BWC Board of Directors

Investment Committee Agenda

Thursday, July 30, 2009
William Green Building
Level 2, Room 2
10:00 a.m. – 12:00 p.m.

Call to Order
Bob Smith, Committee Chair

Roll Call
Linda Byron, Scribe

Approve Minutes of the June 18, 2009 Meeting
Bob Smith, Committee Chair

Review and Approve Agenda*
Bob Smith, Committee Chair

New Business/ Action Items

1. Asset Allocation Implementation
   State Insurance Fund
   - Proposed Transition recommendation to implement Mandate 3 to buy U.S. small/mid cap equities exposure and reduce U.S. large cap equities exposure per the Russell 3000 benchmark index
     Bob Smith, Committee Chair
     Bruce Dunn, Chief Investment Officer
     Lee Damsel, Director of Investments
     Mercer Team

     Possible Vote to recommend approval to the Board of Directors on an asset allocation transition implementation to effect the represented Mandate 3 transition

Discussion Items

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

2. Transition Implementation Update
   State Insurance Fund
   - 2nd Priority Transition to buy non-U.S. equities exposure
     Bruce Dunn, Chief Investment Officer
     Lee Damsel, Director of Investments
     Mercer Team

3. CIO Report – June 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: Thursday, August 27, 2009

* Not all agenda items may have materials
** Agenda subject to change

DATE: July 15, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Asset Allocation Change Implementation Recommendation**
Third Priority Transition
Reduce Large Cap Equities
Initiate/Buy Mid Cap Equities
Initiate/Buy Small Cap 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 on such date addressing proposed Asset Allocation Change Implementation priorities and certain transition options pertaining to the new asset allocation targets for the State Insurance Fund (SIF).

The BWC Investment Committee and the Board of Directors at their respective meetings in May and June, 2009 gave approval by vote for the BWC investment staff to proceed with the implementation of the two highest priority transition mandates outlined in the referenced June 2009 report over the respective timeframes indicated. Both of these transition mandates are in the process of being implemented by the BWC investment staff with the engagement of transition managers.

It is the desire of the CIO to next receive approval to implement what is presented in this referenced June 2009 report as the Third Priority Transition involving SIF invested assets. Details of this Third Priority Transition are represented on pages 2 and 8 of the referenced June 2009 report. In order for this Third Priority Transition to be implemented in September, 2009 per the timeframe objective, approval is desired at the July, 2009 BWC Investment Committee and Board meetings in order to enable the BWC investment staff to proceed with the selection process of a transition manager as well as the necessary operational planning steps that must occur throughout the month of August into September.

OBJECTIVE

The purpose of the Third Priority Transition is to achieve exposure to the broad Russell 3000 equity index which represents a targeted 20% asset allocation for the SIF investment portfolio per the new investment strategy approved by the BWC Board of Directors in April, 2009 and as reflected in the current BWC Investment Policy Statement. The Russell 3000 index measures the performance of the largest 3,000 U.S. companies trading on U.S. stock exchanges measured by market capitalization at each annual reconstitution date (May 31) and which becomes effective the last Friday of each June. The Russell 3000 index represents approximately 98-99% of the U.S. equity market as measured by market capitalization. The largest 1,000 stocks of the Russell 3000 index comprise the Russell 1000 index and the next 2,000 stocks comprise the Russell 2000 index. At the end of June, 2009, the Russell 1000 index represented approximately 91% of the U.S. equity market capitalization and the Russell 2000 index represented approximately 8% of the U.S. market capitalization. It is generally accepted by definition that the Russell 1000 index is comprised of large cap and mid cap equities and the Russell 2000 index represents small cap equities.

The composition and characteristics of the Russell 3000 index are important for determining an efficient and effective transition management strategy for a transition manager to employ to capture the performance of the Russell 3000 index for the SIF portfolio during the transition holding period estimated at 2-3 months until the Russell 3000 target manager(s) are selected, approved and funded. The S&P 500 index of 500 large cap stocks represents approximately 85% of the market capitalization of the Russell 3000 index. The remaining approximately 15% market capitalization of the Russell 3000 index is largely made up of mid cap stocks and the entire Russell 2000 index of small cap stocks.

A preliminary strategy suggested by one of the BWC transition managers that is appealing to the CIO would not involve the selling or purchasing of any physical stocks until the very end of the transition period. This strategy takes advantage of the existence of the current passive indexed S&P 500 equity portfolio managed by Northern Trust ($3.2 billion market value on 7/14/09). The details of this strategy are illustrated on page 8 of the referenced June 2009 Asset Allocation Change Implementation report based on a $3.0 billion market value legacy and target U.S. equity portfolio. Rather than selling 15% of the SIF S&P 500 indexed portfolio to attain a targeted 85% exposure to large cap stocks per the target Russell 3000 index, the strategy would involve selling very liquid S&P 500 index futures contracts having a notional amount of 15% or $450 million of the desired $3.0 billion Russell 3000 index exposure necessary to achieve the net 85% exposure to the target index. The remaining action of the strategy would involve two other steps: (a) achieve the small cap stock exposure of the target Russell 3000 by purchasing futures index contracts of the Russell 2000 index estimated to represent 8% of the market capitalization of the target Russell 3000 index and (b) achieve the mid cap stock exposure of the target Russell 3000 index by purchasing futures index contracts of the S&P Midcap 400 index estimated to represent the remaining 7% of the market capitalization of the target Russell 3000 index.

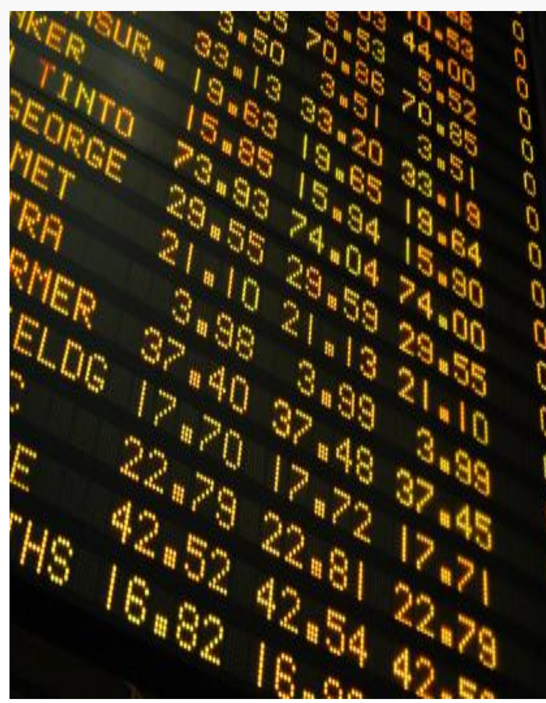
During this transition period, Northern Trust would continue to manage all of the 500 stocks owned in the SIF portfolio to replicate the S&P 500 index without any involvement by the BWC transition manager. The proposed futures index contracts would be managed by the transition manager for the duration of the transition period in order to achieve reasonably close expected tracking error (correlation) to the target benchmark index. Once the chosen Russell 3000 target manager(s) are ready to be funded, the transition manager will unwind all futures contract positions and execute some S&P 500 stock sales representing approximately 15% of the total portfolio managed by Northern Trust. The remaining approximately 85% position in each S&P 500 stock will be transferred in-kind from Northern Trust to the Russell 3000 target manager(s) via the transition account, as each S&P 500 stock is reflected in the Russell 3000 index. A determination will be made jointly by the transition manager, the chosen Russell 3000 target manager(s) and the BWC investment staff, shortly before actual target manager funding, on the most expedient strategy to cover index representation of the small and mid cap equities exposure to the Russell 3000 benchmark index.

RECOMMENDATION

It is the recommendation of the CIO that the BWC investment staff be given approval to implement what is deemed to be the third highest priority transition mandate for the State Insurance Fund described herein and as outlined on page 8 of the referenced June 2009 transition strategy report. A potential transition strategy with appealing characteristics is described herein with the use of appropriate financial futures contracts and summarized under what is termed the 21st Century Transition option in the referenced report. This represented Third Priority Transition is recommended by the CIO to be implemented for the SIF portfolio in September, 2009. It is anticipated that the movement of assets to the approved target manager(s) by the BWC transition manager will occur prior to the end of 2009.

STATE INSURANCE FUND

Asset Allocation Change Implementation



June 18, 2009 Updated
BWC Investment Division

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

Ohio Bureau of Workers' Compensation

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	

Ohio | Bureau of Workers' Compensation

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	

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

Asset Sector	Market Value June 30, 2009	% Assets	Market Value May 31, 2009	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2008	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	**13,223,292,563**	**76.9%**	**12,953,634,120**	**76.1%**	**269,658,443**	**2.1%**	**$13,917,829,156**	**79.8%**	**(694,536,593)**	**-5.0%**
Equity	**3,524,428,866**	**20.5%**	**3,461,809,295**	**20.3%**	**62,619,571**	**1.8%**	**3,185,174,964**	**18.3%**	**339,253,902**	**10.7%**
Net Cash - OIM	**35,121,653**	**0.2%**	**52,208,630**	**0.3%**	**(17,086,977)**	**-32.7%**	**31,217,754**	**0.2%**	**3,903,899**	**12.5%**
Net Cash - Operating	**364,863,630**	**2.1%**	**492,424,948**	**2.9%**	**(127,561,318)**	**-25.9%**	**202,328,872**	**1.2%**	**162,534,758**	**80.3%**
Net Cash - SIEGF	**54,583,234**	**0.3%**	**54,726,306**	**0.3%**	**(143,072)**	**-0.3%**	**95,980,364**	**0.6%**	**(41,397,130)**	**-43.1%**
Total Net Cash	**454,568,517**	**2.6%**	**599,359,884**	**3.5%**	**(144,791,367)**	**-24.2%**	**329,526,990**	**1.9%**	**125,041,527**	**37.9%**
Total Invested Assets	**$17,202,289,946**	**100%**	**$17,014,803,299**	**100%**	**$187,486,647**	**1.1%**	**$17,432,531,110**	**100%**	**($230,241,164)**	**-1.3%**

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.

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

June 2009/May 2009 Comparisons

- Net investment income in June 2009 was $315 million representing a monthly net portfolio return of +1.8% (unaudited).
- Bond market value increase of $269.7 mm comprised of $62.3 mm in interest income, $243.8 mm in OIM realized/unrealized gains ($3.6 mm net realized loss) and $18.6 mm in OIM net bond purchases (decreasing OIM cash balances accordingly), offset by $55 mm in OIM rebalancing redemptions, representing a monthly net return of +2.3% (unaudited).
- Equity market value increase of $62.6 mm comprised of $6.2 mm of dividend income, $3.1 mm in net realized/unrealized gains ($109.3 mm net realized loss), $55 mm in portfolio rebalancing purchases directed to OIM, offset by $1.6 mm in OIM net stock sales (increasing OIM cash balances), representing a monthly net return of +0.2% (unaudited).
- Net cash balances decreased $144.8 mm in June 2009 largely due to decreased operating cash balances ($127.6 mm) and by decreased OIM cash balances ($17.1 mm). JPMorgan US Govt. money market fund had 30-day average yield of 0.29% for June 2009 (0.36% for May09) and 7-day average yield of 0.25% on 6/30/09 (0.32% on 5/31/09).

June 2009/June 2008 FYTD Comparisons

- Net investment income for FY2009 of a negative $192 million comprised of $738 mm of investment income, $925 mm of net realized/unrealized losses ($355 million net realized loss) and $5 mm in fees, representing a FY09 net portfolio return of -1.1% (unaudited).
- Bond market value decrease of $695 mm for FY2009 comprised of $649 mm in interest income, $100 mm of net realized/unrealized losses ($157 mm net realized loss), $1,238 mm in net OIM redemptions and by $6 mm in higher OIM cash balances, representing a FY09 net return of +4.1% (unaudited).
- Equity market value increase of $339 mm for FYTD comprised largely of $75 mm in dividend income, $825 mm in realized/unrealized losses ($157 mm net realized loss), $1,105 mm portfolio rebalancing purchases directed to OIM and $3 mm in lower OIM cash balances, offset by $12 mm in redemptions, representing a FY09 net return of -26.0% (unaudited).

DATE: July 20, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Transition Implementation Strategy Update**
Second Priority Transition
Buy MSCI ACWI ex-U.S. Foreign Equities
State Insurance Fund

BACKGROUND

The BWC Investment Committee and Board of Directors at their respective June 2009 meetings gave approval by vote for the BWC investment staff to proceed with the implementation of the represented second highest priority transition for the State Insurance Fund (SIF) investment portfolio. This estimated $1.5 billion transition representing a 10% target asset allocation for SIF involves a staged monthly purchase of assets program that will be correlated to the MSCI All Country World Index excluding U.S. stocks (ACWI ex-U.S.) benchmark index for international equities. This transition will be executed by a BWC transition manager each month over a targeted four-month period from August through November, 2009. The first 70% of investment asset purchases to be made by the BWC transition manager will be funded from the sale of an estimated $1.05 billion of long duration U.S. government bonds and the remaining 30% of purchases estimated at $450 million will be funded from the sale of U.S. TIPS assets.

A potential transition management strategy outlined by the CIO at the June 2009 Investment Committee, after preliminary discussions with one potential transition manager, involved the significant utilization of derivatives that include liquid futures index contracts of key developed nation foreign stock markets purchased in combination with foreign currency forward contracts as well as the highly liquid NYSE-listed exchange traded fund serving to replicate the approximate 20% emerging markets segment of the ACWI ex-U.S. benchmark index. Approval was provided by the Board of Directors to amend the Investment Policy Statement to permit BWC transition managers to purchase foreign currency forward contracts and exchange traded funds when determined to be advantageous in executing an asset allocation transition strategy. This preliminary strategy outlined for this Second Priority Transition was deemed to be appealing and preferable from an overall cost perspective when compared to purchasing and holding a sufficiently large sampling of the more than 1,800 securities currently comprising this non-U.S. international equities index.

UPDATE

With Board approval being received last month to proceed with the implementation of the represented Second Priority Transition for SIF, the BWC Transition Manager Evaluation Committee proceeded to request and subsequently received pre-trade analysis proposals from among its pool of transition managers for the execution of this important SIF asset allocation transition from U.S. government bonds to non-U.S. equities. In comparing the two initial proposals received from transition managers, the strategies offered to achieve exposure to the ACWI ex-U.S. benchmark index for the target transition portfolio were quite different.

One proposal was very similar to the strategy outlined to the Investment Committee last month involving the purchase of very liquid futures contracts on developed foreign stock market indexes in combination with foreign currency forward contracts to capture the 80% developed country market exposure of the benchmark index and the purchase of the very liquid NYSE-listed exchange traded fund (symbol EEM) that closely correlates with and captures the 20% emerging markets exposure of the benchmark index.

The other proposal which was received from Barclays Global Investors (BGI) provided access to both a commingled passive indexed common trust fund managed by the BGI passive indexed asset management group for the 80% developed country portion of the benchmark index as well as a commingled passive indexed common trust fund for the 20% emerging market country portion of the benchmark index also managed by the BGI passive indexed asset management group. The BGI transition management proposal would not need to employ use of any derivative instruments, including the EEM exchange traded fund to reflect the emerging markets portion of the target benchmark index.

In comparing these two very different initial transition management proposals, it became evident to the BWC Transition Manager Evaluation Committee that the BGI proposal was the more attractive proposal. Although the alternative derivatives utilization proposal had the lower estimated transaction costs and management fees over the projected transition period compared to the BGI proposal, this was much more than offset by the significantly reduced estimated tracking error (superior correlation) to the benchmark index represented in the BGI proposal because of the ability for BWC assets in the transition account to be invested in passive indexed commingled funds managed by BGI in a disciplined risk controlled manner with low tracking error.

In analyzing further these two initial proposals, however, the CIO investigated and discovered that the strategies of both initial proposals has some underlying securities lending activity in their approaches for capturing the emerging markets exposure to the benchmark index. Securities lending by BWC investment managers is currently suspended per the existing BWC investment policy. The derivatives utilization proposal of one transition manager involved the purchase of the EEM exchange traded fund (ETF) to cover the emerging markets exposure. This EEM ETF is actually constructed and managed by Barclays Global Investors as part of their large family of “ishare” exchange traded funds. As its asset manager, Barclays does lend out many of the securities purchased and included in this ETF. With regards to the initial BGI proposal offered by the BGI transition manager as described above, the BGI managed commingled passive indexed common trust fund offered to represent the emerging market exposure of the benchmark index was also discovered by the CIO to engage in securities lending. As a result of these facts, the CIO requested that both transition managers offer alternative transition management proposals for this transition mandate that would avoid the use of securities lending embedded strategies in any investment vehicles proposed.

After further discussions with both of these transition manager firms asked by BWC to submit revised proposals, the transition manager that offered the strategy utilizing derivatives instruments could not offer an acceptable alternative solution to cover the 20% emerging markets benchmark index exposure during the transition account holding period. Its only alternatives would be to either avoid covering the emerging markets exposure during the transition holding period or have the BWC transition account purchase and hold directly hundreds of emerging markets stocks which was determined by the BWC Transition Manager Evaluation Committee to not be a viable solution. The BGI transition management team, however, did provide a creative alternative solution that draws upon some of its many institutional client index funds managed by the BGI asset management group.

The BGI revised transition management proposal presented to BWC to achieve exposure to the targeted ACWI ex-U.S. benchmark index involves investments in a combination of the following investment vehicles, with accompanying respective asset allocation ownership percentage estimates provided for the BGI managed transition account during the transition holding period:

(A) BGI managed commingled non-lending passive indexed common trust fund managed to the widely recognized MSCI EAFE benchmark index comprising 21 developed countries but excluding Canada **(72%)**;

(B) BGI managed commingled Canada passive indexed common trust fund (securities lending permitted by charter but non-lending in practice) managed to replicate the Canada index component of the ACWI ex-U.S. index **(7%)**;

(C) investments in an additional 14 separate BGI managed commingled non-lending passive indexed individual emerging market country funds that replicate each respective single country portion of the ACWI ex-U.S. index **(9%)**: the most prominent single country funds by weighting would be Brazil, Taiwan and South Korea;

(D) BGI managed commingled non-lending Emerging Markets Strategic Index (EMSI) fund investing in emerging market stocks replicating selected BGI country index funds but which overweights/underweights individual emerging market countries to capture pricing inefficiencies and macroeconomic differences identified from focused internal research **(8%)**;

(E) directly owned U.S. dollar traded American Depository Receipts shares of approximately 20 companies to achieve targeted exposure weights to the emerging market countries China, India, Israel and South Africa not already reflected in commingled fund (D) above **(4%).**

All but (E) above are investments in BGI institutional commingled funds whereby the investment in the BGI managed transition account would be in the form of units, which is very appealing from both an accounting reporting and investment monitoring perspective. For funds (A) and (B) above, the transition management team at BGI would initially purchase all 1,200 plus foreign stocks representing the developed country portion of the ACWI ex-U.S. benchmark index and then quickly thereafter transfer all such securities in-kind to funds (A) and (B) above, respectively, in exchange for fund units valued at the aggregate market value of all such stocks on such transfer date. The BGI transition management team would purchase any units in funds (C) and (D) above directly in exchange for cash.

Because the non-lending EMSI fund identified in (D) above will have emerging market country exposures that are overweighted and underweighted to the emerging markets index for strategic reasons, the BGI transition management team will manage the asset allocation weighting exposure to the 14 emerging market country funds in (C) above and the ADR share positions in (E) above so as to optimize the BWC transition account portfolio to maintain relatively low and acceptable tracking error to the target portfolio benchmark index. This non-lending commingled EMSI fund is characterized by having low portfolio turnover and its strategy emphasizes risk control to the MSCI Emerging Markets Index.

SUMMARY

In order to eliminate any exposure to securities lending which is a suspended activity per the BWC IPS, the BGI transition management team has proposed a well-thought out and innovative transition management solution that takes maximum advantage of some of the many institutional commingled funds managed by the highly regarded BGI indexed asset management group. The BWC Transition Manager Evaluation Committee recently approved this transition management proposal presented and offered by BGI for the Second Priority Transition for SIF as outlined herein.

Compared to the alternative proposal offered by another BWC transition manager, this BGI transition strategy solution provides significantly lower tracking error risk since BWC will have access to commingled funds representing over 95% of assets held during the transition period rather than being dependent on derivatives contracts for targeted exposures. It is the intention of the BWC investment staff to proceed with the engagement of BGI as the BWC transition manager to execute the represented Second Priority Transition for the SIF portfolio.

INVESTMENT DIVISION

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

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: July 21, 2009

SUBJECT: CIO Report June, 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 $2.35 billion) without the use of futures contracts. These bond purchases will be funded 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 in 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 transition strategies. An RFP for transition manager services was issued on February 19, 2009 and after a thorough RFP evaluation process was conducted by BWC staff and the Mercer senior investment consultant, three transition manager finalists (Barclays, Russell, State Street) were presented for consideration by the BWC RFP Evaluation Committee and approved by the BWC Board of Directors at its May 29, 2009 meeting. 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.

The Investment Division was given approval by the Investment Committee and Board of Directors at their respective June, 2009 meetings to proceed with the selection of a transition manager to execute the represented second priority asset allocation mandate to gain a staged exposure to the broad MSCI All Country World ex-U.S. Index for 10% of total SIF investment assets (approximately $1.5 billion) during each month over a four-month period expected to commence August, 2009. This non-U.S. equity exposure will be funded from the sale of U.S. government securities. An update on the approach taken by the BWC Transition Manager Evaluation Committee in the evaluation of proposed transition management strategies is being presented to the Investment Committee at the July 30, 2009 meeting.

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. It is anticipated that an additional cash distribution in excess of $100,000 will be received by BWC shortly.

A final summary report of the private equity sale process and results was presented at the Investment Committee meeting on November 20, 2008.

Fixed Income Manager Fee Correction

The CIO presented a report dated June 12, 2009 to the BWC Investment Committee at its June 18, 2009 meeting that focused on proposed management fee revisions offered by the two BWC Long Duration Fixed Income (LDFI) managers of the State Insurance Fund resulting from the split of these LDFI portfolios into a Long Government portfolio and a Long Credit portfolio. This report provided an exhibit table that reflected the respective existing and proposed new management fee schedules of both managers as well as a table that provided an estimated pro-forma monthly management fee comparison for the retained portion of these portfolios as transition activity proceeds. Both of these tables are attached for your reference at the end of this monthly CIO Report. These proposed new management fees reflected in this referenced report were approved by the Investment Committee and Board at their respective June, 2009 meetings.

Almost immediately after the conclusion of the Board of Directors meeting of June 19, 2009, the CIO discovered a typographical error in the management fee table of this presented June 12 report pertaining to the new fee schedule presented by State Street for the Long Credit portfolio. As reflected in the corrected marked version of this schedule attached at the end of this CIO Report, the management fee of State Street for all assets in excess of $2 billion for the Long Credit portfolio **is 2.5 basis points** (25/1000 of 1%) and **not 1.0 basis point** (1/100 of 1%). All of the estimated monthly fees on the management fee comparison table included in this presented June 12 report and also attached at the end of this CIO Report were accurate as originally presented and reflected the correct new 2.5 basis point fee of State Street. All of the figures presented in the written first three pages of this referenced June 12, 2009 report previously presented by the CIO were also accurate.

Compliance

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

Ancillary Funds Equity Accounts Conversion

The conversion of the S&P 500 indexed separate account assets passively managed by Northern Trust for each of the Disabled Workers Fund (DWRF) and Coal Workers Fund (CWPF) to a commingled S&P 500 indexed common trust fund that is also passively managed by Northern Trust was completed on June 29, 2009. This conversion involved an in-kind transfer of all 500 stocks plus cash from the respective two separate accounts that were closed into the commingled fund, with respective units owned by both ancillary funds representing the market value of assets transferred. The total market value of the assets transferred were $220.1 million for DWRF and $46.3 million for CWPF. These amounts represent the initial cost basis of the units purchased in this Northern Trust managed commingled S&P 500 index fund. The net realized loss of the stocks transferred from the respective closed out separate accounts managed by Northern Trust since September, 2007 was $79.3 million for DWRF and $18.0 million for CWPF. These realized losses are reflected in the June 2009 BWC financial statements as provided in the monthly Enterprise Report. The cumulative rate of return of these S&P 500 indexed separate account portfolios were -36.01% for DWRF and -36.06% for CWPF versus the comparable holding period S&P 500 benchmark index return of -36.78% since the inception of these two accounts. The annualized rate of return of these two accounts were -21.61% for DWRF and -21.65% for CWPF versus the comparable holding period S&P 500 benchmark index return of -22.13% since the inception of these two accounts.

Master RFP for Passive Index Management Services

The BWC Investment Division finalized the RFP document for Passive Index Management Services over the month of June, 2009 and issued this RFP on July 2, 2009. This RFP is inviting proposals from qualified passive index investment manager respondents for one or more of eight investment class mandates listed as follows:

- Long Duration U.S. Government/Credit Fixed Income
- Long Duration U.S. Government Fixed Income
- Long Duration U.S. Credit Fixed Income
- U.S. Aggregate Fixed Income
- U.S. Treasury Inflation Protected Securities
- Russell 3000 Equity
- S&P 500 Equity
- MSCI ACWI ex-U.S. Equity

This RFP is designed to cover all of the six benchmark index mandates for the State Insurance Fund under its new targeted portfolio asset allocation as well as two holdover benchmark index mandates (Long Duration U.S. Government/Credit Fixed Income and S&P 500 Equity) that remain applicable for the Disabled Workers Fund and the Coal Workers Fund.

The deadline for qualified responses to this RFP is August 4, 2009. The RFP Evaluation Committee consisting of three members of the BWC Investment Division and the Mercer senior investment consultant servicing BWC will begin evaluating all proposals promptly after receipt with the intention to present finalists for recommendation to the Investment Committee and Board of Directors at the monthly scheduled meetings over the period September through December, 2009.

Quarterly Investment Manager Meetings Summary (Covering First Quarter 2009 Period)

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

The BWC investment staff met with the State Street Global Advisors (SSGA) primary BWC relationship manager, a member of the SSGA public funds sales team, the LDFI portfolio manager and the TIPS portfolio manager on May 20, 2009 at the Investment Division offices.

The total return for the State Insurance Fund LDFI portfolio in 1Q09 was -6.25% reported by SSGA versus -6.16% for the benchmark index. Total 1Q09 return of the Disabled Workers and Coal Workers Fund LDFI portfolios reported by SSGA were -6.23% and -6.09%, respectively. LDFI PM indicated he has been active in the rapidly growing new issue market for credit bonds for the BWC portfolio and has been able to obtain a reasonable size distribution of desired new issues that have been between 3-8 times oversubscribed by investors. His strategy in purchasing new issues in the ten year maturity range is to purchase new issues if they will stay in the benchmark index for more than thirty days before being dropped from the index because their maturity with elapsed time becomes less than ten years. Most ten year new issues coming to market over the past several months have tightened in spread sufficiently in the secondary market to justify this strategy. LDFI PM also buying some Build America Bonds (taxable municipals) with focus on the large deals with expected acceptable liquidity. Some are predicting that Build America Bond issuance in 2009-2010 could be significant in the long maturity end such that these bonds could represent 13-19% of the overall Long Credit Index within several years. LDFI PM mentioned senior bank debt has tightened in yield spread to Treasuries by 80-100 basis points in past two months since late 1Q09. There has also become increasing demand for bank subordinated debt but not much of this debt is trading because holders do not want to sell at their high yield spreads. The LDFI PM offered that the bid/ask spread for long maturity "normal names" is now 15-20 basis points. The LDFI PM also mentioned that several investment consulting firms are putting a broad list of clients into the Long Credit sector.

In a reversal of the 4Q08 performance of the BWC SSGA managed portfolio whereby the LDFI portfolio was very strong (13.41% for SIF LDFI) and the TIPS portfolio was weak (-3.54%), the TIPS portfolio rebounded in performance for 1Q09. The TIPS portfolios managed by SSGA had a positive rate of return of 5.52% for each of SIF, DWRF and CWPF for 1Q09 which exactly matched the benchmark index return. The TIPS PM indicated there is more interest in the TIPS asset class coming from both defined benefit and defined contribution funds. PM indicated that TIPS supply is not increasing like it is for nominal Treasuries to fund the growing federal budget deficit but stated there is still good support for TIPS by the U.S. Treasury Department. According to PM, a 3% real yield level on TIPS has proven to buy a good "buy" indicator. The SSGA PM believes that TIPS will continue to outperform nominal Treasuries for the remainder of 2009 unless there is a relapse of significant investor fear.

The State Street relationship manager mentioned that State Street Corp. just completed the placement of a secondary offering of common stock at $39 per share for gross proceeds of $2.3 billion and a $500 million follow-on debt offering substantially oversubscribed at a +250 bp spread to 5 year UST. Proceeds of the stock sale were to be utilized to repay the U.S. Treasury the entire $2 billion in TARP funds received by State Street (subsequently completely repaid in mid-June). State Street Corp. also recently announced it passed the Federal Reserve imposed stress tests. State Street Corp. 1Q09 earnings from operations were $445 million. State Street consolidated its formerly off-balance sheet asset-backed commercial paper conduits onto its balance sheet at a $3.7 billion after-tax charge but expects most of this charge to accrete back to net income. SSGA saw a continuing move of both existing and new clients to passive strategies and exchange traded funds and had $37 billion in net new business in 1Q09.

Barclays Global Investors (Passive Long Duration Fixed Income)

The BWC investment staff met with the Barclays Global Investors (BGI) primary BWC relationship manager and a BGI fixed income strategist on May 20, 2009 at the Investment Division offices.

Performance for 1Q09 of the State Insurance Fund LDFI portfolio managed by BGI had a total return of a negative 6.23% as reported by BGI compared to -6.16% for the benchmark index. The negative tracking error was attributable to certain credit names in the BWC stratified sampled index portfolio having an outsized negative impact on performance. There was high volatility with corporate credit bonds in 1Q09. Like SSGA, BGI has been active in the purchase of a number of new issues for the LDFI portfolio priced at favorable spreads relative to existing on the run issues of the same credit. The BGI fixed income strategist believes that the recent accelerated issuance of taxable municipal Build America Bonds will continue and may represent up to 20% of the Credit index portion of the benchmark Barclays Capital Long Government/Credit Index. The strong rally in credit bonds so far in 2Q09 has been widespread across sectors with yield spread tightening in financial names being the most significant but also coming off of extremely wide yield spread levels. As an overall fixed income strategy, BGI prefers industrial and utility credit bonds over financials and believes that Treasury bonds are very rich in price. The Barclays view is that inflation expectations are changing with the large federal government stimulus measures with the federal government attempting to inflate away problems. Over the near-term, some deflation may persist but Barclays believes inflation could accelerate over the longer term.

At the time of the quarterly meeting with BGI on May 20, speculation and rumors were intensifying that BGI might be sold by parent Barclays Bank to further improve the Bank's capital strength to further ensure its independence from needing any UK government assistance. Recent stress tests on Barclays Bank performed in the UK concluded that additional capital is not needed. This is in contrast to its two chief UK bank rivals (Royal Bank of Scotland and Lloyds Bank) that became heavily owned by the UK Government recently. The common stock prices of both of these rival banks were off 90% from their highs at the time of this meeting whereas the common stock of Barclays Bank was off only 50% in price from its highs and had a market cap value of $30 billion. The investment banking business that Barclays acquired from Lehman Brothers has had an excellent year to date.

Subsequent to this quarterly meeting, BlackRock Inc. on June 12 made an offer to purchase BGI for approximately $13.5 billion in value, including its ishares exchange traded funds business. The Board of Barclays PLC accepted this offer on June 16. As part of this acquisition, Barclays would receive 19.9% ownership of the enlarged BlackRock (to be named BlackRock Global Investors) and would be paid $6.6 billion by BlackRock in cash. The combined new entity would be one of the leading investment management services firms in the world and be able to provide complementary services in both active strategy and passive strategy investment platforms. It is expected this transaction will be completed by the end of 2009. Initial indications are that the BGI headquarters operations in San Francisco and its many skilled investment professionals will be left largely intact after completion of this significant merger.

<u>Northern Trust</u> (Passive Large Cap U.S. Equity)

The BWC investment staff met with the portfolio manager and two BWC relationship managers on May 21, 2009 at the Investment Division offices. The total return of the State Insurance Fund portfolio was -10.94% for 1Q09 versus -11.01% for the benchmark S&P 500 index, while 1Q09 total returns for the Disabled Workers Fund and Coal Workers Fund portfolios were -10.96% and -10.95%, respectively. This quarterly outperformance to the benchmark is attributable to a combination of favorable timing of BWC portfolio rebalancing activities during the 1Q09 investing additional funds into stocks after the market had declined since 1/01/09 as well as cash reinvestment drag whereby cash holdings have a favorable impact on returns during a period of significant negative returns.

At the time of the meeting on May 21, the S&P 500 had rebounded 30% above its March 9, 2009 low. The Northern Trust portfolio manager is seeing many secondary stock offerings coming to market, especially in the financial sector where equity capital can now be raised again as investors risk appetites are reviving. PM indicated many of these secondary offerings are priced at 8-10% below previous day's closing price and PM is taking advantage of these secondaries that can incrementally add 1-2 basis points to total performance. A good discussion ensued with the PM on the contruction of the Russell 3000 equity index (the new SIF target U.S. equity index) as compared to the S&P 500 index in term of index eligibility and rebalancing activity that prompts adds/deletes of names in the respective indices.

The strategy of closing the New York asset management office of Northern Trust and consolidating all U.S. asset management activities at its Chicago headquarters is expected to be completed by July 1, 2009, with over 85% of New York portfolio managers and traders moving to Chicago. The core portfolio management team in Chicago managing the BWC portfolios is unaffected with this move.

Northern Trust accepted $1.5 billion in TARP funds last fall from the federal government due to its low cost of capital terms being offered, not because the firm actually needed the capital as Northern Trust is one of the best capitalized major banks in the nation. However, it is anticipated that Northern Trust will pay back these TARP funds this year due to federal government restrictions placed on employee bonuses and intrusion in the management of the business. Northern Trust recently raised $1.25 billion in equity and $500 million from senior debt issuance.

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~~2.5 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

			Estimated Monthly Fees ($ 000)				
State Street	**($ billions) Estimated Month-End Assets**	**($ billions) Estimated Credit/Govt Assets**	**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

12-month Investment Committee Calendar

Date	July	Notes
7/30/2009	1. New SIF Asset Allocation Implementation Strategy, 3rd Priority mandate, possible vote	
Date	**August**	
8/27/2009	1. BWC Investment Division Goals FY2010 2. Investment Consultant Performance Report 2Q09	
	September	
9/24/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Ancillary Funds 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. Ancillary Funds Asset/Liability report and recommendation, second review, possible vote 4. Custodian annual review	
	November	
11/19/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote 2. Investment Consultant Performance Report 3Q09 3. Mercer High Yield Bond education	
Date	**December**	
12/17/2009	1. Passive Indexed Investment Manager RFP finalists recommendation, possible vote	

12-month Investment Committee Calendar

Date	January
1/28/2010	1. Mercer Alternative Asset classes education, session one
	February
2/25/2010	1. Investment Consultant Performance Report 4Q09 2. Mercer Alternative Asset classes education, session two
	March
3/25/2010	
Date	**April**
4/29/2010	
Date	**May**
5/27/2010	1. Investment Consultant Performance Report 1Q10
Date	**June**
6/29/2010	

Notes

BWC Invested Assets
Estimated and Unaudited
As of July 29, 2009

July09 MV Increase Bonds…………. ... +$ 20 million (+0.1% return)
July09 MV Increase Equities………… + $215 million (+6.1% return)

July09 MV Increase Bonds+Equities...... + $235 million ($+220 mm SIF only)
(+1.4% July09 MTD portfolio return including Cash)

BWC Net Assets 6/30/08……………..	$2,503 million	
BWC Net Assets 12/31/08……………..	$2,312 million	(-$191 mm FYTD)
BWC Net Assets 3/31/09……………..	$1,523 million	(-$980 mm FYTD)
BWC Net Assets 6/30/09……………..	$2,456 million	(-$ 47 mm FYTD)

BWC Asset Allocation MV 7/29/09

Bonds*…………	$13,273 million	76.5%
Equities*………	3,744 million	21.6%
Cash……………	339 million	1.9%
TOTAL………...	$17,356 million	100.0%

* includes nominal cash held by outside managers

Portfolio Return Calendar 2008……….-2.3% (-$444 million net inv. income)

Fiscal Year 2009 YTD

Portfolio Return July-Dec08………….	- 0.7%
Portfolio Return Jan-June09………….	-0.4%
Portfolio Return FY09 ………..….. …	- 1.1%

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