Ohio Bureau of Workers' Compensation

Derivatives – Expanding the Tool Kit

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June 18, 2009

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Agenda

- Background – What, Why and Who?
- Mechanics – How do futures and forwards work?
- Hold on! Aren't derivatives risky?
- Summary

Background – What, Why and Who?

What are Derivatives?

- **An alternative way of gaining exposure to a particular asset . . . The value of which is *derived from* the value of the underlying security**
  - S&P example
- **Good or bad?**
  - "In my view, derivatives are financial weapons of mass destruction" *Warren Buffet, Berkshire Hathaway 2002 Annual Report*
  - "Berkshire is party to 251 derivative contracts" *Warren Buffet, Berkshire Hathaway 2008 Annual Report*

Now for the confusing part

Exchange traded funds (ETFs) are not exchanged traded futures

- **ETFs can be thought of as daily traded index funds that trade just like stocks**
  - **Particularly useful for sector / style exposure where there is not an actively traded futures contract and trading physicals is prohibitively expensive**
  - **In size, ETFs require a creation unit which involves buying the underlying securities and packaging them into an ETF**
- **For Ohio BWC, the most likely candidate for an ETF would be the highly liquid emerging markets ETF (symbol EEM) traded on the NYSE**
  - **Average daily volume = $2.3 billion**
  - **Trading costs (for EEM shares - not the ETF creation unit)[1]**
    - Commissions 4.5 basis points (bps)
    - Spread ~1.0 bps
    - Impact ~20 bps
  - **ETF management fee = 6 bps/month**

[1] Trading costs in dollars per $100 million: Commissions $45,000, spread $10,000 and impact ~$200,000.

Source: BGI and BarCap Live

Why use derivatives?
From BWC's perspective

- **More precisely control time line associated with asset allocation shift**
  - **Separate asset allocation decision from operational considerations**
- **Generally less expensive**
  - **Lower cost of trading**
  - **Trade physicals when <u>you</u> want to, not when you have to**
- **May create unique opportunities**
  - **Synthetic mispricings**

Estimated trading costs as of 1/1/2009

Futures vs. Physicals

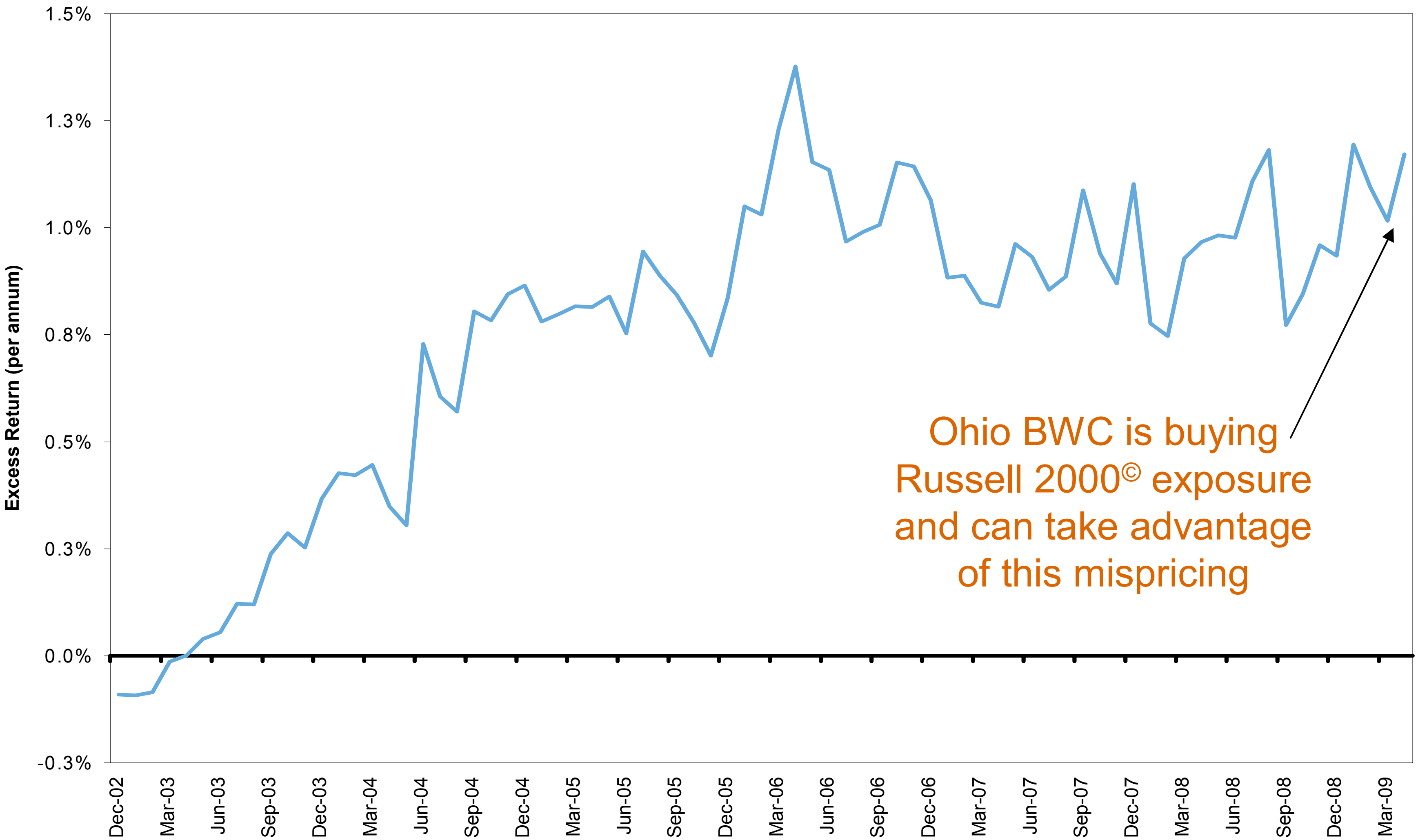
	One Way Commission + Spread [1] (bps)	One Way Commission + Spread [1] ($)	Quarterly Roll [1] (bps)	Quarterly Roll [1] ($)	Annual Cost (Buy + 4 Qtrly Rolls) (bps)	Breakeven with Physicals (years)
US Equity - Large Cap						
Synthetic S&P 500	6.7	$ 66,900	0.7	$ 7,250	9.6	1.50 - 2.75
Physical Securities	15 - 25	$ 200,000				
US Equity - Small Cap						
Synthetic Russell 2000	5.7	$ 57,000	1.6	$ 15,500	11.9	4.25 - 6.00
Physical Securities	50 - 70	$ 600,000				
Non-US Equity						
Synthetic MSCI EAFE	7.7	$ 76,900	4.4	$ 44,250	25.4	1.50 - 2.25
Physical Securities	40 - 60	$ 500,000				

- **Estimates include commission, spread and market impact assuming $100MM position**
- **Excludes roll risks which varies from quarter to quarter and may enhance or detract from performance**

For illustrative purposes only. Data is historical and not a guarantee of future performance.

[1] Trading costs in dollars per $100 million. For physical trading costs, assumed mid-point of range.

Pricing on Russell 2000© Swap



Source: Goldman Sachs. For illustrative purposes only. Data is historical and not a guarantee of future results.

Representative list of Russell overlay clients

US Corporate

AT&T
Campbell
Caterpillar
Kaiser Permanente
Pacific Gas & Electric
Reynolds American
Shell
Southern California Edison

US Other

Kaiser Foundation
Nuclear Electric Insurance Ltd.

US Public Funds

Indiana PERF
MassPRIM
Ohio SERS
Oregon PERS
Rhode Island ERS
San Bernardino County ERS
San Diego County ERS
South Carolina Retirement System
Utah Retirement System
Virginia Retirement System
Washington State Investment Board
Wyoming Retirement System

Canadian

Hydro One

UK/EMEA

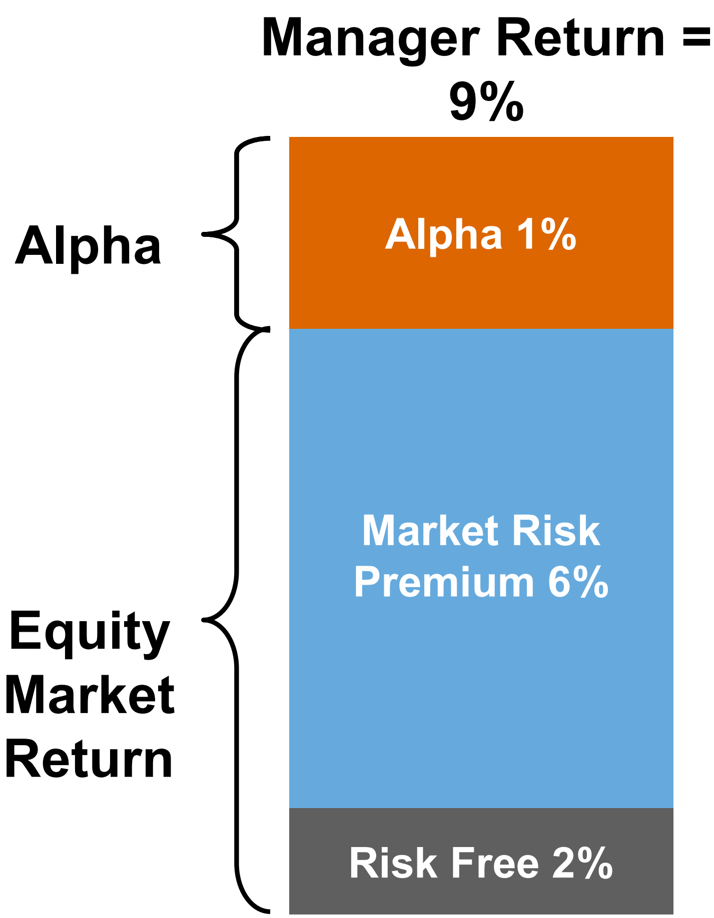
CAA
IBM NL/UK
Sainsbury
Shropshire
Xerox

Russell manages a wide range of overlays for a global client base

The above representative list of clients includes all overlay services clients with the exception of those clients who do not allow the use of their name in marketing materials. The identification of the clients listed does not constitute an endorsement or recommendation of Russell's products or services by such client.

Mechanics – How do Futures and Forwards work?

Disaggregating a manager's return

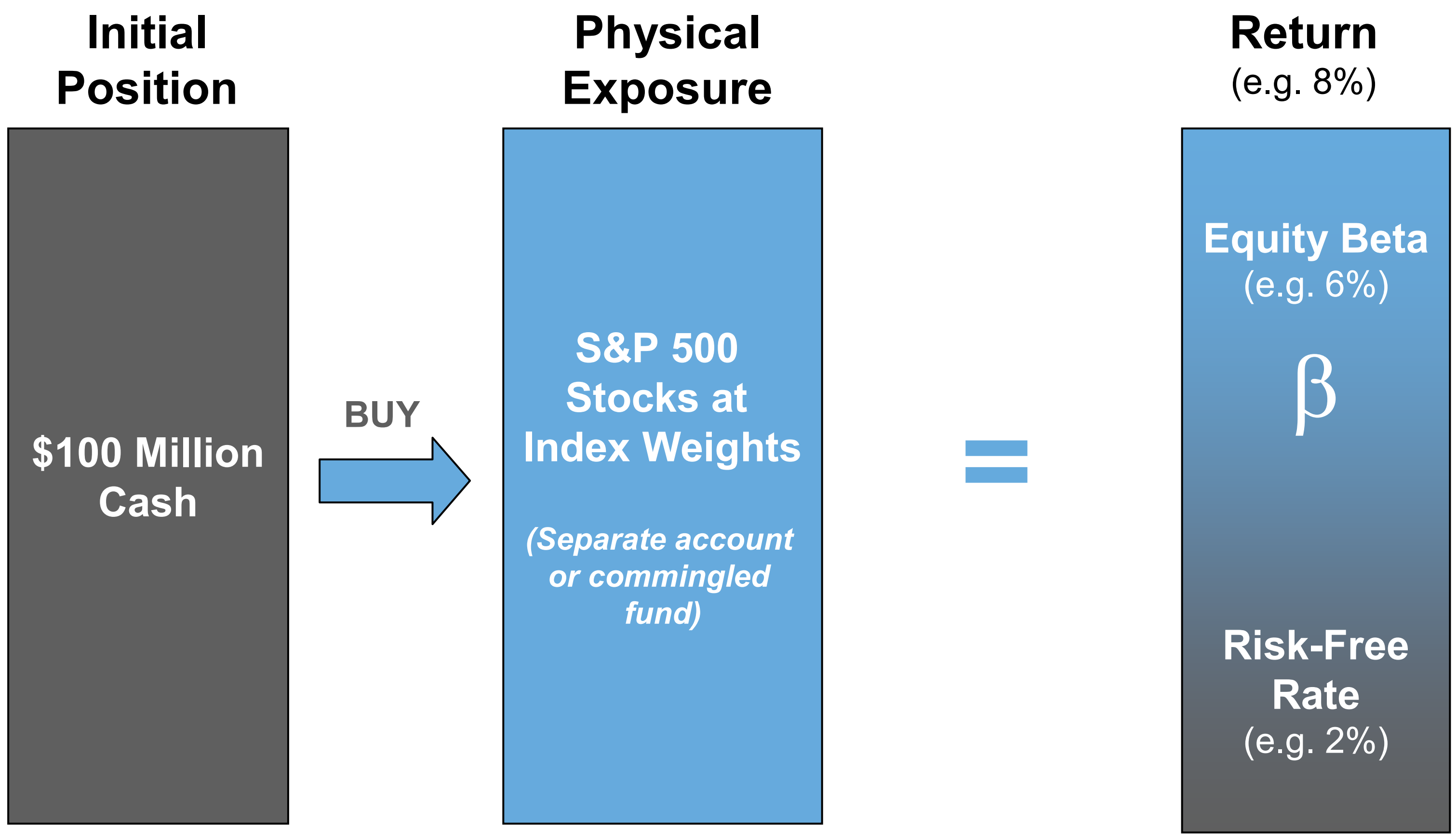


The manager's return can be expressed as:

$$\alpha + \underbrace{\beta(r_M - r_f)}_{\text{Derivatives provide this}} + r_f$$

For Illustrative purposes only.

Obtaining physical passive US equity exposure



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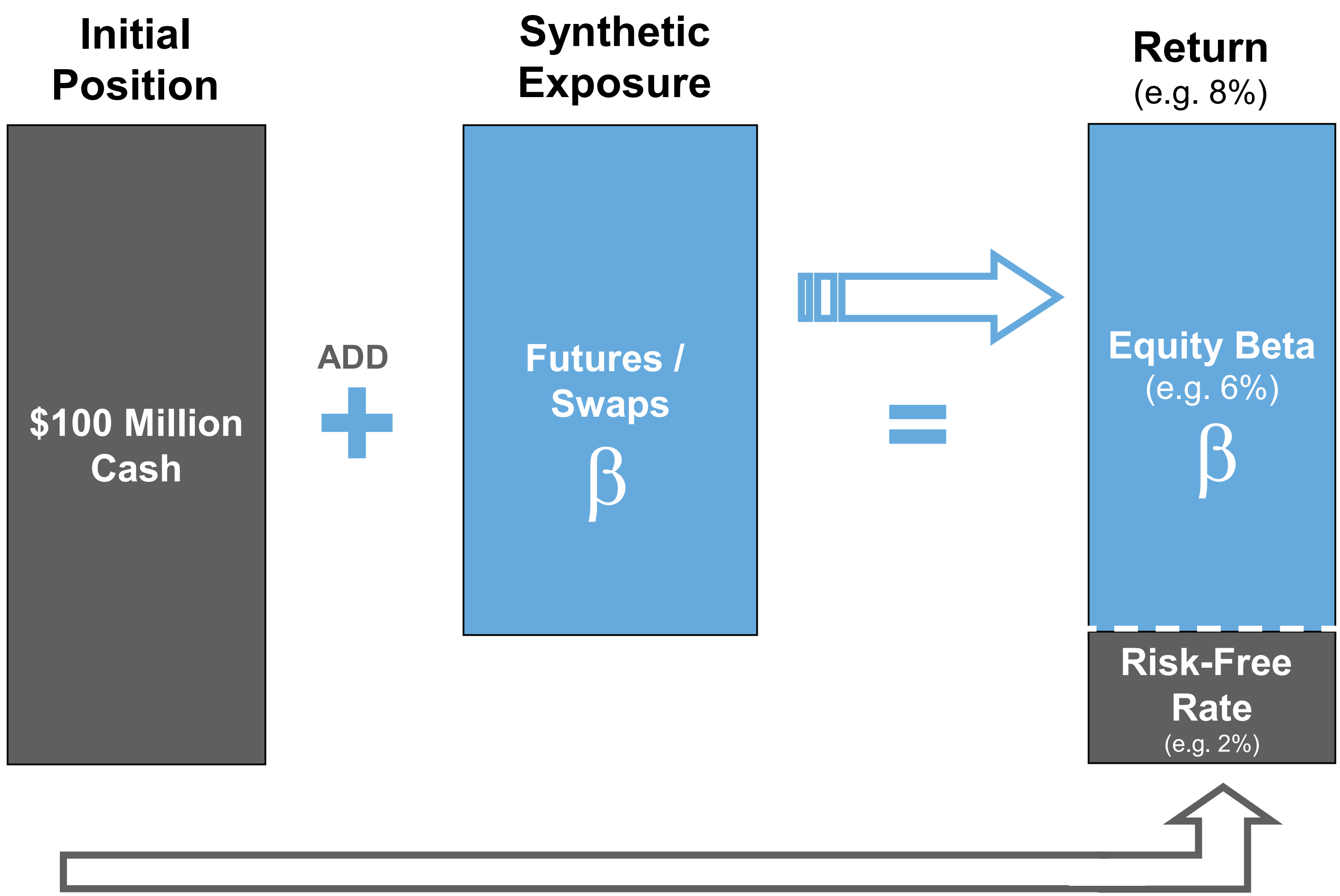
Obtaining synthetic passive US equity exposure



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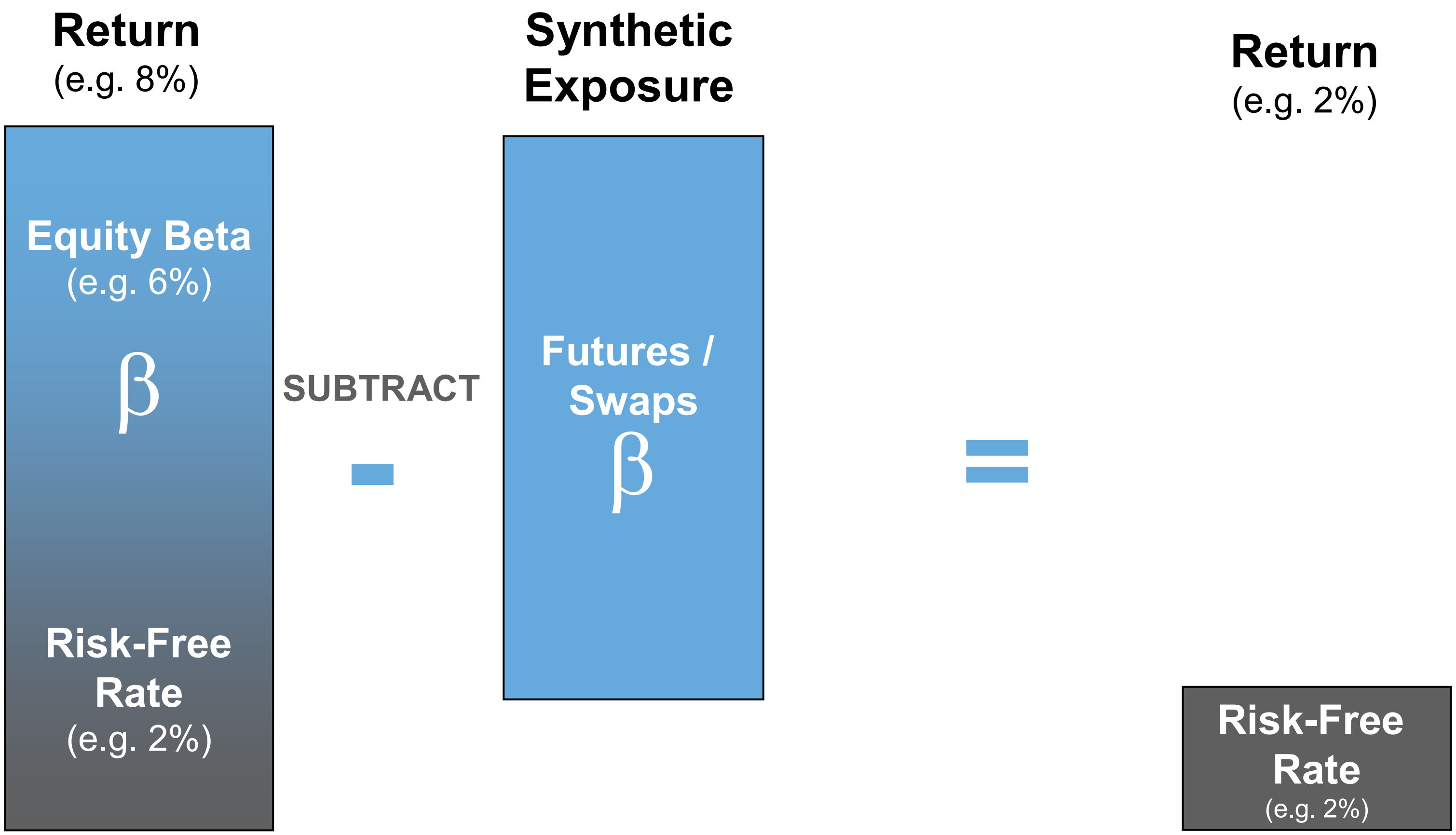
Selling futures creates “synthetic” cash



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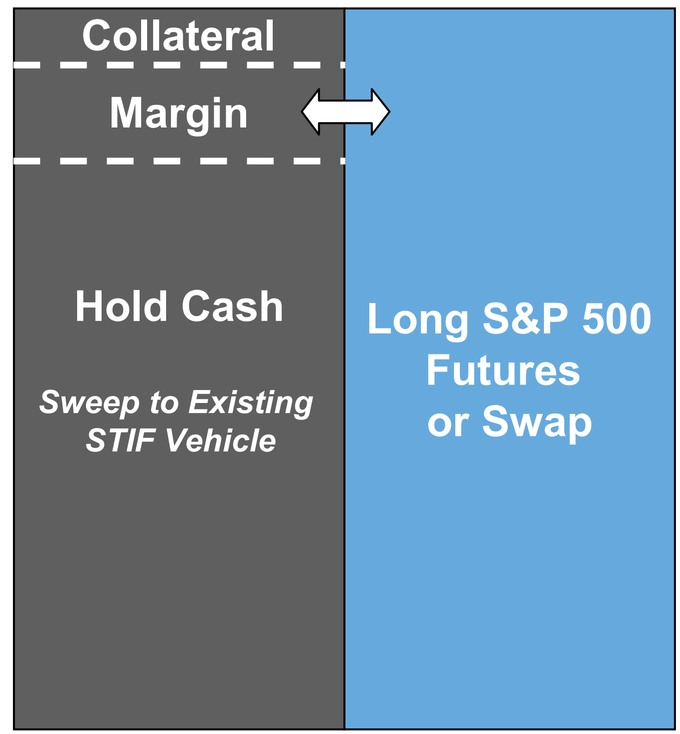
Daily mechanics of a futures position

- **A portion of the cash to be overlaid is designated as:**
  - Initial margin ~1 to 10% (a.k.a. collateral)
  - Maintenance margin ~15%
- **Both initial / maintenance margin and other cash earn interest and are overlaid**
- **Gains/losses are marked to market daily**
  - Reconciled
  - Paid/received out of maintenance margin
- **Replenish/drawdown margin buffer if weight breeches ranges**



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What about forwards?

- **Physical exposure**

$100 —Exchange $ for £→ £50 —Buy equity with £→ UK equity

You are now exposed to both the return of the equity and the currency

- **Synthetic exposure**

$100 —Add UK Equity Futures→ $100 —Enter into forward agreement to sell $ for £ in the future→ UK equity

Add UK Equity Futures: This piece gives you equity exposure

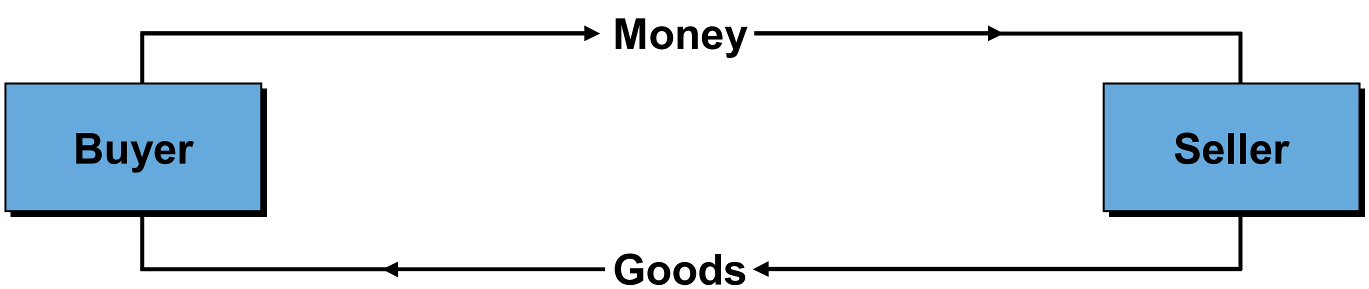
Enter into forward agreement to sell $ for £ in the future: This piece gives you currency exposure

For Illustrative purposes only.

Futures vs. Forwards

Introducing the Clearinghouse

- Absent a party to guarantee the trade, the buyer (seller) is exposed to the credit worthiness of the seller (buyer)



w/o Clearinghouse

- With futures, the clearinghouse acts as a buyer for every seller and a seller to every buyer

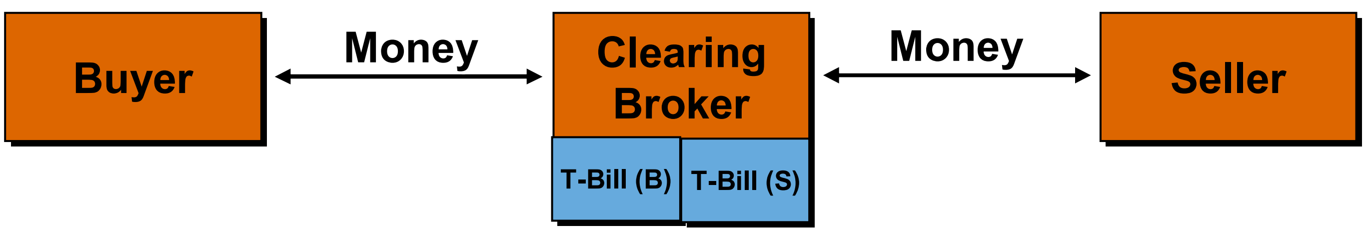
w/ Clearinghouse

For illustrative purposes only.

Protection from default risk - Futures

- The clearinghouse holds offsetting positions so its net exposure is zero
- Exposure is limited through daily “marking to market”

- Collateral requirements provide additional protection in case a party defaults on margin payment



For illustrative purposes only.

Protection from default risk - Forwards

- **Absent a clearinghouse, the parties can protect themselves through collateralization agreements**
  - Initial collateral (can be zero)
  - Threshold amount (e.g. $5 million)
  - Minimum transfer amount (e.g. $500K)
    - Reset periodically (e.g. quarterly)

Mutually agreed to between client and counterparty

- **Alternatively, one can diversify across multiple counterparties**

For illustrative purposes only.

Hold On! Aren't Derivatives Risky?

Aren’t derivatives risky?

- **Generally cash plus futures should not be any more risky than holding the physicals**
  - **Unless you are leveraged!**
- **Economically, the impact of holding the physicals vs. futures should be equivalent**
  - $100 million in physicals that goes down 10% is worth $90 million
  - $100 million in cash plus $100 million in futures that goes down 10% results in wiring $10 million out of the fund . . . You still have $90 million but you had to write a check to get there

What can go wrong?

- Leverage
  - Gaining more market exposure than you could with physicals
  - e.g. $100 million in cash overlaid with $105 million in futures
- Managing
  - Dollar neutral (i.e. long synthetic < cash plus synthetic cash)
  - Each trading day should be a closed loop

- Operational Errors
  - Wrong direction / instrument or poor execution
  - Collateral management and margin maintenance
  - Timeliness of open, roll, and close
  - Systems failure
- Managing
  - Experience
  - Systems and procedures
  - Resources
  - Redundant systems and continuous back up

- Tracking Error
  - Futures contract or basket performs markedly different than target index
- Managing
  - Diligence during open, close and roll
  - Optimization (tools, frequency)

Summary

Applying these tools to BWC

Status	Priority	From	To	Trade
Approved May 2009	Priority 1 July / August	US Long G/C $2,250 mil	US Aggregate $2,250 mil	Sell Physicals Buy Physicals
For Vote June 2009	Priority 2 August / November	US Long G/C $1,050 mil US TIPS $450 mil	ACWI ex-US $1,500 mil	Sell Physicals Buy Futures / Currency Forwards / Emerging Markets ETF
	Priority 3 September	S&P 500 $3,000 mil	US Large Cap $450 mil US Small Cap $450 mil	Sell S&P 500 Futures Buy Midcap / Russell 2000 Futures
	Priority 4 December	US Long G/C $5,550 mil	US Long G/C $5,550 mil	Sell Physicals Buy Physicals
	Priority 5 January	US TIPS $2,550 mil	US TIPS $2,550 mil	Sell Physicals Buy Physicals

- US Equity futures trade changes portfolio structure to better match Russell 3000© Index
  - Reduces large cap exposure
  - Adds midcap and small cap exposure

Source of priorities, dates, and dollar amounts: Ohio BWC investment staff

Final thoughts

- **Slippage is particularly acute during asset allocation shifts**
  - **Timing, trading costs, missed opportunities**

- **Make sure you have the right tools for the job**

- **Derivatives range from exchange-traded / marked-to-market to esoteric / uncollateralized OTC agreements**
  - Ohio BWC would be using the former not the latter

Russell Investments

www.russell.com

DATE: June 12, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Asset Allocation Change Implementation Recommendation**
Second Priority Transition
Sell Long Duration U.S. Government Fixed Income (First Step)
Sell U.S. TIPS (Second Step)
Buy MSCI ACWI ex-U.S. Foreign Equities
State Insurance Fund

BACKGROUND

Reference is made by the CIO to an updated report dated June 18, 2009 submitted by the BWC Investment Division to the BWC Investment Committee of the Board of Directors addressing proposed Asset Allocation Change Implementation priorities and transition options pertaining to the new asset allocation targets for the State Insurance Fund (SIF). This referenced report is an updated report to the original report dated May 28, 2009 so as to reflect the approval action provided by the Board of Directors on May 29, 2009 to revise the Long Duration Fixed Income benchmark index for SIF into both a Long Duration U.S. Credit benchmark index with a 28% target asset allocation and a Long Duration U.S. Government benchmark index with a 9% target asset allocation. The timelines and the asset allocation transition priorities reflected in the original May 2009 transition strategy report presented have not been changed in the June 2009 updated transition strategy report.

The BWC Investment Committee and Board of Directors at their respective May, 2009 meetings gave approval by vote for the BWC investment staff to proceed with the implementation of the highest priority transition for SIF involving the achievement of a 15% portfolio weighting to the Barclays U.S. Aggregate fixed income benchmark index. The BWC investment staff will be engaging a transition manager to execute this highest priority transition over a July-August 2009 timeframe. Such transition manager will serve as the interim investment manager for BWC of a portfolio of securities correlated to the U.S. Aggregate fixed income index until such time as one or more target managers for this investment mandate is selected, approved and contracted via the RFP process. This strategy is specifically laid out in the 21st Century Transition column of page 6 of the referenced June 2009 updated transition strategy report.

It is the desire of the CIO to next receive approval to implement what is presented in this referenced June 2009 report as the second priority transition involving SIF invested assets. Details of this second priority transition are represented on pages 2 and 7 of the referenced June 2009 report. This estimated $1.5 billion transition would involve a staged monthly purchase of ACWI ex-U.S. related derivative contracts by a transition manager over a targeted four-month period each month from August through November, 2009. These derivative contracts are listed in the 21st Century Transition column on page 7 of the referenced report for the August/November timeframe. The first 70% of purchases of the necessary derivative contracts would be funded from the sale of an estimated $1.05 billion of physical long duration U.S. government bonds and the remaining 30% of purchases would then be funded from the sale of an estimated $450 million of physical U.S. TIPS assets.

More information on the operational characteristics of future index contracts, forward currency contracts and exchange traded funds will be presented to the Investment Committee at the June 18, 2009 meeting by a senior-level representative of the transition management group of Russell Investments, one of the BWC pool of transition managers approved by the Investment Committee and Board of Directors last month.

In discussions the BWC Investment Division has had with its approved transition managers, it has been determined that the utilization of a combination of (a) ten liquid future index contracts of key developed nation foreign stock markets, (b) six different foreign currency forward contracts and (c) the highly liquid NYSE-listed exchanged traded fund designed to replicate the approximate 20% emerging markets segment of the ACWI ex-U.S. benchmark index are the preferred investment vehicles to employ by a transition manager when compared to any alternative strategy involving the purchasing of actual physical foreign stocks reflected in this benchmark index. The desired investment exposure to the benchmark index with acceptable tracking error can be achieved more quickly (within a few days) and at considerably less transaction costs by a transition manager with the utilization of a relatively small number of derivative contracts as compared to the more time consuming and much more expensive process involving the purchase of a significantly large sampling of the more than 1,800 securities currently comprising this non-U.S. international equities index.

The future contracts of the ten foreign market stock indices to be purchased by the transition manager are traded on foreign regulated exchanges, each involving a futures exchange clearinghouse regulatory agency that serves as the buyer for every seller and seller for every buyer, thus effectively eliminating counterparty risk. The clearinghouse serves the purpose of guaranteeing the other counterparties performance of every futures transaction. Margin requirements for these foreign stock exchange index futures are typically 12% of the notional amount of the future contracts (example: $12 million in cash collateral to provide for $100 million in desired foreign stock exchange coverage exposure) and maintenance or variation margin which will be typically 15% of notional amount futures exposure (example: another $15 million in margin [collateral] for the $100 million exposure desired). A clearing broker to oversee the maintenance of sufficient margin accounts will be selected upon the mutual approval of the transition manager and BWC. The margin requirements regulated by future exchanges are managed by the clearing broker but are segregated into a separate account for the investor (BWC).

With regards to the six different suggested foreign currency forward contracts identified, no margin requirements are legally necessary as these contracts are traded over-the-counter. These foreign currency forward contracts are needed to capture the performance of key foreign currencies relative to the U.S. dollar that is reflected in the return of the benchmark index expressed in U.S. dollars. These forward contracts will typically have a one-month term and will be effectively rolled (closed out and repurchased) over each month by the transition manager, with a realized gain or loss booked each month depending on whether the U.S. dollar increases or decreases in an exchange rate conversion versus the foreign currency. The ACWI ex-U.S. benchmark index will perform better for BWC if the U.S. dollar weakens in value versus the foreign currencies represented in the benchmark index and vice-versa. The respective counterparties of these foreign currency forward contracts will be of sufficient credit quality and diversification to the transition manager engaged by BWC.

RECOMMENDATION

It is the recommendation of the CIO that the BWC investment staff be given approval to implement what is deemed to be the second highest priority transition mandate for the State Insurance Fund desired herein and as outlined on page seven of the referenced June, 2009 transition strategy report under what is termed the 21st Century Transition strategy option. This represented second priority transition is recommended to be implemented by the CIO in four consecutive monthly increment stages of 2.5% of total SIF portfolio market value commencing in August, 2009. This timeframe will result in achieving an exposure of 10% of total SIF invested assets to the MSCI ACWI ex-U.S. foreign equities index by November, 2009. It is anticipated that movement of assets to the approved target manager(s) by the BWC transition manager could occur by November, 2009.

STATE INSURANCE FUND

Asset Allocation Change Implementation

June 18, 2009 Updated
BWC Investment Division

Ohio Bureau of Workers' Compensation

Ohio Bureau of Workers' Compensation

State Insurance Fund
Asset Allocation Change
(with Credit Tilt)

LEGACY PORTFOLIO

	Target	$ Billions
U.S. Long Govt	*30%	$ 4.50
U.S. Long Credit	*29%	$ 4.35
Total LDFI	59%	$ 8.85
U.S. TIPS	20%	$ 3.00
Cash	1%	$ 0.15
Total Fixed Income	80%	$ 12.00
S&P 500	20%	$ 3.00
Total Equity	20%	$ 3.00
Total Assets	100%	$ 15.00

TARGET PORTFOLIO

	Target	$ Billions
U.S. Long Govt	9%	$ 1.35
U.S. Long Credit	28%	$ 4.20
Total LDFI	37%	$ 5.55
U.S. TIPS	17%	$ 2.55
U.S. Aggregate	15%	$ 2.25
Cash	1%	$ 0.15
Total Fixed Income	70%	$ 10.50
Russell 3000	20%	$ 3.00
MSCI ACWI ex-U.S.	10%	$ 1.50
Total Equity	30%	$ 4.50
Total Assets	100%	$ 15.00

Assumes a $15 billion portfolio market value for illustration purposes

Actual portfolio market value approximately $15.5 billion on 5/31/09

*approximate subdivided breakdown - not an actual target

State Insurance Fund
Asset Allocation Transitions
Implementation Priorities
(with Credit Tilt)

Priority	Legacy Portfolio Source	Target Portfolio Mandate
1 July/ Aug	U.S. Long Government **[14% - - - - > $2,100,000,000]** (1% in-kind transfer)	U.S. Aggregate Fixed Income **[15% - - - - > $2,250,000,000]**
	U.S. Long Credit **[1% - - - - > $150,000,000]** (1% in-kind transfer)	
2 Aug/ Nov	U.S. Long Government **[7% - - - - > $1,050,000,000]**	ACWI ex-U.S. Equity **[10% - - - - > $1,500,000,000]**
	U.S. TIPS **[3% - - - - > $450,000,000]**	
3 Sept	S&P 500 Equity **[20% - - - - > $3,000,000,000]** (17% in-kind transfer)	Russell 3000 Equity **[20% - - - - > $3,000,000,000]**
4 Dec	U.S. Long Government **[9% - - - - > $1,350,000,000]** (all 9% in-kind transfer)	U.S. Long Government **[9% - - - - > $1,350,000,000]** (1% in-kind transfer)
	U.S. Long Credit **[28% - - - - > $4,200,000,000]** (all 28% in-kind transfer)	U.S. Long Credit **[28% - - - - > $4,200,000,000]**
5 Jan 2010	U.S. TIPS **[17% - - - - > $2,550,000,000]** (all 17% in-kind transfer)	U.S. TIPS **[17% - - - - > $2,550,000,000]**

Priority dates for implementation assumes "21st Century Transition" strategy execution described herein

ALTERNATIVE TRANSITION IMPLEMENTATION STRATEGY OPTIONS
STATE INSURANCE FUND TIMELINES

2009	Traditional Transition	1990's Transition	21st Century Transition
July	•Issue Master RFP •Begin mandate search for permanent investment managers: Mandate 1. Barclays U.S. Aggregate Index 2. MSCI ACW ex-U.S. Index 3. Russell 3000 Index 4. Barclays U.S. Long Gov./Credit Index 5. Barclays U.S. TIPS Index	•Issue Master RFP •Begin mandate search for permanent investment managers: Mandate 1. Barclays U.S. Aggregate Index 2. MSCI ACW ex-U.S. Index 3. Russell 3000 Index 4. Barclays U.S. Long Gov./Credit Index 5. Barclays U.S. TIPS Index	•Issue Master RFP •Begin mandate search for permanent investment managers: Mandate 1. Barclays U.S. Aggregate Index 2. MSCI ACW ex-U.S. Index 3. Russell 3000 Index 4. Barclays U.S. Long Gov./Credit Index 5. Barclays U.S. TIPS Index
July/August			•Hire Transition Managers (TM) to effect Mandates 1 without Futures •Hire TM to initiate Mandate 2 with possible monthly incremental staging of purchases with Futures as necessary
September	•Select/approve Mandate 1 managers	•Select/approve Mandate 1 managers	•Hire TM to effect Mandate 3 with Futures as necessary •Select/approve Mandate 1 managers
October	•Contract Mandate 1 managers •Hire TM to effect Mandate 1 without Futures •Select/approve Mandates 2 + 3 managers	•Contract Mandate 1 managers •Hire TM to effect Mandate 1 with Futures as necessary •Select/approve Mandates 2 + 3 managers	•Contract Mandate 1 managers •Existing TM quickly cedes/transfers Mandate 1 to target managers •Select/approve Mandates 2 + 3 managers
November	•Contract Mandates 2 + 3 managers •Hire TM to effect Mandates 2 + 3 without Futures •Select/approve Mandate 4 managers	•Contract Mandates 2 + 3 managers •Hire TM to effect Mandates 2 + 3 with Futures as necessary •Select/approve Mandate 4 managers	•Contract Mandates 2 + 3 managers •Existing TM cedes/transfers Mandates 2 + 3 to target managers •Select/approve Mandate 4 managers
December	•Contract Mandate 4 managers •Hire TM to effect Mandate 4 without Futures •Select/approve Mandate 5 managers	•Contract Mandate 4 managers •Hire TM to effect Mandate 4 with Futures as necessary •Select/approve Mandate 5 managers	•Contract Mandate 4 managers •Hire TM to effect Mandate 4 with Futures as necessary •Select/approve Mandate 5 managers
January 2010	•Contract Mandate 5 managers •Hire TM to effect Mandate 5 without Futures	•Contract Mandate 5 managers •Hire TM to effect Mandate 5 with Futures as necessary	•Contract Mandate 5 managers •Hire TM to effect Mandate 5 with Futures as necessary
May 2009 to Completion	Redeem all monthly bond cash interest received to reinvest in equities until Mandates 1 + 2 + 3 are completed and/or to Fund TM's **(estimated at $62mm May; $29mm June; $49mm July)**	Redeem all monthly bond cash interest received to reinvest in equities until Mandates 1 + 2 + 3 are completed and/or to Fund TM's **(estimated at $62mm May; $29mm June; $49mm July)**	Redeem all monthly bond cash interest received to reinvest in equities until Mandates 1 + 2 + 3 are completed and/or to Fund TM's **(estimated at $62mm May; $29mm June; $49mm July)**

ALTERNATIVE TRANSITION IMPLEMENTATION STRATEGY OPTIONS
STATE INSURANCE FUND
SUMMARY

Traditional Transition

- prolongs the use of old asset allocation mix and very long duration and high price volatility of the fixed income portfolio
- start of new asset allocation mix implementation postponed 4-6 months until 4Q09 time period at earliest
- respective transition management activities occur only after selection and contracting of each new target investment manager
- no use of futures/derivatives by transition managers further delays full exposure to three new priority investment mandates (comprising targeted 45% of new portfolio asset allocation mix) until each transition is completed with trading of only physical securities
- trading execution by transition managers of physical securities only may take many additional weeks to complete, thereby prolonging further delay before full exposure to new mandates attained and delivery of assets to new target managers occurs

1990's Transition

- prolongs the use of old asset allocation mix and very long duration and high price volatility of the fixed income portfolio
- start of new asset allocation mix implementation postponed 4-6 months until 4Q09 time period at earliest
- respective transition management activities occur only after selection and contracting of each new target investment manager
- use of futures/derivatives by experienced transition managers can achieve desired exposure quickly to three new priority mandates comprising aggregate 45% of new portfolio with acceptable tracking error once new target investment managers are contracted

ALTERNATIVE TRANSITION IMPLEMENTATION STRATEGY OPTIONS
STATE INSURANCE FUND
SUMMARY

21st Century Transition

- can achieve almost immediate exposure to new asset allocation and the desired reduction of the current very long duration and high price volatility of the fixed income portfolio by means of effective combinations of physical securities and futures/derivatives positions managed by experienced transition managers

- can easily implement an effective strategy for staging periodic incremental increases in total equity exposure from 20% to 30% of portfolio by a chosen transition manager funded from bond sales well before new target equity managers are identified and contracted in 4Q09 at earliest

- pressure to execute large transitions over a condensed period of time in 4Q09 to finally achieve delayed new asset allocation targets is largely eliminated, as experienced transition managers contracted and engaged in 3Q09 are able to attain new asset allocation mix with acceptable tracking error through effective combinations of physical securities and derivatives positions funded from legacy portfolios

State Insurance Fund
1st Priority Transition Implementation Timeline

Sell $2.25 billion Long Duration Fixed Income
Buy $2.25 billion U.S. Aggregate Fixed Income
(Mandate 1)

2009	Traditional Transition	1990's Transition	21st Century Transition
July	•Issue Master RFP	•Issue Master RFP	•Issue Master RFP •Hire transition manager (TM) to quickly effect desired investment exposure to U.S. Aggregate fixed income index
July/August			•TM to sell up to $2.25 billion physical LDFI bonds timed with U.S. Aggregate index physical bond purchases up to $2.25 billion as follows: U.S. Treasuries – 26% ($585mm) U.S. Agencies – 11% ($250mm) [5% UST + Agencies in-kind] MBS Pass-Thru TBAs – 39% ($875mm) Credit – 20% [5% in-kind] ($450mm) ABS/CMBS – 4% ($90mm) All physical bond purchases of Govts and MBS (76%) executed by TM in 2-3 days; remaining Credit and ABS physical bonds purchased over estimated 4-6 weeks
September	•Select/approve U.S. Aggregate fixed income target managers	•Select/approve U.S. Aggregate fixed income target managers	•Select/approve U.S. Aggregate fixed income target managers
October	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Existing TM quickly cedes/transfers purchased benchmark assets to target managers
November/ December	•TM executes July/Aug trading activity described in 21st Century Transition •TM cedes/transfers purchased benchmark assets to target managers	•TM executes July/Aug trading activity described in 21st Century Transition •TM cedes/transfers purchased benchmark assets to target managers	

State Insurance Fund
2nd Priority Transition Implementation Timeline

Sell $1.05 billion Long Duration Fixed Income (First step if purchases staged)
Sell $450 million TIPS (Second step if purchases staged)
Buy $1.5 billion ACWI ex-U.S. Foreign Equities
(Mandate 2)

2009	Traditional Transition	1990's Transition	21st Century Transition
July	•Issue Master RFP	•Issue Master RFP	•Issue Master RFP •Hire transition manager (TM) to effect desired investment exposure to ACWI ex-U.S. equity index as quickly as BWC desires
Aug/November*			•TM to first sell up to $1.05 billion physical LDFI bonds and then sell up to $450 million TIPS timed with tracking ACWI ex-U.S. derivative contracts purchased as follows: A. Futures index contracts of following developed nation foreign stock exchanges: Japan, UK, Germany, France, Spain, Italy, Eurostoxx 50, Australia, Hong Kong, Canada; B. Forward currency contracts of Euro, Japanese yen, UK pound, Canadian dollar, Australian dollar, Hong Kong dollar; (Combination of A+B above = 80%.....$1.2 billion notional) C. Emerging markets NYSE–listed exchange traded fund (EEM) (20%.....$300 million) The above derivative contracts and ETF are much more efficient for TM to employ than purchases of physical stocks of companies to temporarily track benchmark index
October	•Select/approve ACWI ex-U.S. equity index target managers	•Select/approve ACWI ex-U.S. equity index target managers	•Select/approve ACWI ex-U.S. equity index target managers
November	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Existing TM executes exchange of assets with passive target managers
December	•TM executes physical bond sales and delivers cash proceeds to passive target managers	•TM executes 21st Century Transition strategy steps to quickly establish target benchmark index exposure and then executes unit exchange with passive target managers	

***If purchases staged in periodic increments**

State Insurance Fund
3rd Priority Transition Implementation Timeline

Sell $3.0 billion S&P 500 equities
Buy $3.0 billion Russell 3000 equities
(Mandate 3)

2009	Traditional Transition	1990's Transition	21st Century Transition
July	•Issue Master RFP	•Issue Master RFP	•Issue Master RFP •Hire transition manager (TM) to quickly effect desired investment exposure to Russell 3000 equity index
September			•TM to not sell any of $3.0 billion S&P 500 physical stocks. •TM to utilize following futures contracts to obtain desired Russell 3000 index investment exposure: A. Buy futures index contracts of: Russell 2000 index (8%... $240mm notional) S&P Midcap 400 index (7%..$210mm notional) B. Sell S&P 500 index futures contracts (15%......$450mm notional amount a fraction of $3.0 billion physical S&P 500 stocks all retained during transition)
October	•Select/approve Russell 3000 index equity target managers	•Select/approve Russell 3000 index equity target managers	•Select/approve Russell 3000 index equity target managers
November	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Hire TM to effect this mandate	•Contract with target managers •Existing TM unwinds futures contracts and executes some S&P 500 stock sales and delivers remaining stock positions in-kind to passive target managers
December	•TM executes some S&P 500 stock sales and delivers remaining stock positions to passive target managers	•TM executes 21st Century Transition strategy steps of July/Aug. and then executes necessary physical trades to deliver optimal stock positions to passive target managers	

DATE: June 12, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Management Fee Proposed Revisions Recommendation**
BWC Long Duration Fixed Income Managers
State Insurance Fund

BACKGROUND

The BWC Investment Committee and Board of Directors at their respective May, 2009 meetings approved the recommendations of the Chief Investment Officer to split the Long Duration Fixed Income benchmark applicable for the State Insurance Fund (SIF) into its two primary components, the Barclays Capital U.S. Long Government index and the Barclays Capital U.S. Long Credit index. The overall 37% new portfolio target asset allocation towards long duration fixed income assets for SIF is now divided into a 28% target asset allocation directed to the Long Credit benchmark index and a 9% target asset allocation towards the Long Government benchmark index.

These actions taken have implications regarding the management fee schedules for the passive indexed separate account long duration fixed income (LDFI) portfolios managed for SIF by State Street Global Advisors ("State Street") and Barclays Global Investors ("Barclays"). As consistent with the other institutional clients who have contracted with these passive managers to manage to one or both of these component benchmarks rather than the full blended Long Government/Credit benchmark index, the management fee schedules are different between these two component benchmarks. The Long Credit index currently consists of over 950 bond issues that include U.S. corporates, non-U.S. corporates, both U.S. and non-U.S. local governments, sovereigns and supranationals. The Long Government index currently consists of less than 150 issues made up of highly liquid U.S. treasury and U.S. Agency bonds. As a result, the Long Government index is much easier to manage and replicate for an index manager when compared to the Long Credit index.

A table included at the end of this report provides the current fee schedules in place by State Street and Barclays for the management of respective separate account LDFI portfolios of SIF managed to the former blended LDFI benchmark index that merges both Long Government and Long Credit indices. This table also presents the proposed new fee schedules recently offered by State Street and Barclays for each of the two new split LDFI indexed portfolios for SIF reflected in the updated current Investment Policy Statement.

Due to the new targeted 28% to 9% portfolio allocation tilt for SIF favoring Credit bonds to Government bonds for additional investment income and a less concentrated government bond portfolio, the management fees for the passive indexed management of long duration bonds will increase in future months. It is the goal of the CIO to officially separate the two existing LDFI portfolios of SIF into the two new benchmark indices at the beginning of fiscal year 2010 commencing July 1, 2009. As a result, the existing SIF LDFI management agreements of both State Street and Barclays will be modified to reflect these new benchmarks under the proposed new management fee schedules, if approved by the BWC Investment Committee and Board of Directors.

Provided at the end of this report is an estimated pro-forma monthly management fee comparison table of current fees to the new proposed fees prepared by the CIO. This table breaks down estimated monthly fees for each of the State Street and Barclays SIF LDFI portfolios for each of the months July through November, 2009. This is the period during which all three transitions involving the sale or in-kind transfer of LDFI assets by BWC transition managers are estimated to occur in satisfaction of each of three transition strategies reflected as Transition Priorities 1,2 and 4 in the updated asset allocation change transition strategy report dated June 18, 2009 presented by the BWC Investment Division at the Investment Committee meeting this month. This fee comparison table provides an estimated reduction of LDFI total assets at market value by month in the implementation of these three identified transitions from an assumed June 30, 2009 level of $7.35 billion managed by State Street and $1.5 billion managed by Barclays.

It is the strategy of the Investment Division to concentrate all selling of LDFI SIF assets by transition managers from the State Street managed LDFI portfolio over this five-month period in order to reduce total exposure to State Street as a BWC investment manager in that State Street currently manages almost 70% of total BWC invested assets at market value. As provided in the referenced transition strategy report, all actual selling of LDFI assets will involve only Long Government bonds as all Credit bonds will be retained during the estimated transition implementation period. It is anticipated that new LDFI passive indexed managers emerging from the upcoming RFP process will be presented for approval at the November, 2009 Investment Committee and Board meetings with contracting completed and in-kind transfers of retained LDFI securities occurring in the month of December, 2009.

The management fee comparison table provided at the end of this report estimates that pro-forma management fees of State Street over the five-month period July-November 2009 will increase by $249,000 from $347,000 to $596,000 and that pro-forma management fees of Barclays will increase a modest $20,000 from $355,000 to $375,000 over this same five-month period. Bases on the month-end Oct-Nov 2009 management fee "run rate" after all selling of LDFI assets for transition implementation purposes are completed by October 2009, the incremental annualized increase in LDFI management fees under the proposed new management fee schedule is estimated at 1.12 basis point of average month-end market value of assets under management ($624,000 annualized fee increase). This compares to a weighted average yield increase of 0.88% or 88 basis points (representing almost $50 million in annual interest income increase) for the 37% targeted LDFI portfolio when tilted to a 28% credit/9% Government targeted weighting based on the 4/30/09 index yields represented last month by the CIO as compared to the balanced 50% Credit/50% Government weighting reflected in the former blended LDFI benchmark index.

This in essence indicates that the higher management fee paid under the split benchmark indices is covered by almost 80 times (88bp/1.12bp) by the higher interest income earned by the credit tilted LDFI portfolio.

RECOMMENDATION

It is recommended by the CIO that the proposed new management fee schedule offered by State Street and Barclays, as reflected in the following table, be approved. These respective fees apply with the splitting of the respective SIF LDFI separate account passive indexed managed portfolios into separately managed Credit and Government portfolios. It is understood that the respective new LDFI management fee schedules will be applicable only until such time that a new LDFI passive indexed manager selection process is completed as a result of a new RFP search initiated with the issuance of a master index managers RFP in July, 2009.

Management Fee Schedule Comparisons
Long Duration Fixed Income Portfolios
State Insurance Fund

Current Fee Schedule	State Street	Barclays
First $ 1 billion in assets	3.0 bps	6.0 bps
Next $ 1 billion in assets	2.0 bps	5.0 bps
Excess above $ 2 billion in assets	1.5 bps	4.0 bps

Proposed New Fee Schedule		
First $ 1 billion in assets **(Credit)**	5.0 bps	9.0 bps
Next $ 1 billion in assets **(Credit)**	4.0 bps	7.5 bps
Excess above $ 2 billion in assets **(Credit)**	1.0 bps	6.0 bps

Proposed New Fee Schedule		
First $ 1 billion in assets **(Govt)**	2.5 bps	3.0 bps
Next $ 1 billion in assets **(Govt)**	1.5 bps	2.5 bps
Excess above $ 2 billion in assets **(Govt)**	1.0 bps	2.0 bps

State Street offers a 5% discount on management fees if total BWC assets under management exceeds $ 4 billion (including other bond and equities mandates)

bps = basis points (1/100 of 1%)

Estimated Pro-Forma Monthly Management Fee Comparison
Long Duration Fixed Income Portfolios Retained After Transition
State Insurance Fund

	($ billions) Estimated Month-End Assets	($ billions) Estimated Credit/Govt Assets	Estimated Monthly Fees ($ 000)				
State Street			**Current LDFI**	**New Credit LDFI**	**New Govt LDFI**	**New Total LDFI**	**Increase New LDFI**
June 2009	7.35	3.60/3.75					
July 2009	5.40	3.45/1.95	80	100	31	131	51
Aug 2009	4.63	3.45/1.28	71	100	23	123	52
Sept 2009	4.35	3.45/0.90	68	100	18	118	50
Oct 2009	4.05	3.45/0.60	64	100	12	112	48
Nov 2009	4.05	3.45/0.60	64	100	12	112	48
Total			347	500	96	596	249
Barclays							
June 2009	1.50	0.75/0.75	71	56	19	75	4
July 2009	1.50	0.75/0.75	71	56	19	75	4
Aug 2009	1.50	0.75/0.75	71	56	19	75	4
Sept 2009	1.50	0.75/0.75	71	56	19	75	4
Oct 2009	1.50	0.75/0.75	71	56	19	75	4
Nov 2009	1.50	0.75/0.75	71	56	19	75	4
Total			355	280	95	375	20

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

Asset Sector	Market Value May 31, 2009	% Assets	Market Value April 30, 2009	% Assets	Increase (Decrease) Prior Month-End	% Change	Market Value June 30, 2008	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	**12,953,634,120**	**76.1%**	**$12,857,156,267**	**77.9%**	**96,477,853**	**0.8%**	**$13,917,829,156**	**79.8%**	**(964,195,036)**	**-6.9%**
Equity	**3,461,809,295**	**20.3%**	**3,219,237,883**	**19.5%**	**242,571,412**	**7.5%**	**3,185,174,964**	**18.3%**	**276,634,331**	**8.7%**
Net Cash - OIM	**52,208,630**	**0.3%**	**36,483,215**	**0.2%**	**15,725,415**	**43.1%**	**31,217,754**	**0.2%**	**20,990,876**	**67.2%**
Net Cash - Operating	**492,424,948**	**2.9%**	**343,208,883**	**2.1%**	**149,216,065**	**43.5%**	**202,328,872**	**1.2%**	**290,096,076**	**143.4%**
Net Cash - SIEGF	**54,726,306**	**0.3%**	**55,276,938**	**0.3%**	**(550,632)**	**-1.0%**	**95,980,364**	**0.6%**	**(41,254,058)**	**-43.0%**
Total Net Cash	**599,359,884**	**3.5%**	**434,969,036**	**2.6%**	**164,390,848**	**37.8%**	**329,526,990**	**1.9%**	**269,832,894**	**81.9%**
Total Invested Assets	**$17,014,803,299**	**100%**	**$16,511,363,186**	**100%**	**$503,440,113**	**3.0%**	**$17,432,531,110**	**100%**	**($417,727,811)**	**-2.4%**

OIM: Outside Investment Managers
MIF: Marine Industry Fund; **PWRE**: Public Work-Relief Employees' Fund; **SIEGF**: Self-Insured Employers' Guaranty Fund
Beginning with March 2009 the cash for MIF and PWRE has been included in Net Cash - Operating due to the funding of the IDFI (bond index) accounts.
June 30, 2008 Net Cash - SIEGF balance includes PWRE and MIF cash balances.

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.

May 2009/April 2009 Comparisons

- Net investment income in May 2009 was $355 million representing a monthly net portfolio return of +2.2% (unaudited).
- Bond market value increase of $96.5 mm comprised of $63.0 mm in interest income, $112.4 mm in net realized/unrealized gains ($3.8 mm net realized gain), offset by $60 mm in OIM rebalancing redemptions and by $18.9 mm in OIM net bond sales (increasing OIM cash balances accordingly), representing a monthly net return of +1.4% (unaudited).
- Equity market value increase of $242.6 mm comprised of $9.1 mm of dividend income, $170.6 mm in net realized/unrealized gains ($3.8 mm net realized loss), $60 mm in portfolio rebalancing purchases directed to OIM and by $3.1 mm in OIM net stock purchases (decreasing OIM cash balances), representing a monthly net return of +5.6% (unaudited).
- Net cash balances increased $164.4 mm in May 2009 largely due to increased operating cash balances ($149.2 mm) and by increased OIM cash balances ($15.7 mm). JPMorgan US Govt. money market fund had 30-day average yield of 0.36% for May 2009 (0.41% for Apr09) and 7-day average yield of 0.32% on 5/31/09 (0.37% on 4/30/09).

May 2009/June 2008 FYTD Comparisons

- Net investment income FYTD of a negative $507 million comprised of $669 mm of investment income, $1,172 mm of net realized/unrealized losses ($242 million net realized loss) and $4 mm in fees, representing a FYTD net portfolio return of -2.9% (unaudited).
- Bond market value decrease of $964 mm FYTD comprised of $586 mm in interest income, $344 mm of net realized/unrealized losses ($154 mm net realized loss), $1,183 mm in net OIM redemptions and by $23 mm in higher OIM cash balances, representing a FYTD net return of +1.7% (unaudited).
- Equity market value increase of $277 mm FYTD comprised largely of $69 mm in dividend income, $828 mm in realized/unrealized losses ($89 mm net realized loss), $1,050 mm portfolio rebalancing purchases directed to OIM and $2 mm in lower OIM cash balances, offset by $12 mm in redemptions, representing a FYTD net return of -26.1% (unaudited).

INVESTMENT DIVISION

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

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: June 10, 2009

SUBJECT: CIO Report May, 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 recently completed an asset-liability study and related investment strategy recommendations for the State Insurance Fund that was presented to the BWC Investment Committee for review in March, 2009. The BWC Investment Division provided considerable support to Mercer in terms of background and information necessary for Mercer to complete its asset-liability study of the Bureau and its investment strategy recommendations. A new Investment Policy Statement was presented to the Investment Committee at its April 28, 2009 meeting and was approved by the Investment Committee and BWC Board of Directors at their respective April, 2009 meetings. The Investment Division has also assisted Mercer in developing this approved Investment Policy Statement that, among other things, reflects the new approved investment strategy target asset allocation for the State Insurance Fund. The BWC Investment Division will also provide whatever support is needed by Mercer in terms of background and information necessary for Mercer to perform and complete asset-liability studies and investment strategy recommendations for each of the ancillary funds of the Bureau.

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 for the State Insurance Fund and, in due time, for the ancillary funds of the Bureau. A timeline regarding both the issuance of a master RFP in July, 2009 reflecting the five new investment manager mandates for the State Insurance Fund (SIF) and prioritization suggestions on each mandate were presented to the Investment Committee at the May 28, 2009 meeting. Approval was given by the Investment Committee and Board of Directors to proceed with the issuance of this RFP and the evaluation of RFP response proposals under such timeline reflected. Given the assumption that multiple RFP processes will be necessary to execute the new investment strategy, a prioritization of the timing of each RFP process will occur. 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.

A presentation on asset allocation transition implementation strategy options involving the use of transition managers for the SIF portfolio was also presented to the Investment Committee for consideration at the May meeting as well. After each new investment manager for each identified investment asset class mandate is selected and approved, the Investment Division will coordinate with the engagement of a selected transition manager the transfer of appropriate invested assets from the legacy investment manager to the new investment manager. The Investment Division was given approval by the Investment Committee and Board of Directors at their respective May, 2009 meetings to proceed with the selection of a transition manager to execute the represented first priority asset allocation mandate to gain full exposure to the Barclays Capital U.S. Aggregate Index for 15% of total SIF investment assets (approximately $2.25 billion) without the use of futures contracts. These bond purchases will be funded largely from the sale of long duration U.S. government securities. It is expected that this transition will commence in July, 2009 with full exposure to the new benchmark achieved by the transition manager by August, 2009. This transition manager will serve as the Bureau's interim investment manager of these assets correlated to this new SIF benchmark until such time that the new target manager(s) emerging from the RFP process are selected, approved and contracted by the Bureau. It is anticipated these new target manager(s) will be in place by sometime in the fourth quarter of 2009.

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.

Strategic Goal Two – INVESTMENT STAFF

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 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 Web Methods 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 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. 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. Two additional small miscellaneous securities were sold over March and April for total proceeds of approximately $19,000.

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 with resulting cash distributions to its investors expected 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 May, 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. A thorough evaluation of each of the ten RFP respondent firm proposals was conducted by the RFP Evaluation Committee consisting of three representatives of the BWC investment staff, including the CIO, and the senior consultant of Mercer. A transition management RFP summary presentation that identified the transition manager finalists was presented to the Investment Committee at the May 28 meeting for consideration and approval. The three transition manager finalists (Barclays, Russell, State Street) recommended for consideration by the RFP Evaluation Committee were approved by the Investment Committee and Board of Directors at their respective May, 2009 meetings.

Transition manager services and requisite trading activities will be coordinated with the implementation of the new BWC asset allocation investment strategy for the State Insurance Fund approved by the Board of Directors that has emerged from the Mercer asset-liability modelling recommendations. Such transition manager services will 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	June	Notes
6/18/2009	1. New SIF Asset Allocation Implementation Strategy Options, 2nd Priority mandate, possible vote 2. Proposed IPS revision regarding derivatives use, possible vote 3. LDFI Management Fee revisions, vote	
Date	**July**	
7/30/2009	1. BWC Investment Division Goals FY2010 2. Mercer High Yield Bond education	
Date	**August**	
8/27/2009	1. Investment Consultant Performance Report 2Q09 2. Mercer High Yield Bond education	
	September	
9/24/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. DWRF and Black Lung Asset/Liability report and recommendation, first review 3. Brokerage Activity Fiscal Year 2009 summary report	
Date	**October**	
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. DWRF and Black Lung Asset/Liability report and recommendation, second review, possible vote 4. Custodian annual review 5. Mercer Alternative Asset classes education	
	November	
11/19/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Investment Consultant Performance Report 3Q09 3. Mercer Alternative Asset classes education	

12-month Investment Committee Calendar

Date	December
12/17/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote

Date	January
1/28/2010	

	February
2/25/2010	1. Investment Consultant Performance Report 4Q09

	March
3/25/2010	

Date	April
4/29/2010	

Date	May
5/27/2010	1. Investment Consultant Performance Report 1Q10

Notes