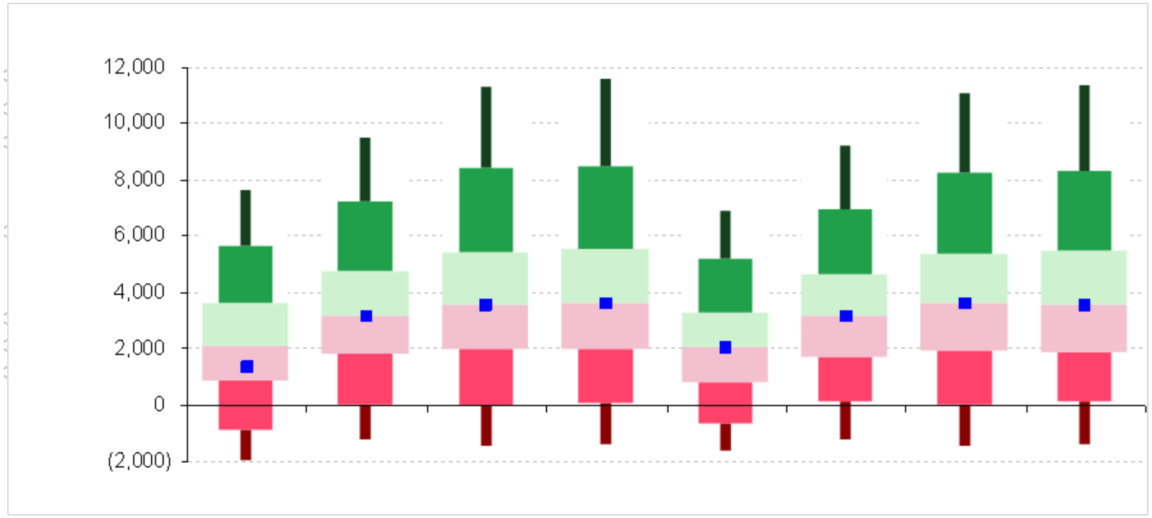


	Current	Mix 1	Mix 2	Mix 3	Current	Mix 4	Mix 5	Mix 6
	Discount Rate = Static				Discount Rate = Smoothed			
	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33
99th	5,032	6,086	6,916	7,098	4,753	5,867	6,527	6,697
95th	4,173	4,942	5,545	5,622	3,804	4,710	5,320	5,394
75th	2,199	3,046	3,363	3,396	2,075	2,727	3,077	3,111
50th	936	1,883	2,043	2,070	1,009	1,516	1,698	1,743
25th	(209)	741	817	809	(26)	432	476	534
5th	(1,831)	(712)	(830)	(781)	(1,604)	(1,189)	(1,223)	(1,279)
1st	(2,697)	(1,799)	(1,936)	(1,955)	(2,472)	(2,073)	(2,261)	(2,362)
75th - 25th	2,408	2,304	2,546	2,587	2,101	2,294	2,601	2,577
99th - 1st	7,729	7,886	8,852	9,053	7,225	7,940	8,788	9,060
50th - 25th	1,145	1,142	1,226	1,261	1,035	1,083	1,222	1,209
50th - 1st	3,633	3,683	3,979	4,026	3,481	3,589	3,959	4,106

Comparison of Portfolios

Net Asset – 10 Years Out

The Net Assets (MVA - Reserves) as of 6/30/2013



		Current	Mix 1	Mix 2	Mix 3	Current	Mix 4	Mix 5	Mix 6
		Discount Rate = Static				Discount Rate = Smoothed			
		20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33	20/80 No Alt 100/0	25/75 Alt 67/33	30/70 Alt 67/33	30/70 No Alt 67/33
99th		6,857	9,436	11,258	11,537	6,875	9,177	11,034	11,342
95th		4,895	7,190	8,389	8,432	5,148	6,913	8,234	8,286
75th		2,868	4,718	5,404	5,502	3,244	4,607	5,361	5,434
50th		1,341	3,161	3,554	3,586	2,002	3,123	3,578	3,512
25th		77	1,798	1,942	1,924	793	1,689	1,893	1,812
5th		(1,677)	(15)	(56)	52	(674)	75	(8)	73
1st		(2,732)	(1,292)	(1,482)	(1,420)	(1,649)	(1,274)	(1,473)	(1,436)
75th - 25th		2,791	2,921	3,463	3,578	2,451	2,918	3,468	3,621
99th - 1st		9,589	10,728	12,740	12,958	8,524	10,451	12,507	12,778
50th - 25th		1,264	1,363	1,613	1,662	1,209	1,434	1,685	1,699
50th - 1st		4,072	4,453	5,036	5,006	3,651	4,398	5,051	4,947

Asset Mix Detail

	Static Discount Rate				Smoothed Discount Rate			
	Implemented Policy Current	25% Equity 75% Bond Mix 1	30% Equity 70% Bond Mix 2	30% Equity 70% Bond Mix 3	Implemented Policy Current	25% Equity 75% Bond Mix 4	30% Equity 70% Bond Mix 5	30% Equity 70% Bond Mix 6
Equity : Fixed income : Alternatives	20:80:0	20:75:5	25:70:5	30:70:0	20:80:0	20:75:5	25:70:5	30:70:0
Public Equity: (US Equity : Non-US Equity)	100:0	67:33	67:33	67:33	100:0	67:33	67:33	67:33
ALLOCATION BY ASSET CLASS								
US Equity -- All Cap	20%	13.3%	16.7%	20%	20%	13.3%	16.7%	20%
Non-US Equities - World ex-U.S.		6.7%	8.3%	10%		6.7%	8.3%	10%
Total Allocation to Public Equity	**20%**	**20%**	**25%**	**30%**	**20%**	**20%**	**25%**	**30%**
US Fixed Income -- Cash (Dur 0.2)	1%	1%	1%	1%	1%	1%	1%	1%
US Fixed Income -- Intermediate (Dur 3.8)								
US Fixed Income -- Aggregate (Dur 4.5)		46%	42%	42%		16%	15%	15%
US Fixed Income -- Inflation Indexed Bond	20%	23%	22%	22%	20%	18%	17%	17%
US Fixed Income -- Long Gov/Credt (Dur 11)	59%				59%	35%	32%	32%
US Fixed Income -- High Yield		5%	5%	5%		5%	5%	5%
Total Allocation to Fixed Income	**80%**	**75%**	**70%**	**70%**	**80%**	**75%**	**70%**	**70%**
Private Equity - Total		2.5%	2.5%			2.5%	2.5%	
Real Estate - Private		2.5%	2.5%			2.5%	2.5%	
Infrastructure								
Total Allocation to Alternative Investments	**0%**	**5%**	**5%**	**0%**	**0%**	**5%**	**5%**	**0%**
STATISTICS								
Long-Term Expected Passive Annual Return	6.22%	6.43%	6.63%	6.58%	6.22%	6.55%	6.74%	6.70%
Standard Deviation of Returns	8.77%	6.08%	6.61%	6.73%	8.77%	7.64%	7.94%	8.06%
Net Asset - 2018 Most Likely (50th %-ile)	$1,341	$3,161	$3,554	$3,586	$2,002	$3,123	$3,578	$3,512
Net Asset - 2018 Upside Potential (95th %-ile)	$4,895	$7,190	$8,389	$8,432	$5,148	$6,913	$8,234	$8,286
Net Asset - 2018 Downside Risk (5th %-ile)	($1,677)	($15)	($56)	$52	($674)	$75	($8)	$73
Funding Ratio - 2011 (50th %-ile)	105%	108%	109%	109%	101%	103%	104%	104%
Funding Ratio - 2013 (50th %-ile)	108%	117%	118%	119%	109%	114%	116%	116%
Funding Ratio - 2018 (50th %-ile)	115%	135%	140%	140%	125%	138%	143%	143%
Funding Ratio - 2028 (50th %-ile)	174%	250%	271%	267%	191%	245%	269%	266%
Funding Ratio - 2011 Downside Risk (5th %-ile)	84%	90%	90%	89%	84%	85%	85%	85%
Funding Ratio - 2013 Downside Risk (5th %-ile)	85%	94%	93%	93%	87%	90%	90%	90%
Funding Ratio - 2018 Downside Risk (5th %-ile)	83%	100%	99%	101%	92%	101%	100%	101%
Funding Ratio - 2028 Downside Risk (5th %-ile)	101%	149%	146%	144%	112%	143%	142%	140%
Duration (Total Portfolio)	6.5	2.1	1.9	1.9	6.5	4.6	4.2	4.2
Duration (Fixed Income)	8.1	2.8	2.7	2.7	8.1	6.1	6.0	6.0
Duration (Equity)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity (Total Portfolio)	9.4	8.8	8.7	9.2	9.4	8.8	8.8	9.2

Note: In projection model, alternative allocations start at 6/30/09

Mean-Variance Assumptions

	Geometric Return	Arithmetic Return	Standard Deviation	Beta	Duration	Liquidity
Domestic Equity	8.4%	9.9%	18.6%	1.00	0.0	9.0
International Equity	8.4%	9.9%	18.4%	1.00	0.0	8.8
Intermediate Bonds	4.8%	4.9%	4.5%	0.00	3.6	9.4
Mkt Bonds (Lehman Agg)	5.3%	5.4%	5.5%	0.10	4.8	9.3
Long Govt/Credit (11 yrs)	5.4%	6.0%	11.0%	0.00	11.0	9.5
TIPS	5.0%	5.1%	4.5%	0.00	0.0	9.7
Cash	3.5%	3.5%	1.3%	0.00	0.1	10.0
Real Estate [1]	7.3%	8.2%	13.7%	0.75	0.0	4.5
Private Equity	9.6%	13.0%	28.4%	1.35	0.0	0.0
Infrastructure	8.2%	10.0%	20.2%	1.10	0.0	0.0
High Yield	7.5%	8.0%	10.0%	0.50	0.0	7.5
Inflation	2.8%	2.8%	1.3%	--	--	--

	Dom Eq	Intl Eq	Inmd FI	Mkt FI	Long FI	TIPS	Cash	Real Estate	Private Eq	Infrastr	High Yield
Domestic Equity	1.00										
International Equity	0.70	1.00									
Intermediate Bonds	0.20	0.10	1.00								
Mkt Bonds (Lehman Agg)	0.20	0.10	0.95	1.00							
Long Govt/Credit (11 yrs)	0.20	0.10	0.90	0.95	1.00						
TIPS	0.15	0.10	0.60	0.60	0.60	1.00					
Cash	0.00	0.00	0.25	0.10	0.10	0.30	1.00				
Real Estate [1]	0.60	0.40	0.20	0.30	0.20	0.30	0.10	1.00			
Private Equity	0.70	0.30	0.10	0.20	0.20	0.15	0.00	0.50	1.00		
Infrastructure	0.60	0.28	0.18	0.23	0.20	0.20	0.00	0.75	0.50	1.00	
High Yield	0.60	0.15	0.45	0.50	0.45	0.50	0.10	0.35	0.40	0.38	1.00

[1] Combination of REITS and private real estate.

Summary of Results

Observations

- Compared to the Bureau’s current investment strategy, the addition of both more equity and 5% of alternatives (2 ½% real estate and 2 ½% private equity) in Mixes 4 & 5 enhance return **and** reduce risk.

- A strategy of 25% equity and 5% alternatives in Mix 5 is slightly superior (less risk, better return) to a strategy of 30% equity and no alternatives in Mix 6, but the effect on the funding ratio is hard to detect.

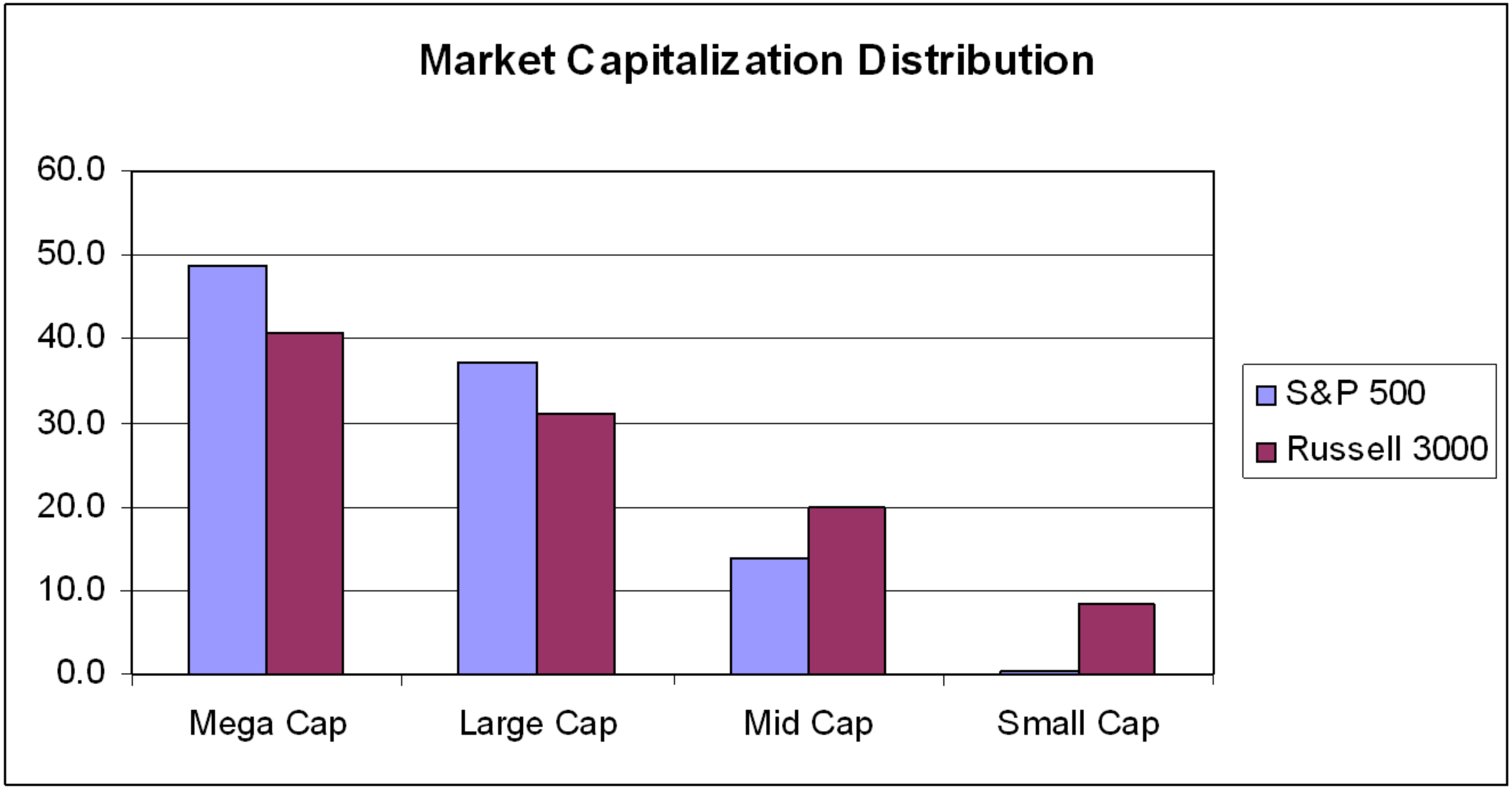
- A strategy of 25% equity (with alternatives) in Mix 4 is **not** likely to achieve a funding ratio in excess of 1.25 in 5 years but is likely to do so in 10 years.

Four Phases of Investment Policy Decisions

	Current Policy	Phase 1 Policy	Phase 2 Policy	Phase 3 Policy
Equity Portfolio:	20% S&P 500 Index Fund	20% Russell 3000 Index Fund 10% MSCI All World Ex-US Index Fund	20% Russell 3000 Index Fund 10% MSCI All World Ex-US Index Fund	20% Russell 3000 Index Fund 10% MSCI All World Ex-US Index Fund
Diversifiers:	None	None	None	Reconsider the value of Real Estate, Private Equity, and other alternative asset classes.
Fixed Income:	59% Long Duration Fixed Income (Indexed) 20% Treasury Inflation Protected Securities (Indexed) 1% Cash Equivalents	37% Long Duration Fixed Income (Indexed) 17% Treasury Inflation Protected Securities (Indexed) 15% Barclay's Aggregate Bonds (Indexed) 1% Cash Equivalents	32% Long Duration Fixed Income (Modified Indexed ?) 17% Treasury Inflation Protected Securities (Modified Indexed ?) 15% Barclay's Aggregate Bonds (Indexed) 5% High Yield Bonds (Active) 1% Cash Equivalents	32% Long Duration Fixed Income (Modified Indexed ?) 17% Treasury Inflation Protected Securities (Modified Indexed ?) 15% Barclay's Aggregate Bonds (Indexed) 5% High Yield Bonds (Active) 1% Cash Equivalents
Other:		The movement to the new equity policy will be implemented in a phased and measured way yet to be decided. Implementing this new policy requires 5 searches for investment managers and several transitions.	Implementing this policy calls for a 5% position in High Yield bonds (funded from the long duration bond position). We will consider possible modifications to the LDFI and TIPS strategies - overweighting long corporate bonds (and underweighting long government bonds) and overweighting long maturity TIPS (and underweighting shorter maturities). Develop strategies for DWRF and BLF	Consider active management in Fixed Income and Equity Consider Minority and Women Owned Investment Managers Develop strategies for Marine, PWRF, and SIEGF
Expected Timeline:		April 2009 - March 2010	May 2009 - December 2010	October 2009 - January 2011

Public Equity Benchmarks

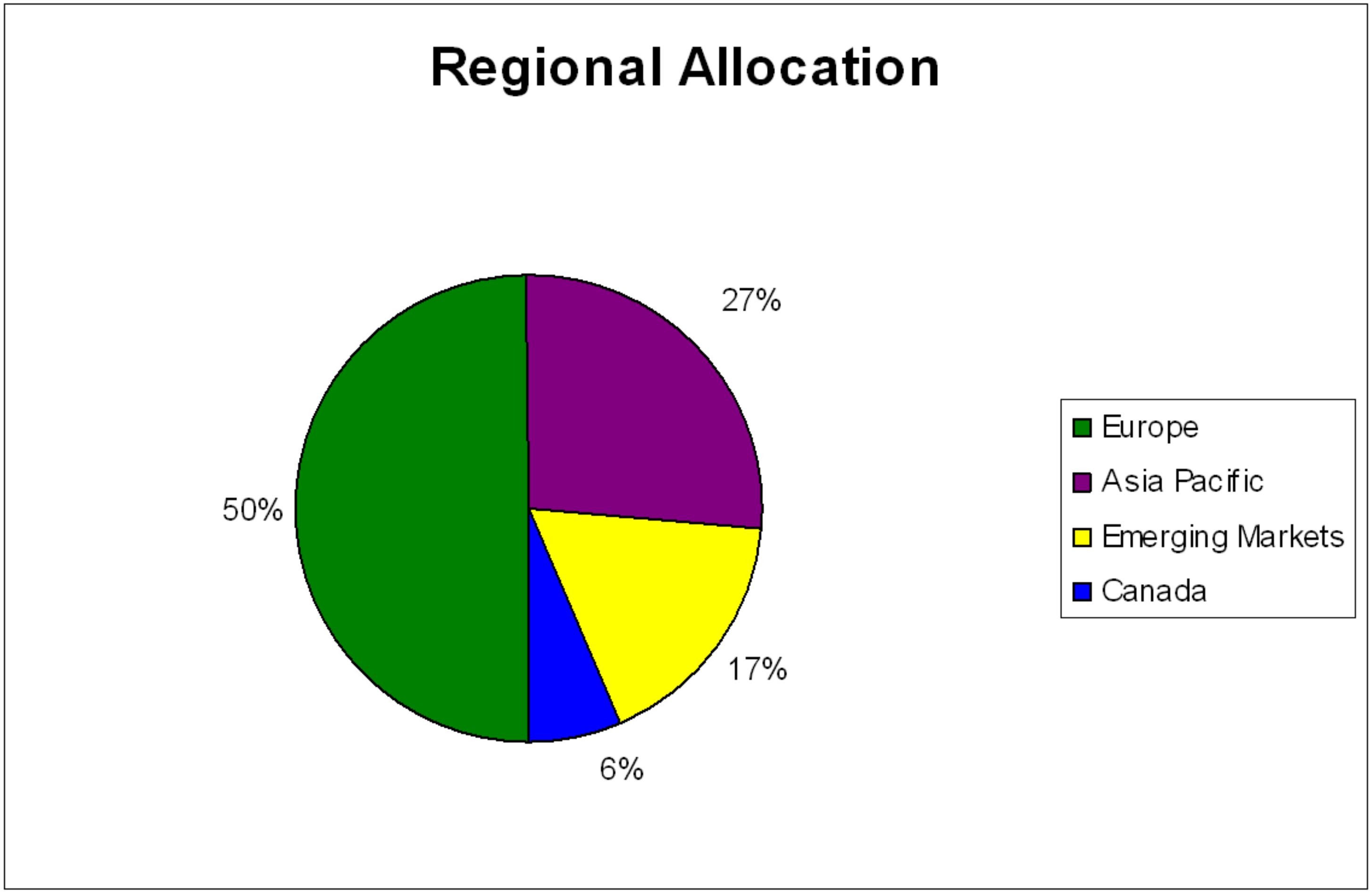
Domestic Equity Benchmark
S&P 500 Index vs Russell 3000 Index



Equity Market Capitalization	Breakpoints (USD)
Mega Cap	39,446,090,000
Large Cap	8,358,621,000
Mid Cap	1,420,104,000
Small Cap	-

Data as of 12/31/08

International Equity Benchmark
MSCI All Country World Ex US Index



Data as of 12/31/08

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

DATE: March 9, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Recommended Action Items**
Large Cap Equity Separate Account Portfolios
Conversion to Commingled Managed Accounts
Disabled Workers' Relief Fund
Coal Workers' Pneumoconiosis Fund

Background

Northern Trust Global Investments (Northern Trust) has been the exclusive separate account passive index manager of the Large Cap U.S. equity portfolios of the three BWC trust funds for this asset allocation mandate since August, 2007 for the State Insurance Fund (SIF) and since September, 2007 for both the Disabled Workers' Relief Fund (DWRF) and the Coal Workers' Pneumoconiosis Fund (CWPF). Northern Trust was approved in March, 2007 as the BWC Large Cap U.S. Equity passive index manager by the former BWC Oversight Commission upon the completion of an RFP process that began in September, 2006 with the issuance of an RFP that included the passive large cap equity account mandate. There were seven firms who responded to this RFP. The BWC RFP Evaluation Committee recommended Northern Trust at the finalist Large Cap U.S. Equity passive index manager in March, 2007 as a result of the firm's extensive passive equity portfolio management experience, impressive team of portfolio managers and traders, consistent year-to-year performance and narrow tracking error to the S&P 500 benchmark index, good mix of large public and private client accounts, and low management fees offered. Northern Trust in fact provided in its RFP response to BWC the lowest management fee quote of all RFP respondents for both commingled account management and separate account management without securities lending for funds passively managed to the S&P 500 benchmark index.

The existing investment management agreement contract between the Bureau and Northern Trust to serve as its separate account passive index manager of Large Cap equity funds intentionally expires on June 30, 2009 which is the end of the current BWC biennial budget term. This management contract can be renewed for an additional two-year term at the discretion of the Bureau provided sufficient funds are appropriated in the final Fiscal Years 2010-2011 biennial budget of the Bureau approved by the Ohio legislature. The current management fee structure approved and reflected in the Northern Trust management agreement is for the payment of quarterly management fees by BWC to Northern Trust that are based upon the average month-end market values of the managed assets for each of the three trust accounts. The current contractual management fee structure is set at 0.75 basis point (0.0075%) per annum payable quarterly by BWC to Northern Trust for each of the three trust fund separate accounts under current management.

Investment management fees paid Northern Trust for the four quarters of calendar year 2008 totaled $225,488 comprised of $207,877 for SIF, $14,340 for DWRF and $3,271 for CWPF. At the end of February 2009, the unaudited market value of the Bureau's Large Cap Equity invested assets passively managed under separate accounts by Northern Trust totaled $2.47 billion, comprised of $2.27 billion for SIF, $167 million for DWRF and $35 million for CWRF.

<u>Proposals</u>

The primary Northern Trust relationship manager servicing the Bureau contacted the BWC Chief Investment Officer (CIO) in late January 2009 for the purpose of communicating to BWC that the current management fee structure for the two separate account managed portfolios of the ancillary funds DWRF and CWPF were uneconomical for Northern Trust to continue to manage under the existing fee structure. The relationship manager explained that there are certain unavoidable fixed costs associated with administering any separate account managed for its clients. It was represented to the BWC CIO by Northern Trust that the existing management fee structure for each of the DWRF and CWPF accounts were not adequate to cover such internal administrative and management costs incurred by Northern Trust, given the market value of assets managed for each of these two accounts.

As a result of this economic determination by Northern Trust, Northern Trust proposed two alternatives for consideration by BWC for these two ancillary accounts. One alternative would be to convert the Large Cap Equity assets of the two ancillary accounts to the appropriate commingled structure passively managed fund offered by Northern Trust without securities lending at no change to the current management fee formula of 0.0075% per annum. The second alternative would be to maintain the separate account managed structure for each account but at a $75,000 minimum per annum management fee per account. The SIF Large Cap Equity portfolio that is currently managed under the separate account structure by Northern Trust would be unaffected by these proposals as its assets are sufficiently large for Northern Trust to earn and receive significantly in excess of $75,000 in annual management fees paid by BWC. Northern Trust is not proposing any change in fee structure for the much larger SIF separate account funds it presently manages. Based on the month-end February 2009 market values of the Large Cap equity separate accounts of $167 million for DWRF and $35 million for CWRF, the current 0.0075% per annum management fee equates to $12,525 for DWRF and $2,625 for CWPF. The $75,000 per annum management fee alternative proposed to maintain the existing separate account management structure would result in a significant increase in management fees for both accounts (based on these recent market values) equivalent to 4.5 basis points for DWRF (6 times higher fee) and 21.4 basis points for CWRF (28 times higher fee).

It must be pointed out that the imposition of a minimum per annum equivalent management fee for institutional accounts under a certain asset size managed under the separate account structure is an increasingly common requirement of external investment managers. The current BWC investment management agreement for the passive management of the U.S. Treasury Inflation Protected Securities (TIPS) executed in December, 2006 with State Street also imposes a minimum $75,000 per annum management fee for each of the DWRF and CWPF separate accounts managed. These TIPS accounts are not significantly different in size in terms of assets managed to the Large Cap Equity accounts for these two ancillary accounts. Both TIPS and Large Cap Equity mandates have a total portfolio asset allocation target of 20% of total invested assets per the current BWC Investment Policy Statement.

The CIO reviewed the proposals offered by Northern Trust for the continuing management of the invested equity assets of the two ancillary funds. The current investment management agreement with Northern Trust allows for either BWC or Northern Trust to unilaterally terminate such management agreement upon thirty days advance notice. It is important to note that the commingled account management fee recently proposed by Northern Trust of ¾ of 1 basis point per annum is lower than the commingled account management fees offered by the other investment management firms who responded to the BWC index manager RFP issued in 2006 for the passive managed large cap equity mandate.

The CIO discussed the two proposals of Northern Trust with the BWC Legal Division for the purpose of determining if BWC could convert the two ancillary accounts to the commingled account management structure without being required to issue a new RFP for Large Cap U.S. Equity passive indexed managers. The BWC Legal Division determined that it was not necessary for the Bureau to issue a new RFP since all other respondent firms who offered a commingled management fee structure in the 2006 issued RFP provided a management fee formula that was higher than the flat 0.0075% management fee proposed by Northern Trust. The CIO then discussed the Northern Trust alternative proposals for the two ancillary funds with the BWC Administrator who provided additional direction for action to the CIO.

After some further review, the CIO subsequently offered a counterproposal to Northern Trust applicable for the commingled account conversion option proposed to the Bureau. After careful consideration was given by Northern Trust, the CIO counterproposal was accepted by Northern Trust and communicated to the CIO and BWC investment staff at the quarterly management review meeting with Northern Trust held on February 10, 2009. Also provided at this meeting was a Request for Information report presented by Northern Trust on the proposed commingled account.

The counterproposal made by the Bureau CIO and accepted by Northern Trust for conversion from a separate account management structure to a commingled account not eligible for securities lending for the two impacted ancillary trust funds is as follows:

(A) investment management fee reduced to ½ of 1 basis point (0.0050%) per annum payable quarterly based on average month-end market values;

(B) conversion timetable from separate accounts to commingled accounts will occur on or before June 30, 2009, the expiration date of the current management agreement with Northern Trust.

The management fee of ½ of 1 basis point per annum desired by the CIO and accepted by Northern Trust is the fee quoted by Northern Trust in their 2006 RFP response to the Bureau for a commingled account management option without securities lending for the S&P 500 benchmarked passively managed mandate.

The understanding of both parties is that a new investment management agreement for the S&P 500 passively managed commingled fund offered by Northern Trust would be for a term expiring on June 30, 2011, the expiration date of the upcoming new biennial budget period for the Bureau.

The appropriate commingled fund offered for investment to the Bureau by Northern Trust for the two ancillary funds is named the **NTGI-QM Common Daily S&P 500 Index Fund – Non Lending** (the "Fund"). This Fund has current assets under management of approximately $500 million and is available for eligible non-pension fund tax-exempt institutional investors. A similar institutional Northern Trust managed common trust commingled fund involved in securities lending has current assets under management of approximately $4 billion. At the end of 2008, Northern Trust had total institutional assets under passive management of $44 billion benchmarked to the S&P 500 index, comprised of $24 billion in commingled managed funds and $20 billion in separate account managed funds. The same Northern Trust portfolio management team and primary portfolio manager of the Bureau's separate accounts also manages the commingled fund being offered to BWC. The BWC investment staff has been very satisfied with this portfolio management team that has consistently delivered low tracking error in portfolio performance to the S&P 500 benchmark index over the past 1-1/2 years since inception. The proposed commingled Fund managed by this portfolio team has achieved an annualized return of 12 basis points higher (+0.12%) than the benchmark index over the past five-year period 2004-2008 and 7 basis points higher (+0.07%) over the past ten-year period 1999-2008.

As is typical with institutional commingled funds and retail mutual funds passively indexed managed to the S&P 500 index benchmark, the proposed Fund utilizes highly liquid S&P 500 futures contracts to keep transaction costs and portfolio tracking error low in order to both ensure that daily liquidity needs are met and to ensure the portfolio maintains as close to 100% equity exposure as possible. The notional value of future contracts employed by Northern Trust is typically around 2-3% of total portfolio value with an imposed internal control limit of no more than 5% of portfolio value.

Account Conversion Transition Details

An important point to note applies to the accounting treatment for the proposed transfer of assets from the existing separate accounts to the commingled fund accounts of the two ancillary equity portfolios. The proposed transfer of assets would involve the in-kind transfer of each of the 500 stock ownership positions plus cash from the existing separate accounts to the proposed commingled Fund. A transition manager would not need to be engaged by the Bureau in this transfer nor would there be any transaction costs incurred since the Northern Trust commingled fund would simply accept each of the assets owned from the BWC separate accounts. Each of these stock positions would be assimilated into the commingled Fund. The ownership position of each of the two ancillary funds would be represented by units owned of the Fund.

However, a separate transition account for each of the two ancillary funds would be established by the BWC custodian JPMorgan Chase Bank who would conduct a reconciliation of each asset position received from the closed separate accounts before such assets could be transferred and received by the commingled Fund. It is anticipated such reconciliation would be completed in one or two business days.

Since the two Northern Trust managed separate accounts would be closed on or around June 30, 2009, each stock position owned in these accounts must be "sold" from an accounting record point of view by being removed from the separate accounts at the market value of each position on the transfer date of sale. This accounting sale results in a realized gain or loss versus original cost booked by the Bureau even though these stock positions are retained. Such shares of stock will be moved to the transition account for each ancillary fund established at the BWC custodian bank for one or two days until custodian asset position reconciliations are completed. Once all position reconciliations are completed, all securities can then be transferred over to the targeted commingled Fund. A realized gain or loss would also be incurred in these transition accounts that results from the market value change of these stock positions during the brief time period the shares remained in the transition account. A new aggregate cost basis (the entry net asset value) expressed in units will be established for the equity assets of the ancillary funds transferred and received into the commingled Fund consistent with the value of the S&P 500 index on date of transfer.

At the end of February 2009, the net unrealized loss of the DWRF separate account portfolio managed by Northern Trust was $127.2 million with a market value of $167.2 million. The net unrealized loss of the CWPF separate account portfolio managed by Northern Trust was $28.1 million with a market value of $35.3 million at the end of last month. Since all invested assets of the Bureau are marked to market under GASB accounting standards, the net asset value of the Bureau is not affected by the conversion of specific invested assets from an unrealized gain/loss to an equivalent realized gain/loss.

Recommendation

It is recommended that the Large Cap U.S. Equity portfolio currently passively managed by Northern Trust under a separate account structure for the Disabled Workers' Relief Fund be transferred and converted to a passively managed commingled account named the NTGI-QM Common Daily S&P 500 Index Fund – Non Lending managed by Northern Trust.

It is similarly recommended that the Large Cap U.S. Equity portfolio currently passively managed by Northern Trust under a separate account structure for the Coal Workers' Pneumoconiosis Fund be transferred and converted to a passively managed commingled account named the NTGI-QM Common Daily S&P 500 Index Fund – Non Lending managed by Northern Trust.

A new commingled fund management agreement will be executed with Northern Trust as investment manager for each of these two ancillary funds for a term expiring on June 30, 2011 with a management fee equivalent to 0.0050% per annum payable quarterly based on respective average month-end market values. It is expected that an in-kind transfer of invested assets (500 different common stock securities owned plus cash balances) for each account will occur on or before June 30, 2009, the contract expiration date of the existing management agreement with Northern Trust. Included in such new commingled fund management agreement with Northern Trust will be the right to terminate such management agreement upon 30 days advance notice to the other party without penalty.

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

Asset Sector	Market Value Feb. 28, 2009	% Assets	Market Value Jan 31, 2009	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2008	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	12,857,176,832	80.0%	13,088,081,828	81.1%	(230,904,996)	-1.8%	$13,917,829,156	79.8%	(1,060,652,324)	-7.6%
Equity	2,482,308,498	15.4%	2,777,781,331	17.2%	(295,472,833)	-10.6%	3,185,174,964	18.3%	(702,866,466)	-22.1%
Net Cash - OIM	19,566,515	0.1%	32,678,085	0.2%	(13,111,570)	-40.1%	31,217,754	0.2%	(11,651,239)	-37.3%
Net Cash - Operating	660,414,125	4.1%	151,776,020	0.9%	508,638,105	335.1%	202,328,872	1.2%	458,085,253	226.4%
Net Cash - MIF, PWRF, SIEGF	52,999,790	0.3%	95,007,615	0.6%	(42,007,825)	-44.2%	95,980,364	0.6%	(42,980,574)	-44.8%
Total Net Cash	732,980,430	4.6%	279,461,720	1.7%	453,518,710	162.3%	329,526,990	1.9%	403,453,440	122.4%
Total Invested Assets	$16,072,465,760	100%	$16,145,324,879	100%	($72,859,119)	-0.5%	$17,432,531,110	100%	($1,360,065,350)	-7.8%

OIM: Outside Investment Managers
MIF: Marine Industry Fund; **PWRE**: Public Work-Relief Employees' Fund; **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.

February 2009/January 2009 Comparisons

- Net investment income in February 2009 was a negative $515 million representing a monthly net portfolio return of -3.3% (unaudited).
- Bond market value decrease of $230.9 mm comprised of $16.4 mm in interest income, $238.1 mm in net realized/unrealized losses ($18.0 mm net realized loss) and $26.4 mm in net OIM redemptions, offset by $17.2 mm in OIM net bond purchases (decreasing net cash balances accordingly), representing a monthly net return of -1.8% (unaudited).
- Equity market value decrease of $295.5 mm comprised largely of $10.7 mm of dividend income, $304.3 mm in net realized/unrealized losses ($3.1 mm net realized loss), $5.0 mm in portfolio rebalancing purchases directed to OIM, offset by $4.1 mm in OIM net stock sales (increasing net cash balances accordingly), representing a monthly net return of -10.5% (unaudited).
- Net cash balances increased $453.5 mm in February 2009 largely due to increased operating cash balances ($508.6 mm) offset by cash redemptions from MIF and PWRE redirected to bond OIM ($39.6 mm). JPMorgan US Govt. money market fund had 30-day average yield of 0.62% for February 2009 (0.69% for Jan. 09) and 7-day average yield of 0.55% on 2/28/09 (0.70% on 1/31/09).

February 2009/June 2008 FYTD Comparisons

- Net investment income FYTD of a negative $1,532 million comprised of $447 mm of investment income, $1,975 mm of net realized/unrealized losses ($168 million net realized loss) and $3 mm in fees, representing a FYTD net portfolio return of -8.8% (unaudited).
- Bond market value decrease of $1,061 mm FYTD comprised of $385 mm in interest income, $496 mm of net realized/unrealized losses ($96 mm net realized loss), $963 mm in net OIM redemptions and $13mm in lower OIM cash balances, representing a FYTD net return of -1.1% (unaudited).
- Equity market value decrease of $703 mm FYTD comprised of $50 mm in dividend income, $1,479 mm in realized/unrealized losses ($72 mm net realized loss) and $12 mm in OIM redemptions, offset by $739 mm in portfolio rebalancing purchases directed to OIM and by $1 mm in higher OIM cash balances, representing a FYTD net return of -41.2% (unaudited).

BWC Annual Brokerage Activity Summary Report

March 19, 2009

Ohio Bureau of Workers' Compensation

BWC Annual Brokerage Activity Summary Report

The Investment Policy Statement requires the OBWC Investment Division to report to the Board on at least an annual basis summary trade activity by brokerage firm and communicate any unusual trading activity to the Board in a timely manner.

Definition

A broker/dealer is defined as an agent/principal or intermediary that is paid a commission.

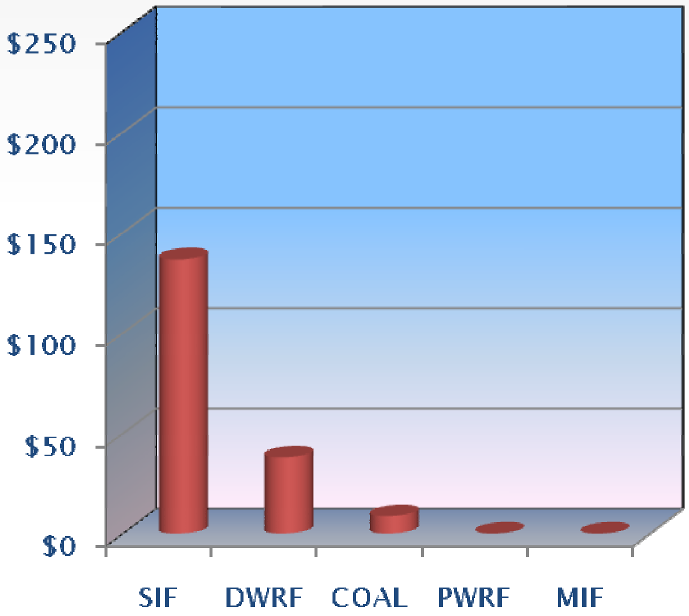
Transaction Costs

Equity securities commissions are explicitly reported by broker. Fixed income securities transaction fees are set by the dealer and built into the price of the bond.

Ohio | Bureau of Workers' Compensation

BWC Annual Brokerage Activity Summary Report

Equity Summary for Fiscal Year 2008
July 1, 2007 through June 30, 2008



BWC Funds ($000)

Fund	Total Shares	Total Commissions	Commission Per Share
SIF	23,656,828	$ 136,540	$0.0058
DWRF	5,611,348	$ 37,973	$0.0068
COAL	1,284,033	$ 8,736	$0.0068
PWRF	0	$ 0	$0.0000
MIF	0	$ 0	$0.0000
TOTAL	30,552,209	$ 183,249	$0.0060

Ohio Bureau of Workers' Compensation

BWC Annual Brokerage Activity Summary Report

J.P.MORGAN*

All Funds Equity Broker Activity Summary
From: 1- July-2007 to 30-June 2008

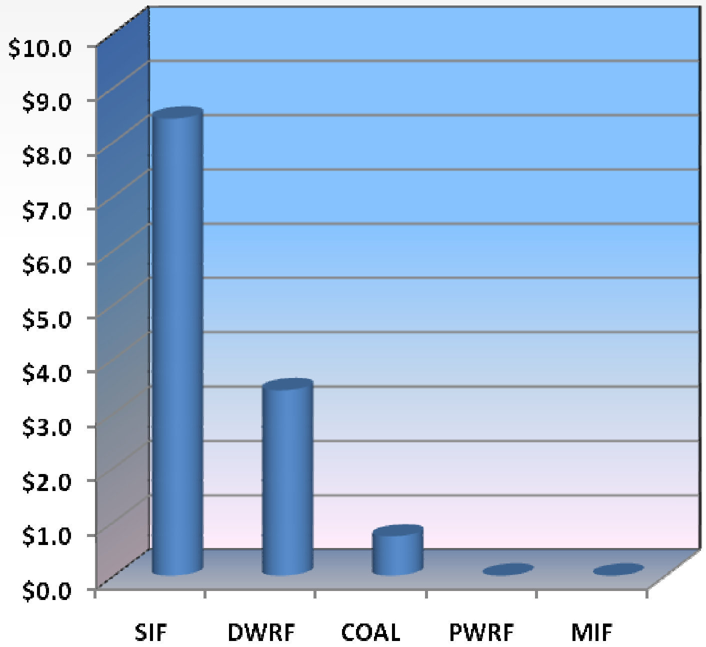
	Market Value Traded $	Shares	Commission $	% of Total Commissions
STATE STREET BROKERAGE SVCS INC	$ 288,576,718	6,850,714	$ 48,872.14	26.67%
MERRILL LYNCH,PIERCE,FENNER & SMITH	192,547,768	4,336,110	30,609.90	16.70%
CITIGROUP GLOBAL MARKETS INC.	216,835,776	5,405,351	23,748.11	12.96%
DEUTSCHE BANC ALEX BROWN INC.	104,192,164	2,288,600	22,247.50	12.14%
GOLDMAN SACHS & CO	176,948,493	3,936,434	17,543.69	9.57%
JP MORGAN SECURITIES INC	101,515,118	2,555,078	12,886.12	7.03%
CREDIT SUISSE FIRST BOSTON LLC	49,436,089	1,105,860	10,580.83	5.77%
LEHMAN BROS INC	66,485,592	1,746,543	9,140.21	4.99%
MORGAN STANLEY & CO. INCORPORATED	39,821,414	1,118,787	5,451.92	2.98%
UBS WARBURG	42,889,168	1,034,430	373.00	0.99%
FIRST UNION	9,311,491	179,300	1,793.50	0.20%
GRAND TOTAL	**$ 1,288,559,793**	**30,557,207**	**$183,246.92**	**100.00%**

* Source: JPMorgan Custodian

Ohio Bureau of Workers' Compensation

BWC Annual Brokerage Activity Summary Report

Fixed Income Summary for Fiscal Year 2008
July 1, 2007 through June 30, 2008



BWC Funds ($ billion)

Fund	Market Value Traded		% Market Value Traded
SIF	$	8,416,104,942	67.05%
DWRF	$	3,414,950,096	27.20%
COAL	$	721,844,198	5.75%
PWRF	$	0	0%
MIF	$	0	0%
Total	**$**	**12,552,899,236**	**100.00%**

Ohio Bureau of Workers' Compensation

BWC Annual Brokerage Activity Summary Report

J.P.MORGAN*

Fixed Income Broker Commissions - Complete Summary

From: 30-Jun-2007 To: 30-Jun-2008

		Net Amount	% Net Amount of Total
ADP CLEARING & OUTSOURCING SERVICES	$	2,006,023,614	15.98%
DEUTSCHE BANK		1,403,567,742	11.18%
LEHMAN BROS INC		1,354,400,361	10.79%
JPMORGAN CHASE BANK		1,092,331,852	8.70%
CITIGROUP GLOBAL MARKETS INC.		917,036,930	7.31%
CREDIT SUISSE FIRST BOSTON LLC		785,168,709	6.25%
BANK OF NEW YORK		759,886,626	6.05%
GOLDMAN SACHS & CO		625,971,606	4.99%
MERRILL LYNCH		566,755,689	4.51%
BARCLAYS CAP INC/BARCLAYS CAP INC		546,528,739	4.35%
BANC OF AMERICA SECURITIES LLC		530,829,000	4.23%
MORGAN STANLEY & CO. INCORPORATED		342,608,911	2.73%
GREENWICH CAPITAL MARKETS INC		322,094,456	2.57%
UBS WARBURG LLC		299,735,477	2.39%
BEAR, STEARNS SECURITES CORP.		226,088,854	1.80%
WACHOVIA SECURITIES, LLC.		189,939,469	1.51%
WARBURG S G ROWE & PITMAN		178,331,133	1.42%
RBC DAIN RAUSCHER INC.		119,481,799	0.95%
HSBC SECURITIES INC		102,313,017	0.82%
FTN FINANCIAL SECURITIES CORP.		86,217,656	0.69%
BNP PARIBAS SECURITIES CORP.		29,620,854	0.24%
BC ZIEGLER & CO		20,578,211	0.16%
BANKERS TRUST		14,989,651	0.12%
ABN AMRO INC		13,764,191	0.11%
SCOTIA CAPITAL (USA) INC		7,707,582	0.06%
CIBC WORLD MARKETS CORP.		5,221,125	0.04%
PENSON FINANCIAL SERVICES, INC		4,172,337	0.03%
SCOTT & STRINGFELLOW INC		1,035,111	0.01%
PERSHING LLC		498,535	0.00%
GRAND TOTAL	**$**	**12,552,899,236**	**100.00%**

* Source: JPMorgan Custodian

INVESTMENT DIVISION

TO:	Marsha Ryan, Administrator BWC Investment Committee BWC Board of Directors
FROM:	Bruce Dunn, CFA, Chief Investment Officer
DATE:	March 13, 2009
SUBJECT:	CIO Report February, 2009

Fiscal Year 2009 Goals

The Investment Division has five major goals for the new fiscal year 2009. These goals and brief comments on action plans for each goal follows:

1. Provide support and execute new BWC Investment Policy resulting from Asset-Liability study

2. Achieve full staffing of BWC Investment Division with continued training of developing staff

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

4. Complete implementation and utilization of resources provided by new investment accounting and compliance/analytics system

5. Sell remaining miscellaneous investment assets

Strategic Goal One – PORTFOLIO TRANSITION

BWC investment consultant Mercer will be formulating an asset-liability study and related investment strategy recommendations to be presented to the BWC Investment Committee. The BWC Investment Division will provide whatever support is needed by Mercer in terms of background and information necessary for Mercer to complete its asset-liability study of the Bureau and its investment strategy recommendations. Once a new investment strategy is approved by the BWC Investment Committee and Board of Directors, the Investment Division will assist Mercer and the Investment Committee in developing a new or revised Investment Policy Statement reflecting the newly approved investment strategy.

The Investment Division in consultation with Mercer will employ a thorough and complete RFP process for each new outside investment manager search required to execute the new investment strategy. Given the assumption that multiple RFP processes will be necessary to execute the new investment strategy, a prioritization of the timing of RFP issuances will occur with the approval of the Investment Committee. Each RFP process is expected to result in investment manager recommendations to be presented for approval by the respective RFP evaluation committee to the Investment Committee and Board of Directors.

After each new investment manager for each identified investment asset class mandate is selected and approved, the Investment Division will coordinate the transfer of appropriate invested assets from the legacy investment manager to the new investment manager. It is expected that the Bureau will engage with its approved transition managers for the execution of each of its asset manager transfer strategies. The Investment Division will oversee the timing and execution of each targeted transition with the goal of achieving such asset transition with efficiency and at a low economic cost.

<u>Strategic Goal Two – INVESTMENT STAFF</u>

The Investment Division began fiscal year 2009 commencing July 1, 2008 with a staff of ten individuals consisting of the CIO, Director of Investments, Investment Administration Manager, one Senior Investment Manager, one Investment Manager, three Assistant Investment Managers, one administrative assistant and one executive secretary. The one vacancy within the Investment Division at the start of fiscal year 2009 was for a second Senior Investment Manager. Second stage interviews were concluded in October, 2008 for the second Senior Investment Manager. A finalist candidate was offered the position of Senior Investment Manager and accepted such offer. This new Senior Investment Manager recently joined the Investment Division on February 2, 2009.

There will be a proper emphasis on the training of staff investment professionals to become more effective managers. Continuous investment education and an appropriate emphasis on CFA (Chartered Financial Analyst) related programs and study will be encouraged and supported. The number of investment professionals on staff who have achieved the CFA accreditation now totals seven with the addition of the chosen second Senior Investment Manager in February, 2009. The cross-training of many duties assigned to respective staff members will occur to broaden skill sets and ensure necessary backup support. Each investment professional on staff is expected to serve the needs of the Bureau and its customers with the highest of integrity, ethics and competence.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

The Investment Division will continue to establish and improve upon internal investment procedures and controls. All such procedures will be written and mapped through the use of the Webmethods schematic process. The BWC Internal Audit Division will be engaged as appropriate in auditing the Investment Division in such internal control procedures.

The Investment Division has focused on the management oversight of the passive style investment managers, compliance, analytics and performance reporting as well as other investment activities to support the BWC Investment Policy. Internal procedures are being 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. Among new policies and procedures being addressed are brokerage activity, proxy actions, corporate actions, legal class actions and asset allocation rebalancing.

Strategic Goal Four – INVESTMENT ACCOUNTING SYSTEM RESOURCES UTILIZATION

A new investment accounting and compliance/analytics reporting system offered by BNY Mellon was selected by the Bureau in 2007 via the RFP process. The Investment Division is focusing on the goal of utilizing this improved investment accounting system for the daily monitoring of investment managers in satisfaction of compliance with the BWC Investment Policy. The investment staff has now either learned or is well into the process of learning how to utilize many of the compliance, analytics and performance measurement tools and resources offered by this accounting system through both formal training sessions and self education. The BWC Internal Audit Division validated in October, 2008 that the compliance measurement tools of this investment accounting system have been implemented and are being utilized by the Investment Division.

Strategic Goal Five – MISCELLANEOUS INVESTMENT ASSET SALES

It is a strategy and goal of the Investment Division to sell or liquidate during fiscal year 2009 most or all remaining miscellaneous investment assets of value owned by the Bureau. Miscellaneous assets are defined to include private equity, coins, stock distributions received from formerly owned private equity partnerships, and illiquid securities inherited and retained from previously terminated outside investment managers. The aggregate carrying value of these miscellaneous assets targeted for disposal was approximately $6 million on January 31, 2009.

The Bureau contracted with one of its transition managers in February, 2009 for the purpose of attempting to sell all remaining marketable miscellaneous securities assets. During the month of February, 2009, a total of nine issues were sold for aggregate proceeds of approximately $1.6 million. These sales resulted in a net realized loss of approximately $200,000. It was confirmed by the transition manager that the transition manager was unable to find or determine any market value for certain remaining identified miscellaneous securities assets. With this confirmation, it was determined by the BWC Fiscal & Planning Division with support by the BWC Investment Division that certain identified miscellaneous asset issues were permanently impaired. In accordance with GASB 10, the book value of these assets were written down by $12,370,994 which resulted in a reported realized loss of this amount for the month of February. Since these securities already had an extremely low carrying market value, this write-down of cost basis book value did not impact the Bureau's net asset level for the month. An unrealized loss amount was instead converted to a realized loss. One additional small miscellaneous securities issue has been sold to date this month for proceeds of approximately $15,000 with a modest realized loss on sale. It is anticipated one remaining small miscellaneous asset holding will be sold as well this month.

A substantial distribution of cash totaling approximately $12.1 million was received by the Bureau in July, 2008 from the coin fund liquidation firm contracted by the State of Ohio to oversee the liquidation of remaining coin fund related assets associated with Tom Noe. An additional cash distribution of $1.0 million was received by the Bureau in February, 2009 shortly after a legal settlement negotiation was concluded regarding a potential legal claims payment. As a result of this significant coin fund distribution, the Bureau has now received a total of approximately $54.5 million, net of coin-related expenses paid directly by the Bureau. All remaining unencumbered coin and collectible assets not reserved for litigation claims have now been liquidated with the recent 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, managed by the coin fund liquidation firm, to pay future projected professional fees and litigation settlements.

At the end of fiscal year 2008 ending June 30, 2008, a total of 66 private equity partnerships had been sold by BWC since June, 2007 for total proceeds received of $399.0 million. All such proceeds received from private equity sales were reinvested in the passive indexed Large Cap S&P 500 Equity portfolio currently managed by Northern Trust. The last remaining private equity fund investment targeted for sale was sold in October, 2008 for proceeds of $0.9 million. There currently remains one private equity partnership that is being liquidated via its own portfolio asset sales and resulting cash distributions to its investors during fiscal year 2009. A significant cash distribution of $1.02 million was in fact received by BWC in September, 2008 from this fund being liquidated, reducing its carrying value to $0.2 million. A final summary report of the private equity sale process and results was presented at the Investment Committee meeting on November 20, 2008.

Compliance

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

Intermediate Duration Fixed Income Investment

All legal contracting was completed by the Bureau in February, 2009 with State Street Global Advisors to serve as the intermediate duration fixed income commingled account passive index manager for both the Public Work-Relief Employees' Fund (PWRF) and the Marine Industry Fund (MIF). The initial investment in this State Street commingled passive managed index fund occurred on February 18, 2009 whereby PWRF invested $22,660,000 and MIF invested $16,930,000. These amounts represented all available invested assets of these two funds previously invested in the JPMorgan government money market fund with the exception of $130,000 for PWRF and $235,000 for MIF. These holdback amounts were for the purpose of meeting projected operating expenses over the next several months for these two ancillary funds and is consistent with the 99/1 proportional target asset allocation of these two funds between bonds/cash.

Investment Manager Cash Redemptions / Portfolio Rebalancing

The Investment Division and Fiscal and Planning Division developed a specific internal cash management strategy and redemption plan in November, 2008 for the purpose of assuring that sufficient cash balances would be available into January, 2009. The period of December and most of January is historically a cyclical period of significantly declining cash balances for the State Insurance Fund whereby operating expenses significantly exceed premium revenue. Such trend typically reverses itself by the end of January and into February of each year as premium collections accelerate. In recent years, redemptions averaging around $150 million were required in December from one or more outside investment managers of SIF in order to have sufficient cash balances available to fund all obligations through January.

As a result of this cash redemption strategy, cash was redeemed by the Bureau from its outside managers totalling $155.3 million for the months of November and December, 2008 without incurring any realized losses from sales of portfolio securities. A total of $147.5 million of redemptions occurred from the State Insurance Fund (SIF), with the Disabled Workers' Relief Fund (DWRF) and Coal Workers' Pneumoconiosis Fund (CWPF) portfolios redeeming $ 6.5 million and $1.3 million, respectively. A total of $135 million redeemed by SIF was the result of redeeming cash interest payments received on its two Long Duration (LDFI) portfolios managed by State Street and Barclays.

The Portfolio Rebalancing Committee of the Bureau agreed in principle at its January 6, 2009 meeting to redeem cash interest payments received from the LDFI portfolios of SIF, DWRF and CWPF portfolios managed by State Street and the SIF LDFI portfolio managed by Barclays for operational liquidity purposes over each of the first three months of 2009, with any excess cash not needed for operations to be reinvested in the S&P 500 index portfolios managed by Northern Trust.

In addition, the portfolio rebalancing program approved by the Portfolio Rebalancing Committee at its January 6, 2009 meeting that was subsequently executed between January 8-13, 2009 resulted in some excess cash proceeds generated from LDFI bond sales above the approved amounts targeted for reinvestment in the S&P 500 index funds by the Committee. Such excess cash proceeds totalled $30.6 million, including $27.1 million for SIF.

A total of $55.0 million in accumulated cash from these bond sales and bond interest payments received were redeemed from the State Street LDFI account at the end of January, 2009, consisting of $50.0 million for SIF, $4.0 million for DWRF and $1.0 million for CWPF. An additional $66.0 million in accumulated cash from bond interest payments received in February, 2009 were redeemed from the State Street LDFI account at the end of February, 2009, consisting of $60.0 million for SIF, $5.0 million for DWRF and $1.0 million for CWPF. Only the amounts redeemed in the DWRF and CWPF LDFI accounts were reinvested in their respective S&P 500 funds. The combined $110 million redeemed from the SIF LDFI account was transferred to the operating cash account of SIF in order to build additional liquidity as protection to offset against the possibility of lower than anticipated premium payments due in the first quarter of 2009.

Transition Management Services RFP

BWC currently has optional use contracts outstanding with two transition managers, State Street and Barclays. These two current transition manager optional use contracts with State Street and Barclays expire on October 31, 2009 with up to a six-month extension for any specific asset transition activity occurring at each expiration date.

Because these contract expirations in October, 2009 will likely occur when one or more investment manager RFP blackout periods and/or portfolio transitions may also be occurring, the Investment Division issued an RFP for transition manager services on February 19, 2009 and intends to complete a new search for transition managers in May, 2009 in advance of the need for specific identified transition manager services. The Transition Manager RFP blackout period commenced on the RFP issuance date February 19, 2009 as communicated to the BWC Board of Directors by the Board Liaison.

Transition manager services and requisite trading activities will be coordinated with the implementation of the new BWC asset allocation investment strategy approved by the Board of Directors that emerges from the Mercer asset-liability modelling recommendations. Such transition manager services are expected to be engaged by the Bureau under the supervision of the Investment Division. These transition managers will be charged with effectively executing the sale, purchase and transfer of appropriate invested assets from legacy investment managers to new approved investment managers.

12-month Investment Committee Calendar

Date	Agenda	Notes
	March	
3/19/09	1. Investment Consultant SIF Asset/Liability Report and recommendation, third review, possible vote 2. Investment Consultant contract renewal, possible vote 3. Ancillary Funds Large Cap Equity commingled account conversion recommendation, vote 4. Brokerage Activity Fiscal Year 2008 summary report	
	April	
4/29/09	1. Investment Consultant SIF Asset/Liability Report and recommendation, possible vote if not voted on at 3/19/09 meeting 2. Investment Policy Statement revision recommendations if SIF ALM vote occurs at 3/19/09 meeting	
Date	**May**	
5/28/09	1. Transition Manager RFP finalists selection summary report 2. Investment Consultant Performance Report 1Q09 3. RFP issuance strategy and timeline if asset allocation mandates voted on at 4/29/09 meeting	
	June	
6/18/09		
	July	
7/30/09	1. BWC Investment Division Goals FY2010	
	August	
8/27/09	1. Investment Consultant Performance Report 2Q09	

12-month Investment Committee Calendar

Date	Month / Agenda	Notes
	September	
9/24/09	1. DWRF and Black Lung Asset/Liability report and recommendation, first review 2. Brokerage Activity Fiscal Year 2009 summary report	
	October	
10/29/09	1. Investment class performance/value annual report [ORC 4121.12(F)(12)], possible vote 2. DWRF and Black Lung Asset/Liability report and recommendation, second review, possible vote 3. Custodian annual review 4. Mercer Alternative asset classes education	
	November	
11/19/09	1. Investment Consultant Performance Report 3Q09 2. Mercer Alternative asset classes education	
Date	**December**	
12/17/09		
	January	
1/22/10		
	February	
2/19/10	1. Investment Consultant Performance Report 4Q09	