BWC Board of Directors

Investment Committee

Thursday, February 19, 2009 12:00 p.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

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

CALL TO ORDER
Mr. Smith called the meeting to order at 12:00 pm.

ROLL CALL
Roll call was taken. All committee members were present at the roll call except Mr. Lhota. Mr. Lhota and Mr. Haffey joined the meeting later, as noted below.

APPROVE MINUTES OF THE JANUARY 22 MEETING
Upon motion of Mr. Smith, seconded by Ms. Falls, the minutes of January 22, 2009 were approved, 5-0.

AGENDA
Upon motion of Mr. Smith, seconded by Mr. Price, the agenda was approved as written. Roll call was taken and the motion passed 5-0.

DISCUSSION ITEMS:

MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO VALUE COMPARISONS

Bruce Dunn, Chief Investment Officer, presented the comparisons. A report is included and incorporated by reference into the minutes. Comparison was made of both December 2008 to January 2009 and of June 2008 to January 2009 market valuation comparisons. Mr. Dunn indicated that the BWC portfolio had a negative return of 5.0 percent for the month of January 2009. In the recent time period since November 2008, credit bonds are outperforming Treasury bonds. Credit bond yield spreads are continuing to narrow to Treasury yields. During January 2009, the credit portion of the long duration fixed income portfolio of the Bureau had a negative 3.5% return versus a negative 8.5% return for the U.S. government portion of this portfolio. Investment assets are being shifted away from State Street, as part of the portfolio rebalancing and cash management strategy.

PORTFOLIO PERFORMANCE

Guy Cooper, Rich Nuzum, Kweku Obed, Youngmi Lee, and Jordan Nault of Mercer Consulting were present Mr. Nuzum mentioned that Mercer Consulting has acquired the Callan investment consulting firm. Mr. Nuzum indicated this acquisition will improve Mercer's ability to cover increasingly complicated capital markets. It further will provide Mercer with greater utilization of resources, including intellectual capital. The composition of the Bureau's consulting team will not change. Mr. Cooper presented a report on the Bureau's fourth quarter portfolio performance of 2008. A written report prepared by Mercer, in support of the presentation, is incorporated by reference into the minutes. The market value of invested assets have increased by $151.6 million in the fourth quarter of 2008 from the end of the prior quarter balance to $17.07 billion. The return for the quarter was 3.7 percent. At the end of the third quarter, the balance was $16.91 billion. At the end of the fourth quarter the balance was $17.07 billion.

Director Falls raised the issue of State Street's financial stability. Rich Nuzum stated the parent corporation of State Street has had some issues, but their risk based capital ratio and credit ratings are now in line with their peers. Northern Trust has securities lending issues; however, Northern Trust has capital in place to handle the issues. He also noted the possibility of "pre-qualifying" firms so that if necessary, money can be moved around to different passive managers. The Bureau uses three of the top five passive managers in the world. Mr. Dunn indicated a major consideration for selecting State Street as investment manager for most of the Bureau's passive managed fixed income assets was that their management fees were significantly less than those of Barclays and less than those of other RFP respondents. All three firms, BGI, State Street, and Northern Trust remain solid. He also observed that if we choose to use more managers, we may have higher management fees which would not make sense with a passively managed portfolio.

TRANSITION MANAGER RFP TIMELINE AND BLACKOUT PERIOD

Lee Damsel, Director of Investments, presented a report with regard to the transition manager RFP. A power point presentation was included, and is incorporated by reference into the minutes. The request for proposal was issued February 19, 2009. There was discussion of the RFP timeline. There is a need for a pool of managers to transition to an anticipated new portfolio asset allocation resulting from the Mercer asset-liability study after approval is given by the BWC Board. The Bureau is exercising standard due diligence with regard to this RFP review process and has now entered the black out period for this RFP.

CIO REPORT JANUARY 2009
Mr. Dunn presented the report. A written report is incorporated into the minutes. A second senior investment manager has been hired. The hiring of investment managers is now complete. The newly hired senior investment manager is Dan Blevins, who has achieved the designation chartered financial analyst. Seven of the eleven members of the Bureau's investment staff have earned the designation of chartered financial analyst. The Investment Division is in the process of selling remaining marketable miscellaneous assets. There was discussion of the cash redemption plan executed in recent months. Ms. Falls asked if this cash management strategy increased tracking error of the respective bond portfolios. Mr. Dunn indicated that the timing in making cash redemptions at the end of each month does not affect the bond portfolio tracking error because the long duration fixed income benchmark index reflects the buildup of bond cash interest payments up until the last day of each month. In fact, the Bureau's investment managers are fine with this cash redemption strategy because waiting until month end to redeem cash actually minimizes tracking error.

MERCER REPORT ON ASSET-LIABILITY MODELING: SUMMARY OF RESULTS
A power point presentation was included, and is incorporated by reference into the minutes. Discussion was made of the funding ratio for portfolio growth and discount rate sensitivity with regard to calculating projections and possible outcomes. Mr. Cooper noted that once an asset allocation is decided, there are many additional decisions to be made. He recommended focusing on the State Insurance Fund this year, and then studying the ancillary funds next fiscal year. The transition to a new asset allocation must be accomplished in a phased, measured way – not abruptly. Mr. Matesich inquired as to whether stock returns mentioned in the report included dividend reinvestment. Mr. Cooper indicated that they did. Discussion was made of modeling future returns of asset classes, the study of asset mixes, and the use of Oliver Wyman's estimates with respect to expected future liabilities. Mr. Smith led discussion of possible staffing needs to implement any course of action the Bureau may eventually take with regard to achieving asset allocations. Mr. Dunn indicated that as far as individual partnerships for alternative asset investments, since they are time sensitive in coming to market for fund raising, there would be no need for request for proposals. Mr. Caldwell expressed apprehension about making private equity

investments. Mr. Cooper emphasized Mercer is attempting to forecast the funding ratio. Mr. Smith raised issues with regard to the impact of today's capital markets on Mercer's forecasting models. Mr. Bryan inquired as to what risk is being used, and is the risk placed into stocks. Discussion of volatility assumption of stocks and how it is determined followed. Mr. Matesich inquired if the volatility recently experienced is greater than the volatility experienced in the past sixty years and whether this is incorporated into the model assumptions. Mercer answered that stock market volatility in the last five months of 2008 was higher than historical averages, but that, for purposes of modeling the future, Mercer assumes stock market volatility will accord with its historical patterns and averages. Discussion of risk tolerance ensued. Mercer indicated that a funding ratio was more applicable to the Bureau than a risk based measure. Mr. Matesich indicated this must be clearly managed as factors change. A process needs to be in place to prevent changes in allocation from being abrupt. Ms. Falls emphasized that there is risk in investing in fixed income, especially in long duration fixed income.

At the current time, Mercer recommends, assuming an objective of achieving a funding ratio between 1.35 and 1.40 in ten years, an asset allocation of either 75 percent or 70 percent bonds. The risk under this allocation would be reasonable. Mr. Dunn stated he is strongly in support of the bond mix reflected in the smoothed discount rate analysis, but is concerned about the shorter duration bond weightings recommended for the static discount rate analysis of 4 percent. Mr. Dunn agrees that a bond allocation of either 75 percent or 70 percent is reasonable, assuming a smoothed discount rate approach over a period of time. There is a need for investment in long duration bond investments and TIPS to ensure that Bureau liability obligations are met.

Mr. Lhota and Mr. Haffey arrived at the meeting at 1:50 pm.

Ms. Falls stated she felt the two biggest priorities should be focusing on asset allocation and the composition of fixed income. A request by the Board was made to Mercer for more detailed information and education with regard to private equity.

COMMITTEE CALENDAR

Mr. Smith made brief discussion of an overview of the agenda schedule for the March, 2009 meeting.

ADJOURN:

Motion was made by Mr. Smith, seconded by Mr. Price, to adjourn the meeting at 2:00 pm. Roll call was taken and the motion passed 5-0. Mr. Caldwell was not present for the roll call.

Prepared by: Tom Woodruff, Director Self Insured Depart. February 23, 2008