BWC Board of Directors

# INVESTMENT COMMITTEE

**Thursday, September 24, 2009 10:00 a.m.**
**William Green Building**
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

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| Members Present: | Robert Smith, Chair<br>Alison Falls, Vice Chair<br>David Caldwell<br>James Harris<br>Larry Price<br>William Lhota, ex officio |
| Other Members Present: | Charles Bryan<br>Kenneth Haffey<br>James Hummel<br>Thomas Pitts |
| Members Absent: | Jim Matesich |
| Counsel Present: | John Williams, Assistant Attorney General |

CALL TO ORDER
Mr. Smith called the meeting to order at 10:06 am.

ROLL CALL
Roll call was taken. Mr. Lhota had left the room immediately prior to roll call.

APPROVE MINUTES OF THE AUGUST 27, 2009 MEETING
Mr. Lhota returned before this agenda item. Prior to approval of the minutes, Ms. Byron directed the Committee to a proposed amendment to the bottom of page 6 of the August 27, 2009 minutes which discussed how the benchmarks had been calculated. Ms. Byron noted that the sentence had been drafted to read "Mr. Cooper answered that the benchmark was computed based on where the funds were actually invested; noting that the policy would continue to evolve through the end of the year." Mr. Cooper verified prior to the Committee meeting that this proposed amendment accurately reflected his statement during the August 27th Committee meeting. Mr. Smith noted that the minutes would be amended as

indicated. Upon motion of Mr. Harris, seconded by Ms. Falls, the minutes of the August 27, 2009 meeting with the amendment were approved. Roll call was taken and the motion passed 6-0.

AGENDA

Upon motion of Ms. Falls, seconded by Mr. Caldwell, the agenda was approved as written. Roll call was taken and the motion passed 6-0.

NEW BUSINESS/ACTION ITEMS:

PASSIVE INDEX MANAGER RFP FINALIST RECOMMENDATION

Bruce Dunn, the Chief Investment Officer, referred the Committee to the Passive Index Management RFP Process report, dated September 24, 2009. The report is incorporated into the minutes by reference. He noted that an RFP had been issued on July 2, 2009 that included all six of the fixed income and equity mandates for the State Insurance Fund (SIF) including the international equity index mandate. It also included all three Disabled Workers' Relief Fund (DWRF) and Coal Workers' Fund (CWF) asset class mandates. Mr. Dunn indicated that the Investment Division was transitioning assets in a systematic manner to achieve targeted exposure of asset classes, recognizing the scope of the mandates whereby the allocation of equity will be increasing from 20% to 30% driven by the new 10% international equity allocation. Mr. Dunn emphasized that the transition manager fees for passive management of international equities were higher than the fees of the proposed finalist manager, resulting in a high priority given to select a finalist manager so as to condense the transition management timeframe to save fees. Mr. Dunn noted that the passive index process described in the report for the current mandate will be used in all future passive index mandates. He noted that over the last several months, the Committee had been updated on the progress of the current investment mandates in the Investment Committee meetings by the monthly CIO reports presented to the Committee and Board. The SIF mandate includes four fixed income mandates and two equity mandates. The RFP responses were due by August 4, 2009. The members of the Evaluation Committee separately reviewed all of the proposals and graded them individually. The Evaluation Committee then met and reviewed all of the scoring and chose the preliminary finalists for each SIF mandate. Mr. Dunn indicated that numerous phone discussions are conducted and then on site due diligence visits are performed with each preliminary finalist manager. Ms. Falls asked who was on the Evaluation Committee. The answer was that the Evaluation Committee consisted of Bruce Dunn, the BWC Chief Investment Officer, Lee Damsel, the BWC Director of Investments, Dan Blevins, BWC Senior Investment Manager and Guy Cooper, Mercer's Senior Consultant.

Barclay's Global Investments (BGI or Barclays), Northern Trust and State Street Global Advisors (State Street) all responded to the RFP for the non-US International Equities mandate. In evaluating RFP managers for the non-US International Equities mandate, Mr. Dunn noted that the Evaluation Committee was sensitive to the Investment Policy Statement (IPS) rules limiting the maximum percentage of the Bureau assets that can be managed by one passive index firm to 50% and limiting the maximum of a firm's managed assets by asset class represented by the Bureau to 5%. Mr. Smith noted that those rules limit the number of managers that qualify. Mr. Dunn agreed and indicated that these manager limit rules applied for passive investing, but indicated that the percentages would likely need to be reassessed for assets that may involve active management. Mr. Smith agreed that a new threshold would likely need to be created. He added that Mr. Cooper should be consulted for input.

In reviewing the finalists for the non-US international equities mandate, the Evaluation Committee assessed commingled funds versus separate account funds and considered possible securities lending. After reviewing the proposals and conducting numerous interviews with the identified preliminary finalist, three members of the Committee, Bruce Dunn, Lee Damsel and Guy Cooper, conducted all day on-site meetings with the finalist firm to review their capabilities. The Evaluation Committee subsequently reconvened to confirm the finalist manager. In deciding on the finalist investment manager, the experience and asset size under management by the investment manager was extremely important. It was noted that over 1,900 securities in 47 counties were represented in the benchmark index. Trading costs are higher for non-US equities compared to US equities, especially with regard to the emerging markets. The economies of scale offered by large managers are important to control trading and operational costs. The global platform and global coverage of the finalist investment manager is advantageous due to the complexity of the local rules and regulations regarding stocks of many foreign countries. The commingled fund account structure was found to be preferable to the separate account structure for the following reasons: the management fees are lower, the estimated performance tracking error is reduced, trading costs are lower due to the pooling of assets and there are lower direct Bureau custodial fees and accounting vendor fees. Additionally, the increased trade crossing opportunities and the operational ease on the Bureau Investment and Accounting staff makes the commingled funds attractive. The Evaluation Committee had to be sensitive to the IPS concentration rules. After a thorough review of the possibility of allowing securities lending, the Investment Division concluded that a compelling argument could not be made to lift the suspension of securities lending for this mandate. As a result, this mandate is being recommended without securities lending.

BGI was recommended as the finalist. BGI is a very large non-US passive indexed equity manager with over $350 billion in assets under management globally. BGI has almost 40 years of indexing management experience including over 30 years for the EAFE developed markets index and almost 20 years for the Emerging Markets index. BGI was also chosen based on the company's receptiveness and willingness to accommodate the Bureau's commingled fund preferences without securities lending.

BGI agreed to create a new commingled ACWI ex-US indexed fund eligible for non-ERISA clients that would not include securities lending in order to accommodate the Bureau's needs. The additional fund would not pass start-up costs nor would it pass higher management fees onto the Bureau. The incremental tracking error while creating the fund would not be onerous and derivatives usage would be limited to managing cash drag. Mr. Smith expressed concerns that creating a new fund would raise a red flag with active management. Mr. Dunn agreed, noting that the prohibition on securities lending in the IPS necessitated the need for creation of a new fund and assuring the Committee that the creation of a new fund is not cause for concern with passive management. He also added that a full replication commingled fund portfolio management approach will be implemented to control tracking error to the benchmark index due to the complexity of the MSCI ACWI ex-US benchmark index. The ACWI index has over 1,250 developed country EAFE plus Canadian stocks, as well as over 650 emerging market stocks. Mr. Dunn noted that the manager will have access to many different international equity indexed funds managed by BGI whose assets can be pooled to reduce trading costs. He indicated that commingled funds offered by index managers must keep ERISA and non-ERISA clients separate and distinct such that the Bureau is only eligible to invest in non-ERISA client eligible funds. Examples of non-ERISA clients include insurance companies, endowments and foundations. Mr. Dunn indicated that under the current IPS securities lending is suspended, and the Bureau must invest in a fund that would prohibit securities lending. The new ACWI ex-US commingled fund to be launched by BGI will create demand from other smaller clients who needed a similar fund, but were too small for BGI to create one. Ms. Falls asked for information on ERISA versus non-ERISA funds. Mr. Cooper noted that corporate pension plans are subject to ERISA. Mr. Dunn reiterated that a full replication indexed management approach was preferred to control the tracking error. Mr. Dunn mentioned that the new commingled fund would not be able to invest immediately in certain local currency stocks in several countries such as India and South Korea due to their local regulations. US dollar traded American Depository Receipts would need to be substituted temporarily for these several countries. After a few months, the Bureau will be invested in all of the target foreign country stocks, but some tracking error will be created during the transition.

BGI affords the Bureau a global trading strategy focused on the best execution and low commissions. In addition, BGI has a dedicated compliance group that continuously monitors international risk controls and ethics policies with internal compliance committees composed of senior executives meeting monthly and reviewing practices. The company follows rigorous compliance rules. BGI has been acting as a Long Duration Fixed Income (LDFI) Manager for the Bureau since 2007. Currently $1.7 billion of the Bureau's assets is being managed by BGI in Long Duration fixed income. The Bureau has had a transition management relationship with BGI since 2006. The average management fee offered by BGI for this mandate will be 4.75 basis points (bps) per annum at the current targeted $1.6 billion market value for the mandate. The management fee formula provided on page 8 of the report indicates the per annum management fee on $1.6 billion will be $760,000. Mr. Dunn indicated to the Committee that the fee was very reasonable. Mr. Smith pointed out the memo from Guy Cooper on behalf of Mercer supports the appointment of BGI for the international equity mandate. The memo is incorporated into the minutes by reference. Mr. Cooper adds that there are only two firms in the world that qualify for a mandate of this size. The other firm is State Street. He assured the Committee that he feels confident about the appointment decision due to the thorough evaluation and consideration process that was conducted on BGI by the Evaluation Committee prior to this recommendation. Ms. Damsel added that it was important for the Committee to decide on whether the fund would be commingled or separate since ERISA funds represented in commingled structures collectively comprise most commingled assets under management. Non-ERISA funds have a much smaller representation in commingled funds and as such, BWC as a non-ERISA account would be a large client in the non-ERISA commingled funds structure. The Bureau will be initiating a large dollar amount for this mandate, so the Bureau had to balance going into a non-ERISA commingled fund or choosing to create a separate account.

Mr. Dunn referred the Committee to the last page of the BGI presentation dated September 24, 2009 and entitled "BGI Equity Indexing: ACWI ex-US Index" where the biographies of the presenters, Scott Williamson and Carl Gilchrist were printed. The entire presentation is incorporated into the minutes by reference. Mr. Dunn noted that Mr. Gilchrist has recently switched to relationship management, but previously performed passive management with a strong background in international equity. He added that Mr. Gilchrist had provided good suggestions for the strategy agreed to for the international equity transition. He noted that Mr. Williamson is a high level strategist. At this point, the BGI presenters joined the meeting.

Mr. Gilchrist noted that the current mandate is a large move for the Bureau, but is generally a broad, popular benchmark for the passive management approach. He noted that he is very familiar with this type of investing.

To begin, Mr. Gilchrist addressed Committee concerns with regard to the acquisition of BGI by BlackRock. The closing date for the acquisition is December 1, 2009. He assured the Committee that the firm had just announced that the traders, Portfolio Managers, researchers and senior staff would remain undisturbed. Mr. Smith asked about BGI's overall commitment of resource allocation to passive investing. Mr. Williamson answered that passive investing is the core of their business. Mr. Gilchrist added that BGI's platform over the last several years supports institutional indexing as an important part of the business. Mr. Cooper noted that approximately 35% of the combined BlackRock/BGI business revenue will consist of passive management indexing, while the other 65% is not just supporting active asset management, as the to be merged firm is also involved in other areas such as securities lending and cash management. Mr. Gilchrist noted that the same teams will remain in place, running the same funds in San Francisco. Mr. Williamson added that BGI represents a market leader in passive management. Mr. Gilchrist directed the Committee's attention to the first page of the presentation, pointing out that the Bureau can expect superior risk controlled returns from BGI. He indicated that BGI focuses on asset management. Since 1971, BGI has been an index pioneer and innovator. Mr. Gilchrist assured the Committee that one of the benefits of BGI is that the firm is not encumbered by other businesses; their sole focus is on asset management. He also pointed out BGI's unique dedication of research resources, including three Ph.Ds who are focused on value added trading strategies. He noted the large scale of available research resources which will increase with the merger. He also indicated that their employees sit on boards for indexes such as the S&P 500 and the Dow Jones, noting that the firm considers their clients' transaction costs when changes are proposed and prior to making recommendations in the composition of indexes.

Mr. Gilchrist then reviewed the BGI presentation, which are incorporated into the minutes by reference. Page 2 of the presentation explains BGI's investment philosophy. Mr. Gilchrist pointed out the firm's emphasis on controlling risk and minimizing costs. The company employs extremely experienced portfolio managers. With so many clients, BGI is able to cross trades and find favorable trading prices. BGI has a post trade research group that reviews trades. BGI focuses on risk control, people control and system control. BGI's computer system has been developed over 10 years. The purpose of the system is to remove some human interaction to limit potential issues. Mr. Gilchrist assured the Committee that no one individual would be able to take a trade to market. Ms. Falls asked about the equity controls for crossing trades since BGI would represent both parties. She also asked about the controls on the operating side. Mr. Gilchrist answered that BGI has had the technology to cross trades since 1992. The automated technology uses an algorithm that takes into consideration the interests of both parties before allowing a cross trade. The system is audited annually and has been in use for many years. Mr. Williamson added that the process has evolved over the last 10 years. He added that risk models back up the funds, individual compliance guidelines are in place and a supervisor thoroughly reviews the process. There is also electronic and manual checking of activity, as well as a post trade review. Ms. Falls expressed satisfaction that not all of the checking is done by humans, but rather from a combination of humans and automated systems. Mr. Williamson reiterated that different individuals would propose a trade, review a trade and propose changes. Mr. Haffey added that 40-50% of the business is based in IT. Mr. Smith inquired if incentives were based on limiting tracking errors. Mr. Williamson answered that incentives were based on reducing tracking errors, following the benchmark, identifying drags on performance and reducing costs. To further support returns, BGI also is very experienced in managing and dealing with corporate action items that can impact tracking error. BGI's focus is managing situations and reducing impact in order to decrease tracking error. Mr. Gilchrist noted that the tracking error is judged based on a steady mean expected return and the spread of return around that mean. Mr. Smith expressed concerns that BlackRock focuses on active management. The Committee was assured by Mr. Gilchrist that BGI's goal is to continue to support the regular index management in place.

BGI's dedicated expertise and resources were emphasized on page 3 of the presentation. BGI has detailed knowledge of all benchmarks through daily updates from index providers. Portfolio technology is very important to match the benchmark. For international investing, a proprietary cost model is used to optimize returns by lowering risk and reducing costs. Mr. Gilchrist emphasized BGI's expertise in the international market. To protect clients, every portfolio is reviewed daily. There is also a thorough analysis by the Investment Review Committee and quarterly reviews by the Global Investment Committee. To control risk, BGI takes a multi-dimensional approach. To reduce errors, the portfolio management process includes separation of duties and peer review of the portfolio management process. There is firm-wide risk control whereby trades and personnel are subject to trade restrictions. Ms. Falls asked the amount of the highest trade limits. Mr. Gilchrist responded that $250 million is the average for a portfolio manager. Anything higher creates red flags and must go through the highest level review. Mr. Pitts referred the Committee to page 3, asking about portfolio construction and the use of technology. He asked if full replication would be used to maximize returns or if another approach would be used. The response was that full replication would be used. BGI's advantage for index management includes being able to recognize the risk present, using the global system in combination with the daily portfolio management process and using both system and portfolio manager reviews to oversee the process. Mr. Gilchrist noted that technology is relied on by the individuals, but the individuals make the ultimate decision. BGI has access to many flexible tools that are used to make the process fast and effective. Mr. Williamson noted that the index fund will still be managed rather than taking a "buy and leave" approach.

There are several major sources of tracking error. One of the bigger issues with international stocks is the tax reclaim issue. The highest tax rate, the rate for Luxembourg, is the assumed dividend tax rate reflected in the ACWI ex-US benchmark index returns. BGI uses the tax reclaim process to reduce tracking error, which in turn enhances returns. To reduce tracking error and enhance returns, BGI reviews the treatment of corporate actions, reduces natural drags such as cash drags and tries to use the portfolio management process to offset transaction costs. Mr. Bryan asked about the definition of liquidity as used in the presentation. Mr. Williamson answered that it is the ease in which an asset can be bought or sold at a fair price. The benefits of BGI's system are better returns, less risk and lower cost while providing unparalleled innovation and research throughout the process. Mr. Smith complimented the presentation, noting that there had been a good dialogue throughout. Mr. Bryan asked what can go wrong with the process. Mr. Gilchrist responded that for the most part, the process runs correctly and smoothly. Portfolio management can be challenged, but only with a culmination of unusual events. Normally a trade is requested to be submitted by a client three days prior to the actual trade. This allows time for review by the portfolio manager, review of the actual trades and time to transact the trade. If the request is made too late or a client changes their mind or adds something during the three day process, problems can be created. Mr. Gilchrist noted that, at times, a client's last minute request for changes must be turned down due to the negative impact on the other clients or the inability to orchestrate the trade due to the shorter timeline.

There was additional discussion of the creation of the new fund for the Bureau. Mr. Cooper mentioned that the Bureau would be providing seed money to add the new fund. He asked about BGI's economic benefit in addition to the fees paid. Mr. Gilchrist answered that BGI has lower economic benefit to starting a new fund than would be expected. BGI handles many different clients with different needs. Only some of those clients will find the new fund to be attractive which would provide a benefit to both the Bureau and BGI. Mr. Haffey asked about the startup costs and the cost of marketing this fund to other clients. Mr. Gilchrist responded that the startup costs for developed markets were minimal. Mr. Haffey asked about the legal and accounting costs to set up the new fund. Mr. Gilchrist responded that the accounting fees would be around $50,000 and would be charged throughout. Legal fees will be charged throughout the process and incorporated into the regular fees. Mr. Williamson added that the new fund will give BGI the opportunity to provide a non-securities lending fund to other clients who have expressed an interest. The creation of the new fund will increase the demand for it. Mr. Gilchrist cautioned that since the new fund will invest in emerging markets, it will take some time to get the fund set up. In some cases, local tax agents and special IDs will be needed. Mr. Pitts asked if the creation of the new fund was innovative or developmental. Mr. Gilchrist responded that the overall structure is standard, but taking out the securities lending adds another component. Mr. Williamson added that the asset classes used have been used by BGI for 30 years.

Ms. Falls asked about the relationship management process and responsiveness to expectations. Mr. Williamson responded that the Bureau will have an assigned person to handle requests. Mr. Gilchrist noted that he will be the assigned relationship officer. In addition, his assistant and team leader are able to respond to inquiries or requests, as well as several other members of his team and members of the organization, even including the CEO. Although a standard model will be applied, the account is large and will get much attention. Additionally, the new fund will be focused on an equity mandate where the firm has much experience. With regard to the question of additional strain on the firm, BGI has spent a significant amount of time on the account so far. Mr. Smith thanked Mr. Gilchrist and Mr. Williamson on behalf of the Investment Committee and the other attendees. He noted that the presentation was very precise and informative. The BGI presenters then left the meeting. Mr. Dunn responded to the Committee that Barclays has provided outstanding service to the Investment Division. He noted that they have a very good team that is very responsive and client oriented. He also added that BGI has been very good about responding to inquiries and that he has been able to contact senior personnel in the firm with specific questions when appropriate.

Ms. Falls made a motion, seconded by Mr. Caldwell as follows: I move that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it approve Barclays Global Investors as the Non-US International Passive Equities Manager for the State Insurance Fund, for the reasons set forth in the presentation of the Passive Indexed Manager RFP Evaluation Committee dated September 24, 2009, and the memorandum prepared by Mercer Investment Consulting dated September 22, 2009, and upon such terms as are outlined in Barclays response to the Request for Proposals issued July 2, 2009, and such other terms as are favorable to the Bureau. Roll call was taken. The motion passed 5-0. Mr. Smith noted that Mr. Lhota had stepped away for an appointment. Mr. Haffey asked about the expectation for BGI. Mr. Cooper answered that the firm was a unique finalist manager that was well suited for the type and size of the mandate.

DISCUSSION ITEMS:
MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO VALUE COMPARISONS

Mr. Dunn referred the Committee to the Invested Assets Market Value Comparison Chart as of August 30, 2009. The chart is incorporated into the minutes by reference. He noted that the Bureau investments again had a good positive month for both stocks and bonds. Overall, net investment income had a positive 2.0% return and was $365 million in August 2009. Equities outperformed bonds for the month. The bond portfolio had a positive monthly return of 1.7% and the equity portfolio had a positive monthly return of 3.5%. The Bureau's bond asset market value decreased by $34.9 million largely from $256.2 million in investment manager net sales or redemptions which more than offset $150.1 million in realized/unrealized gains. The Bureau was primarily selling government bonds to fund the Priority #1 US Aggregate bond index transition and the Priority #2 international equities transition. Net cash balances increased $207.5 million in August 2009. This was largely due to the increased operating cash balance of more than $300 million and decreased investment manager cash balances due to the US Aggregate bond index transition. At the end of July 2009, the Bureau was holding a substantial amount of cash in the Priority #1 transition account that was redeployed by the transition manager in August 2009. In the fiscal year to date ending August 31, the overall portfolio has had a positive return of 5.2% with a positive return of 3.8% for bond assets and a positive 11.3% return for equity assets. Mr. Dunn pointed out the BWC Invested Assets chart as of September 23, 2009. The chart is incorporated into the minutes by reference. He noted that so far, September 2009 performance has been a repeat of August 2009. As with August, bonds and equities have gained in value. Overall, bonds and equities have increased in value 1.9% so far in September to date. Bonds have had a positive 1.2% gain in value to date in September while equities have had a positive 4.3% gain in value in the same period. As a result of transition activity and the outperformance of equities to bonds in recent months, equities have a current 24.4% allocation and are moving up toward the 30.0% allocation target.

MONTH-END PORTFOLIO ASSET ALLOCATION VALUES

Mr. Dunn referred the Committee to the Investment Asset Allocation-Combining Schedule as of July 31, 2009 and August 31, 2009. Both schedules are incorporated into the minutes by reference. Mr. Dunn noted that the asset allocation of bonds in the SIF portfolio as of July 31, 2009 was

74.8%. That percentage has decreased to 71.5% as of August 31, 2009. Cash had increased significantly from 3.3% at the end of July 2009 to 4.5% at the end of August 2009. The cash allocation increase was largely due to the increase in the SIF operating cash due to premium collections. Ms. Falls inquired as to who had been chosen as the ACWI ex-US transition manager. Mr. Dunn replied that he was unable to reveal that information since that transition was still in process. Mr. Dunn added that it was his goal to complete this transition before the end of November and transfer the portfolio in the transition account over to BGI as its investment manager after a three stage process, rather than a four stage process. This timeframe would eliminate the higher transition management fees now currently being paid. The Transition Manager charges the equivalent of an 8.3 bps annual fee while Barclays will charge an estimated average of 4.75 bps.

BROKERAGE ACTIVITY SUMMARY REPORT- FISCAL YEAR 2009

Ms. Damsel referred the Committee to the BWC Annual Brokerage Activity Summary report. The report has been incorporated into the minutes by reference. Ms. Damsel indicated that there were two major investment management/transaction costs -- management fees and brokerage commissions. Brokerage costs for commingled managed accounts are imbedded in the net asset value of such accounts, if a commingled structure is approved going forward. The annual equity summary for fiscal year 2009 is found on page 5. This chart shows the summary for Fiscal Year 2009 for the S&P 500 passive mandate (comprising 20% of SIF allocation). The passive index manager was Northern Trust. The total equity brokerage commissions for the SIF, DWRF and CWF accounts (approximately $3 billion in SIF asset value), with $1.3 billion in market value traded, was $215,264. Ms. Damsel indicated the brokerage fees will be higher as a result of the many portfolio transitions this current fiscal year. She indicated that the equity brokerage fees ($215,264) were largely comprised of approximately 90% rebalancing commissions executed in January and April, 2009, but noted that the commission rate remained very low. She added that BGI excels at managing transaction costs and keeps these costs very low. The brokerage equity commissions for fiscal year 2009 were $.0040 per share or less than $.01 per share. Total shares traded increased approximately 75%, again as a result of rebalancing activity. Mr. Smith noted that previously investors had to be very sensitive to commission costs since years ago, they were much higher, but now they can be very insignificant. Ms. Damsel noted that in April 2005, commission costs were $.05 per share for equity trades. Mr. Smith noted that prior to commissions being deregulated in 1975 costs were significantly higher than that. Mr. Cooper added that commissions would have been $.20 per share at that time. Mr. Smith noted that it was important to compile data on the commission costs. Ms. Damsel noted that the Investment Division will receive a monthly report on the new international equity commingled account showing all of the costs including brokerage fees, custodial fees, auditing and accounting costs, as well as any tax reclamation offset.

In addition, the presentation summarizes all of the annual brokerage activity by firm. All brokers are listed so that the Committee will have a full picture of which firms execute trades for the Bureau. Ms. Falls pointed out that she had never heard of Investment Tech. Ms. Lee answered that many trades no longer require the very personal one-on-one phone calls. Many firms are relying more on technology and moving toward more ECN (Electronic Communication Network) trading platforms. Mr. Cooper stated that he assumed it was an electronic system. Mr. Dunn added that many traditional brokerage firms are losing market share for equity trading to new electronic trading systems. Mr. Smith mentioned that our transaction costs are extremely low considering the size of BWC assets.

Page 3 notes the fixed income summary for the fiscal year. The chart shows the total amount of bonds traded and can be used to get an overview of the amount of brokerage activity. Ms. Damsel indicated the total market value traded was $5.5 billion as shown on page 4. Mr. Cooper pointed out that JP Morgan was listed as a broker and a custodian and was concerned about the potential trading conflict. Ms. Damsel noted that although JP Morgan is the custodian, they also have a separate brokerage entity.. She anticipated an increase in market value trading activity next year with the pending transitions. Mr. Smith complimented the report, noting that the Bureau was setting a high standard.

CIO REPORT

Mr. Dunn referred the Committee to the August 2009 CIO Report. The report is incorporated into the minutes by reference. He emphasized that last month the 2010 fiscal year goals had been introduced. He noted that pages 3 and 4 of the report contain a narrative of the transition updates. The Priority #1 transition began in late July 2009 and was essentially completed in mid-August 2009. During that three week transition period, the investment manager, Russell, reduced the duration of the bond portfolio from 11.7 years to 4.4 years by selling the longest duration bonds first and then accumulating short duration securities and cash. The goal was to minimize tracking error on the transition. The target duration was accomplished in two days with the cash being redeployed over three weeks using a disciplined approach to acquire medium duration credit bonds. Mr. Dunn noted that the Bureau had a heavy position in To Be Announced mortgage-backed securities pools (TBAs), but would not be exercising the right to take delivery of individual pools of securities. The TBAs were held to attain proper exposure to Freddie Mac, Fannie Mae and Ginnie Mae mortgage-backed securities in order to mimic the US Aggregate index with respect to mortgage-backed securities. These TBAs will be rolled over and extended into the following month to delay any takedown of actual pools. As net gains or losses are incurred on the TBA rolls, these net gains or losses impact cash received or paid in the transition account. Currently Russell is acting as an index manager more than a transition manager and will continue to do so until the final manager is chosen. This relationship with Russell is anticipated to continue as a multi-month engagement. The Investment Committee's approval of the final manager of this US Aggregate index bond mandate will be sought before the final manager is utilized.

The Priority #2 and Priority #3 transition updates were given. The first phase of the Priority #2 transition to invest in the ACWI ex-US index began in late August through early September 2009. The goal was to purchase $375 million of non-US equities. The strategy utilized for this first phase was primarily to sell long government bonds in order to make the purchases of international stocks. This strategy will also be used for the second phase of this transition. The Priority #3 transition will commence soon. It is anticipated that a contract will be signed by the end of the week with the new Transition Manager chosen for this Priority #3 transition. The mandate entails investing in the Russell 3000 index in order to get mid cap and small cap equity exposure. The 20% asset allocation in U.S. equities will not change. In looking forward to the calendar for the next few months, Mr. Dunn pointed out the RFP Evaluation Committee's intention to make finalist recommendations of investment managers for the new State Insurance Fund asset class mandates.

Mr. Dunn updated the Committee on the division of the Long Duration Fixed Income (LDFI) portfolio. The State Street LDFI SIF portfolio was split into two new separate accounts, the first being a new long government account and the second a new long credit account. The transition of the State Street managed LDFI SIF bonds had an approximate market value of $7.23 billion and resulted in a net realized loss incurred in July 2009 of $85.0 million. The Barclays' SIF LDFI portfolio was recently also split into separate long government and long credit accounts. The transition of the bonds in the portfolio had a market value of $1,682 million and resulted in a net realized gain of $11.8 million. The LDFI mandate split into respective long government and long credit portfolios has been completed for the SIF. The Investment Division is prepared to complete any transitions involving portfolio asset allocation changes for the DWRF and CWF accounts approved by the Board on the CWF and DWRF strategy based on the recommendations of Mercer.

COMMITTEE CALENDAR

Mr. Dunn reviewed the Committee calendar. The calendar is incorporated into the minutes by reference. The Investment Division intends to make recommendations in the next three months for RFP finalists. The goal is also to finish the asset liability modeling (ALM) of the specialty funds using Mercer Consulting and Bureau Investment Division staff. Mr. Cooper noted that his firm has 98% of the information needed and would likely finish the evaluation by the end of October.

A motion to adjourn was made at 11:51 am by Ms. Falls. The motion was seconded by Mr. Caldwell. Roll call was taken and the motion passed 5-0.

Prepared by: Linda Byron, Staff Attorney, Legal Division, September 30, 2009