BWC Board of Directors

Investment Committee Agenda

William Green Building
Wednesday, July 28, 2010
Level 2, Room 2
10:30 a.m. – 12:30 p.m.

Call to Order
Bob Smith, Committee Chair

Roll Call
Linda Byron, Scribe

Approve Minutes of the June 17, 2010 Meeting
Bob Smith, Committee Chair

Review and Approve Agenda*
Bob Smith, Committee Chair

Discussion Items

1. Monthly and Fiscal Year to Date Portfolio Value Comparisons
   - June 2010/May 2010
     Bruce Dunn, Chief Investment Officer
   - June 2010/ June 2009
     Bruce Dunn, Chief Investment Officer

2. Month-End Portfolio Asset Allocation Values
   - June 2010/May 2010
     Bruce Dunn, Chief Investment Officer

3. Quarter-End Portfolio Target Asset Allocation Results and Variances
   - June 2010
     Bruce Dunn, Chief Investment Officer

4. CIO Report – June 2010
   Bruce Dunn, Chief Investment Officer

5. Mercer Presentation on Minority and Women Business Enterprise (MWBE) Investment Managers and Manager Selection Approaches, second discussion
   Bob Smith, Committee Chair
   Mercer Team

6. Looking Backwards/Looking Forwards Presentation
   Bob Smith, Committee Chair
   Mercer Team

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

Adjourn

Bob Smith, Committee Chair

<u>Next Meeting: Thursday, August 26, 2010</u>

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

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

Asset Sector	Market Value June 30, 2010	% Assets	Market Value May 31, 2010	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2009	% Assets	Increase (Decrease) Prior Fiscal Year-End	% Change
Bonds	13,537,054,765	71.2%	13,188,077,934	69.3%	348,976,831	2.6%	$13,230,413,310	76.9%	306,641,455	2.3%
Equity	5,154,562,423	27.1%	5,398,294,899	28.4%	(243,732,476)	-4.5%	3,522,150,726	20.5%	1,632,411,697	46.3%
Net Cash - OIM	64,622,125	0.3%	45,071,146	0.2%	19,550,979	43.4%	27,624,432	0.2%	36,997,693	133.9%
Net Cash - Operating	217,413,398	1.2%	353,696,953	1.8%	(136,283,555)	-38.5%	366,634,742	2.1%	(149,221,344)	-40.7%
Net Cash - SIEGF	47,335,733	0.2%	49,856,112	0.3%	(2,520,379)	-5.1%	54,583,234	0.3%	(7,247,501)	-13.3%
Total Net Cash	329,371,256	1.7%	448,624,211	2.3%	(119,252,955)	-26.6%	448,842,408	2.6%	(119,471,152)	-26.6%
Total Invested Assets	$19,020,988,444	100%	$19,034,997,044	100%	($14,008,600)	-0.1%	$17,201,406,444	100%	$1,819,582,000	10.6%

OIM: Outside Investment Managers
SIEGF: Self-Insured Employers' Guaranty Fund

Market Value of Bonds and Stocks includes accrued investment income.

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

June 2010/May 2010 Comparisons

- Net investment income in June 2010 was $125 million representing a monthly net portfolio return of +0.7% (unaudited).
- Bond market value increase of $349.0 mm comprised of $55.3 mm in interest income, $307.9 mm in OIM realized/unrealized gains ($9.1 mm net realized gain), offset by $14.2 mm in OIM/TM net sales, representing a monthly net return of +2.7% (unaudited).
- Equity market value decrease of $(243.7) mm comprised of $5.1 mm of dividend income, $(243.0) mm in net realized/unrealized losses ($0.3 mm net realized gain) and by $5.8 mm in OIM/TM net sales, representing a monthly net return of -4.4% (unaudited).
- Net cash balances decreased $(119.3) mm in June 2010 largely due to decreased operating cash balances ($136.3 mm), offset by $19.6 mm in OIM/TM net sales. JPMorgan US Govt. money market fund had 30-day average yield of 0.09% for June 2010 (0.09% for May10) and 7-day average yield of 0.08% on 6/30/10 (0.10% on 5/31/10).

June 2010/June 2009 FY Results

- Net investment income for FY2010 was $2,050 million largely comprised of $719 mm of interest/dividend income and $1,334 mm of net realized/unrealized gains ($404 mm net realized loss), offset by $7 mm in fees, representing a FY2010 net portfolio return of +12.0% (unaudited).
- Bond market value increase of $307 mm for FY2010 comprised of $639 mm in interest income and $990 mm of net realized/unrealized gains ($90 mm net realized gain), offset by $1,259 mm in OIM/TM net bond sales, $55 mm in OIM rebalancing redemptions and by $8 mm in operations redemptions, representing a FY2010 net return of +13.0% (unaudited).
- Equity market value increase of $1,632 mm for FY2010 comprised of $79 mm in dividend income, $345 mm in net realized/unrealized gains ($494 mm net realized loss), $1,211 mm in OIM/TM net purchases and $55mm in portfolio OIM rebalancing purchases, offset by $58mm in portfolio redemptions for operations, representing a FY2010 net return of +12.3% (unaudited).

Ohio Bureau of Workers' Compensation
Investment Asset Allocation - Combining Schedule

As of June 30, 2010

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 12,279,932	70.6%	$ 1,000,079	80.2%	$ 213,585	80.2%	$ 24,875	99.6%	$ 18,584	97.4%	$ -	0.0%	$ -	0.0%	$ 13,537,055	71.2%
Long Credit	5,334,350	30.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,334,350	28.0%
Long Government	1,399,412	8.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,399,412	7.5%
Long Gov/Credit	-	0.0%	737,952	59.2%	158,768	59.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	896,720	4.7%
TIPS	3,048,452	17.5%	262,127	21.0%	54,817	20.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,365,396	17.7%
Aggregate	2,497,718	14.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,497,718	13.1%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	24,875	99.6%	18,584	97.4%	-	0.0%	-	0.0%	43,459	0.2%
Stocks	4,858,397	27.9%	244,318	19.5%	51,847	19.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,154,562	27.1%
Russell 3000	3,340,918	19.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,340,918	17.5%
MSCI ACWI ex-U.S.	1,509,191	8.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,509,191	8.0%
S&P 500	-	0.0%	243,925	19.5%	51,764	19.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	295,689	1.6%
Dividends Receivable	4,408	0.0%	393	0.0%	83	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,884	0.0%
Miscellaneous	3,880	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,880	0.0%
Net Cash & Cash Equivalents	266,804	1.5%	3,419	0.3%	930	0.3%	89	0.4%	501	2.6%	47,336	100.0%	10,292	100.0%	329,371	1.7%
Total Cash & Investments	$ 17,405,133	100.0%	$ 1,247,816	100.0%	$ 266,362	100.0%	$ 24,964	100.0%	$ 19,085	100.0%	$ 47,336	100.0%	$ 10,292	100.0%	$ 19,020,988	100.0%

Market value of bonds includes accrued investment income.
Net cash and cash equivalents includes the impact of net trade receivables/payables, accrued money market earnings, and accrued investment manager fees.

State Insurance Fund (SIF)

Overall SIF allocation to 70% bonds/30% stocks from 80% bonds/20% stocks was completed in December, 2009 (new asset allocation transitions began in July, 2009). Transitions included the Russell 3000, Barclays US Aggregate, the Long Credit/Government split and four tranches of the international equity mandate which completes the overall new asset allocation for SIF by asset class. Final placement transitions to approved target investment managers were completed in Second Quarter, 2010.

All equity indices returns decreased for the Russell 3000 (-5.75%), S&P 500 (-5.23%) as well as the MSCI ACWI ex-U.S. (-1.28%) in the month of June. As a result the equity allocation fell to 27.9% for the month from 29.2% for the prior month-end. All bond indices returns increased for the Barclays Capital Government Long Term Index (+4.54%), Barclays Capital Long Credit Index (+3.52%), U.S. Aggregate Bond Index (+1.57%) as well as the U.S. TIPS Index (+1.43%) in June. The SIF strong bond performance exceeded the negative equity indices resulting in the overall bond asset allocation increasing from 68.6% at end of May to 70.6% at end of June.

Cash allocations decreased from 2.2% at end of May to 1.5% at end of June due to decreased SIF operating cash of $134.4 million slightly offset by increased investment manager cash balances.

Disabled Workers' Relief and Coal Workers' Pneumoconiosis Funds (DWRF and BLF)

BWC Board of Directors' Investment Committee approved the Coal Workers' Pneumoconiosis Fund new asset allocation at the December, 2009 meeting and the Disabled Workers' Relief Fund new asset allocation at the January, 2010 meeting.

PWRF, MIF, SIEGF

BWC Board of Directors' Investment Committee approved/confirmed the PWRF Fund new asset allocation and the MIF Fund new asset allocation at the March, 2010 meeting. The SIEGF analysis is anticipated for Fall, 2010.

Fund Asset Allocation:

	Equity	Bonds	Cash	Total
SIF	30%	69%	1%	100%
DWRF	30%	69%	1%	100%
BLF	20%	79%	1%	100%
PWRF		99%	1%	100%
MIF		99%	1%	100%
SIEGF			100%	100%
ACF		Not Applicable		

SIF: State Insurance Fund
DWRF: Disabled Workers' Relief Fund
BLF: Coal Workers' Pneumoconiosis Fund
PWRF: Public Work-Relief Employees' Fund
MIF: Marine Industry Fund
SIEGF: Self Insured Employers Guarantee Fund
ACF: Administrative Cost Fund

Ohio Bureau of Workers' Compensation
Investment Asset Allocation - Combining Schedule

As of May 31, 2010

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 11,971,283	68.6%	$ 967,190	78.6%	$ 206,718	78.5%	$ 24,547	99.6%	$ 18,340	97.3%	$ -	0.0%	$ -	0.0%	$ 13,188,078	69.3%
Long Credit	5,169,374	29.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,169,374	27.2%
Long Government	1,339,164	7.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,339,164	7.1%
Long Gov/Credit	-	0.0%	708,844	57.6%	152,692	58.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	861,536	4.5%
TIPS	3,004,475	17.2%	258,346	21.0%	54,026	20.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,316,847	17.4%
Aggregate	2,458,270	14.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,458,270	12.9%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	24,547	99.6%	18,340	97.3%	-	0.0%	-	0.0%	42,887	0.2%
Stocks	5,085,557	29.2%	257,989	20.9%	54,749	20.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,398,295	28.4%
Russell 3000	3,547,081	20.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,547,081	18.6%
MSCI ACWI ex-U.S.	1,526,212	8.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,526,212	8.1%
S&P 500	-	0.0%	257,393	20.9%	54,623	20.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	312,016	1.7%
Dividends Receivable	8,384	0.0%	596	0.0%	126	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	9,106	0.0%
Miscellaneous	3,880	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,880	0.0%
Net Cash & Cash Equivalents	389,590	2.2%	5,746	0.5%	1,876	0.7%	105	0.4%	509	2.7%	49,856	100.0%	942	100.0%	448,624	2.3%
Total Cash & Investments	$ 17,446,430	100.0%	$ 1,230,925	100.0%	$ 263,343	100.0%	$ 24,652	100.0%	$ 18,849	100.0%	$ 49,856	100.0%	$ 942	100.0%	$ 19,034,997	100.0%

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State Insurance Fund (SIF)

Overall SIF allocation to 70% bonds/30% stocks from 80% bonds/20% stocks was completed in December, 2009 (new asset allocation transitions began in July, 2009). Transitions included the Russell 3000, Barclays US Aggregate, the Long Credit/Government split and four tranches of the international equity mandate which completes the overall new asset allocation for SIF by asset class. Final placement transitions to approved target investment managers are anticipated to continue through Second Quarter, 2010 as legal contracting and background verifications are completed.

All equity indices returns significantly decreased for the MSCI ACWI ex-U.S. (-10.52%), S&P 500 (-7.99%) as well as the Russell 3000 (-7.90%) in the month of May. As a result the equity allocation fell to 29.2% for the month from 31.3% for the prior month-end. The bond indices returns increased for the Barclays Capital Long Government Term Index (+4.11%) as well as the U.S. Aggregate Bond Index (+0.84%) offset by negative performance for Barclays Capital Long Credit Index (-0.87%) and U.S. TIPS Index (-0.01%) in May. The SIF overall net flat bond performance was overshadowed by the significant decrease in all equity indices inflating the bond asset allocation from 66.8% at end of April to 68.6% at end of May.

Cash allocations increased from 1.9% at end of April to 2.2% at end of May due to increased SIF operating cash of $104.2 million partially offset by decreased investment manager cash balances of $50.3 million.

Disabled Workers' Relief and Coal Workers' Pneumoconiosis Funds (DWRF and BLF)

BWC Board of Directors' Investment Committee approved the Coal Workers' Pneumoconiosis Fund new asset allocation at the December, 2009 meeting and the Disabled Workers' Relief Fund new asset allocation at the January, 2010 meeting.

PWRF, MIF, SIEGF

BWC Board of Directors' Investment Committee approved/confirmed the PWRF Fund new asset allocation and the MIF Fund new asset allocation at the March, 2010 meeting. The SIEGF analysis is anticipated for Fall, 2010.

Fund Asset Allocation:

	Equity	Bonds	Cash	Total
SIF	30%	69%	1%	100%
DWRF	30%	69%	1%	100%
BLF	20%	79%	1%	100%
PWRF		99%	1%	100%
MIF		99%	1%	100%
SIEGF			100%	100%
ACF	Not Applicable			

SIF:	State Insurance Fund	PWRF:	Public Work-Relief Employees' Fund
DWRF:	Disabled Workers' Relief Fund	MIF:	Marine Industry Fund
BLF:	Coal Workers' Pneumoconiosis Fund	SIEGF:	Self Insured Employers Guarantee Fund
		ACF:	Administrative Cost Fund

6/14/2010

Ohio Bureau of Workers' Compensation
Investment Asset Allocation by Fund - Target Variance

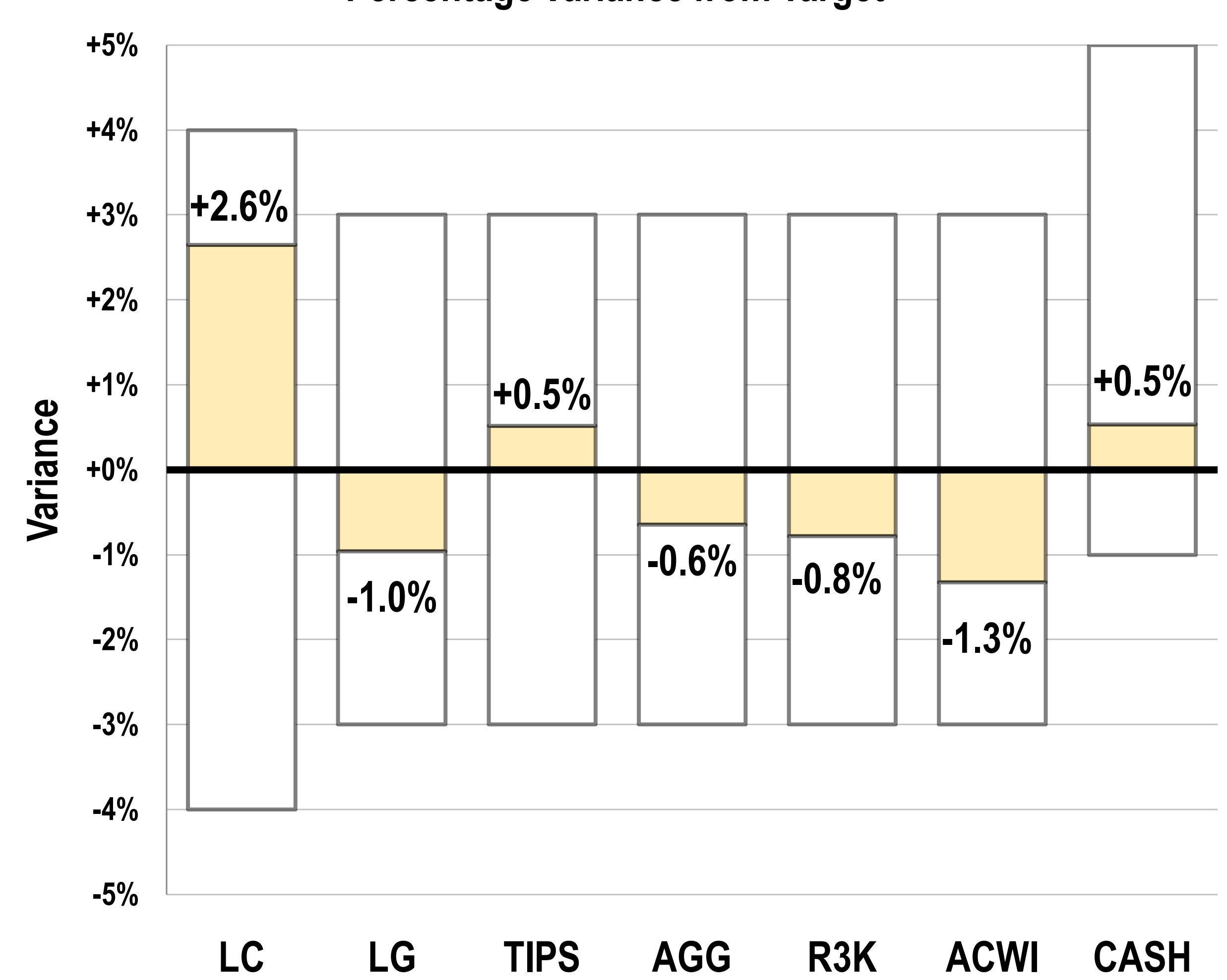
Final As of June 30, 2010

(in thousands)

State Insurance Fund

Asset Class	Market Value	Actual	Target	Range
Long Credit	$ 5,334,350	30.6%	28%	24%—32%
Long Government	$ 1,399,412	8.0%	9%	6%—12%
TIPS	$ 3,048,452	17.5%	17%	14%—20%
Aggregate	$ 2,497,718	14.4%	15%	12%—18%
Russell 3000	$ 3,345,326	19.2%	20%	17%—23%
MSCI ACWI ex-U.S.	$ 1,509,191	8.7%	10%	7%—13%
Miscellaneous	$ 3,880	0.0%	0%	0%—0%
Net Cash & Cash Equivalents	$ 266,804	1.5%	1%	0%—6%

Percentage Variance from Target



Disabled Workers' Relief Fund*

Asset Class	Market Value	Actual	Target	Range
Long Gov/Credit	$ 737,952	59.1%	0%	0%—0%
TIPS	$ 262,127	21.0%	35%	31%—39%
Aggregate	$ -	0.0%	34%	30%—38%
Russell 3000	$ -	0.0%	20%	17%—23%
MSCI ACWI ex-U.S.	$ -	0.0%	10%	7%—13%
S&P 500	$ 244,318	19.6%	0%	0%—0%
Net Cash & Cash Equivalents	$ 3,419	0.3%	1%	0%—6%

*Fund in process of transitioning to new IPS targets reflected above.

Variations from targets will be presented after completion of transition

Coal Workers' Pneumoconiosis Fund**

Asset Class	Market Value	Actual	Target	Range
Long Gov/Credit	$ 158,768	59.6%	0%	0%—0%
TIPS	$ 54,817	20.6%	40%	36%—44%
Aggregate	$ -	0.0%	39%	35%—43%
Russell 3000	$ -	0.0%	13%	10%—16%
MSCI ACWI ex-U.S.	$ -	0.0%	7%	4%—10%
S&P 500	$ 51,847	19.5%	0%	0%—0%
Net Cash & Cash Equivalents	$ 930	0.3%	1%	0%—6%

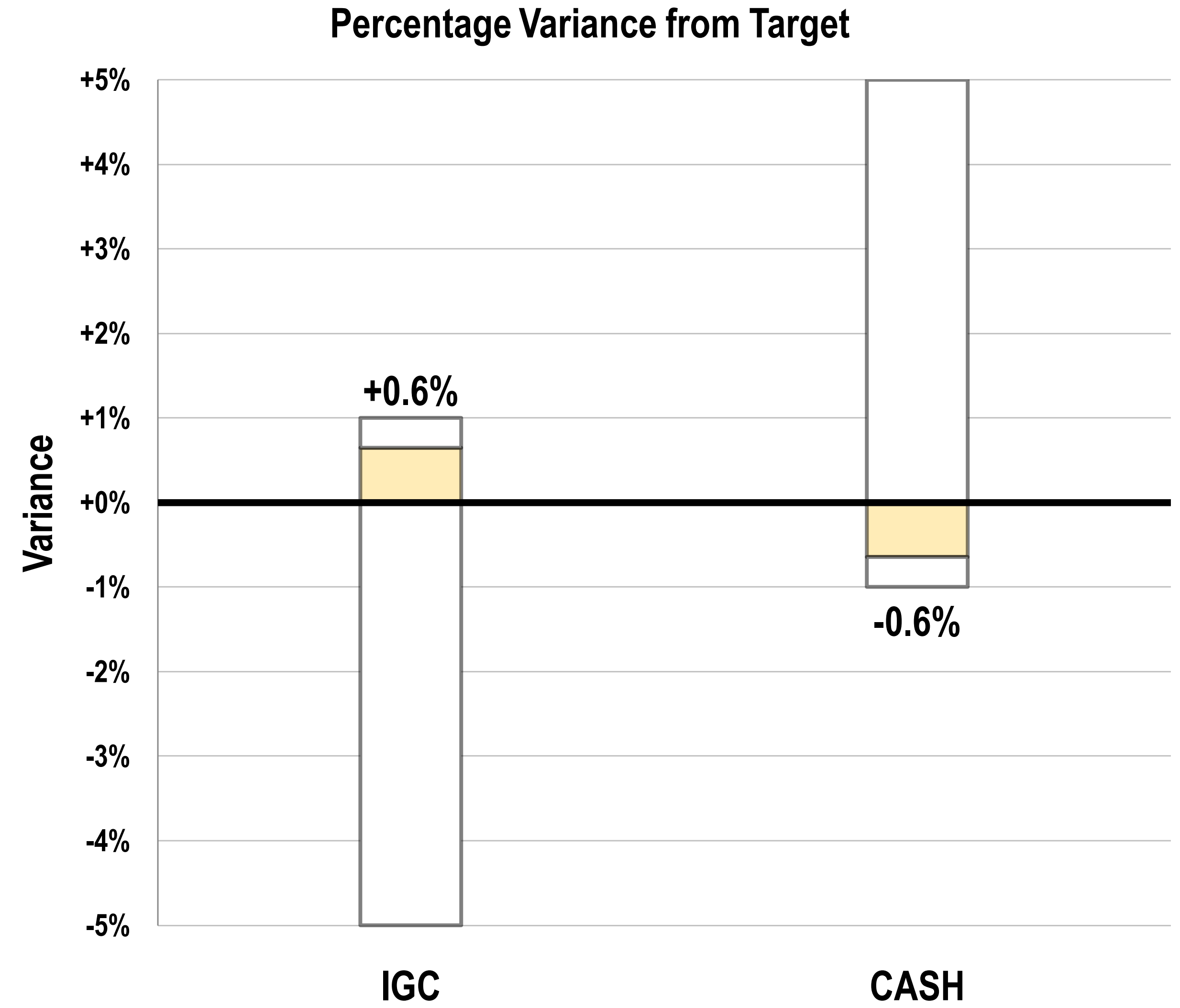
**Fund in process of transitioning to new IPS targets reflected above.

Variations from targets will be presented after completion of transition

Public Work-Relief Employees' Fund

Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	$ 24,875	99.6%	99%	94%—100%
Net Cash & Cash Equivalents	$ 89	0.4%	1%	0%—6%

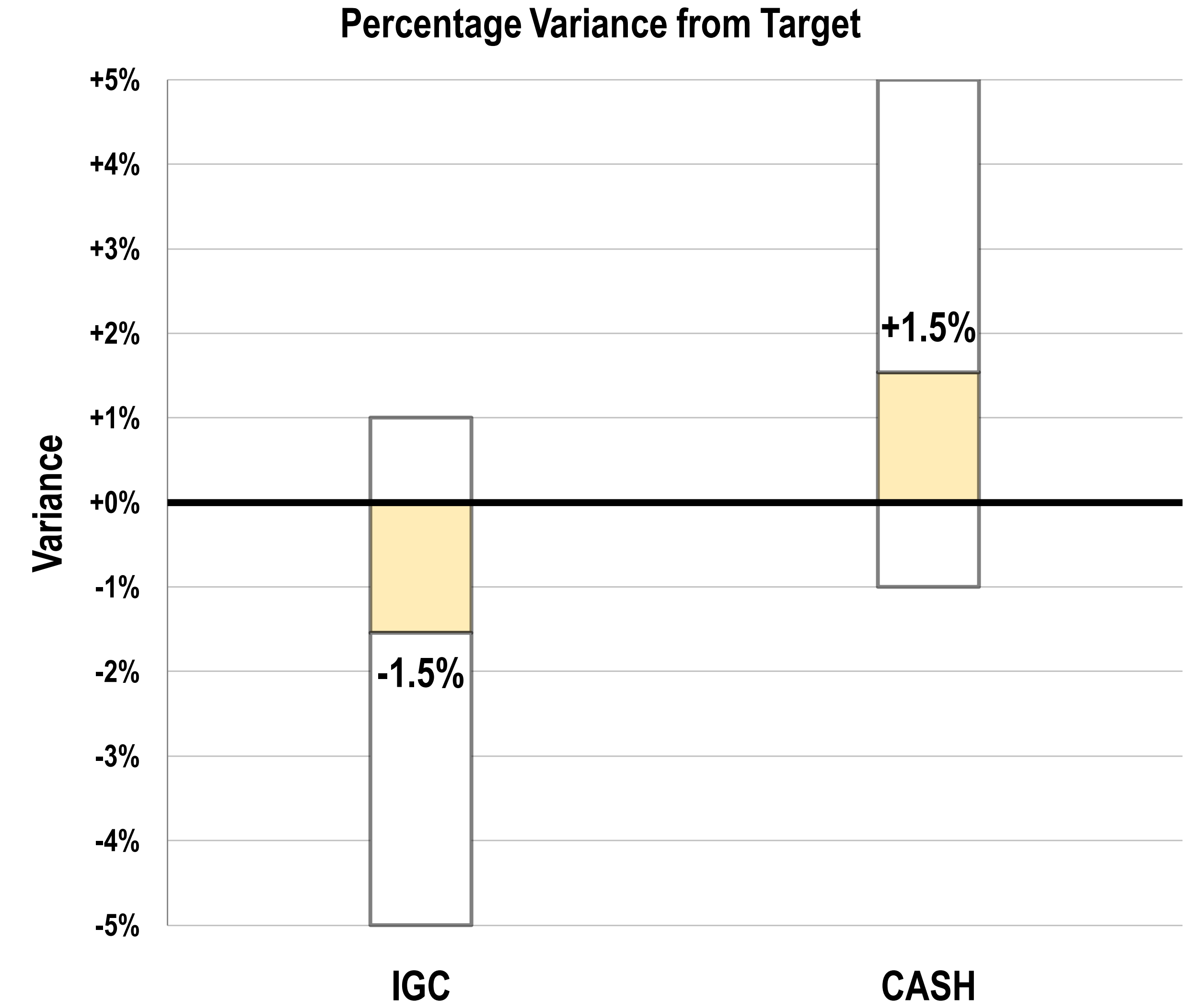
Percentage Variance from Target



Marine Industry Fund

Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	$ 18,583	97.5%	99%	94%—100%
Net Cash & Cash Equivalents	$ 484	2.5%	1%	0%—6%

Percentage Variance from Target



Self Insured Employers Guarantee Fund***

Asset Class	Market Value	Actual	Target	Range
Net Cash & Cash Equivalents	$ 47,334	100%	100%	N/A

All SIEGF assets invested in Cash & Cash Equivalents per the Asset Allocation Target

***Confirmation of asset allocation to be determined August, 2010 (estimated)

Prepared by: Investment Division
7/15/2010

INVESTMENT DIVISION

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

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: July 19, 2010

SUBJECT: CIO Report June, 2010

Fiscal Year 2010 Goals

The Investment Division had three major goals for fiscal year 2010. These goals and brief comments on action plans for each goal follow:

1. Provide support and execute new BWC Investment Policy resulting from investment consultant Asset-Liability studies.

2. Explore for investment consideration and subsequently initiate implementation processes pertaining to appropriate identified subject matters.

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

Strategic Goal One – PORTFOLIO TRANSITION

BWC investment consultant Mercer completed an asset-liability study and related investment strategy recommendation for the State Insurance Fund that was approved by the Investment Committee and BWC Board of Directors at their respective March, 2009 meetings. A new Investment Policy Statement reflecting the new approved investment strategy target asset allocation for the State Insurance Fund was approved by the Investment Committee and BWC Board of Directors at their respective April, 2009 meetings.

As a result of these important actions, the Investment Division issued an RFP document on July 2, 2009 for Passive Index Management Services inviting proposals from qualified passive index investment managers for one or more of eight investment class mandates, six of which are the benchmark index mandates for the State Insurance Fund under its new targeted portfolio asset allocation as well as two holdover benchmark index mandates that remain applicable for the Disabled Workers Fund and the Coal Workers Fund.

The Bureau received four qualified responses to this RFP on August 4, 2009. The RFP Evaluation Committee has evaluated these RFP responses and has conducted a thorough and complete RFP evaluation process. Finalists for recommendation for each of the six asset class mandates of the State Insurance Fund were presented to and approved by the Investment Committee and Board of Directors at the monthly scheduled meetings over the period September, 2009 through January, 2010.

During the interim period until these finalist managers were identified and ultimately approved by the Board and under contract, a detailed asset allocation transition implementation plan approved by the Investment Committee and Board of Directors at their respective May, 2009 meetings is being executed by the Investment Division with approved BWC transition managers. This plan identified five distinct asset class transitions and prioritized each transition with an expected timeline. This plan enabled the State Insurance Fund to achieve its targeted asset class mandate exposure for its approved new asset class mandates (intermediate duration bonds, international equities, small/mid cap U.S. equities represented in the Russell 3000 index) months sooner than when new target asset managers can be funded.

The Investment Division supported investment consultant Mercer as necessary to perform and complete asset-liability studies on each of four speciality trust funds (Disabled Workers Fund, Coal Workers Fund, Public Work-Relief Employees Fund, Marine Industry Fund) for the purpose of presenting investment strategy recommendations for each of these funds for consideration by the Investment Committee and Board. The Investment Division will also support Mercer to perform and complete an asset-liability study and investment strategy recommendations in fiscal year 2011 for the Self Insured Employers Guarantee Fund.

Mercer did present a final strategic asset allocation analysis on the Disabled Workers Fund and the Coal Workers Fund at the December, 2009 and January, 2010 Investment Committee meetings for consideration. The Investment Committee and Board of Directors approved the targeted asset allocation recommendations of Mercer and the CIO for each of these specialty funds at these respective meetings. The BWC Investment Policy Statement reflecting the new portfolio asset allocation targets for these two specialty funds were revised and also approved by the BWC Board of Directors at these respective meetings.

Mercer presented a strategic asset allocation analysis on the Public Work-Relief Employees' Fund and Marine Industry Fund at the March, 2010 Investment Committee meeting for consideration. The Investment Committee and Board of Directors approved the targeted asset allocation recommendations of Mercer and the CIO for both of these specialty funds at their respective meetings. The asset allocations recommended and approved for these two specialty funds resulted in the confirmations of the existing asset allocation targets for both of these specialty funds and resulted in no change in investment strategy.

The Investment Division provided assistance as desired by the Investment Committee in revising the BWC Investment Policy Statement to accommodate the implementation and execution of new asset class mandates for all affected BWC portfolios.

Strategic Goal Two – NEW INVESTMENT CONSIDERATIONS

Over the course of fiscal year 2010, the Investment Division began to explore for investment consideration certain additional identified asset classes as well as the potential employment of active investment management of certain to be identified asset classes. The employment of active management is closely associated with any prospective minority manager program to be implemented by the Investment Division upon consideration and approval by the Investment Committee and Board.

The Mercer asset-liability study for the State Insurance Fund presented to the Investment Committee in March, 2009 suggests in its Mix 5 strategy that a 5% asset allocation to high yield bonds and a further 5% asset allocation to alternative investments (2 ½% to each of private equity and real estate) provides a higher long-term expected portfolio rate of return and lower standard deviation of expected returns than alternative mixes presented in this Mercer study that either exclude one or both of these two asset classes.

A three-step phase timeline for addressing investment policy decisions was presented by Mercer in its asset-liability study that logically addresses each of these investment considerations mentioned above. The Investment Division is in the process of implementing Phase 1 presented in this study for the State Insurance Fund as reflected in the Investment Policy Statement revisions approved in April, 2009 by the Investment Committee and Board. Phase 1 has largely been completed with the completion of the transfer of all appropriate fixed income assets to the approved passive indexed managers in March, 2010. Phase 2 and Phase 3 presented in the Mercer study addresses high yield bonds, alternative investments, active management and minority manager engagement. With Phase 1 now largely completed, the Investment Division is focusing on Phase 2 and Phase 3 topics in close coordination with Mercer and the Investment Committee over the second half of fiscal year 2010 (Jan-June 2010) and into fiscal year 2011. Appropriate and necessary education will be provided to the Investment Committee by Mercer working closely with the Investment Division. Mercer has provided two education sessions on active versus passive investment management with the Investment Committee in March and April, 2010. The CIO provided specific recommendations at the May, 2010 Investment Committee meeting regarding current State Insurance Fund fixed income and equity classes to be considered for active management.

The BWC Fiscal and Planning Division currently manages all cash balances of each of these portfolios, including operating cash, with virtually all cash being invested in a single U.S. government money market fund managed by JP Morgan that is utilized as an overnight cash sweep vehicle. The Investment Division is exploring expanding the use of other higher yielding money market funds available as well as direct investments in short-term money market investments (commercial paper, certificates of deposit, repurchase agreements, etc.) in order to improve investment income and returns on its cash investments while maintaining desired liquidity. In addition, the Investment Division is in the early stages of exploring the increasingly common institutional investor practice of utilizing contracted cash management overlay services to more effectively control/reduce cash balances exceeding projected nearer term operational cash needs. This excess cash can instead be directed to existing BWC outside managers to earn projected higher returns and reduce market value variances to portfolio allocation targets.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

The Investment Division will continue to establish and improve upon internal investment policies and procedures. Such procedures will be written and mapped through the use of the Web Methods schematic mapping process. Among the procedures addressed in fiscal year 2010 were policies and procedures regarding the selection of transition managers, as well as revising/updating policies and procedures on investment manager background checks/fingerprinting and asset class rebalancing. The BWC Internal Audit Division will be engaged as appropriate in auditing the Investment Division internal policies and processes.

The Investment Division has previously focused on establishing internal policies and processes on management oversight of the passive style investment managers, compliance, performance reporting, portfolio rebalancing, RFP/RFQ/RFI processes vendor invoice payments, as well as other investment activities to support the BWC Investment Policy. Internal processes 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. The formulation of proper detailed policies and processes with regards to potential Investment Division cash management of portfolio assets will also be essential.

Passive Index Management Services Master RFP

There were four qualified responses received by the Bureau on August 4, 2009 for its RFP for Passive Index Management Services that was issued on July 2, 2009. This master RFP includes eight investment class mandates consisting of each of the six bond or stock benchmark index mandates under its new targeted portfolio asset allocation for the State Insurance Fund as well as two holdover benchmark index mandates that remain applicable for the Disabled Workers Fund and the Coal Workers Fund.

The four respondents to this RFP were Barclays (now BlackRock), Mellon, Northern Trust and State Street. Three of these four respondents provided proposals on each of the eight distinct asset class mandates of the RFP. The other respondent provided proposals on all but one mandate, the exception being the international equities mandate.

The BWC RFP Evaluation Committee completed the grading of the RFP proposals. The RFP Evaluation Committee identified investment manager finalists for each of the six asset class mandates for the State Insurance Fund. Further due diligence analysis was conducted by members of the RFP Evaluation Committee with each prospective investment manager finalist for each mandate, including full-scale on-site meetings, before any investment manager finalists were confirmed by the RFP Evaluation Committee for presentation to the Investment Committee.

The Evaluation Committee presented investment manager finalists for the State Insurance Fund for recommendation to the Investment Committee and Board for consideration at the monthly scheduled meetings over the period September, 2009 through January, 2010. Each of these recommended finalist managers were approved for specific targeted asset class mandates by the Investment Committee and Board. The Transition Activity Update section of this report that follows provides updated information on certain investment manager finalists approved by the Investment Committee and Board at each of the respective September, 2009 through January, 2010 monthly meetings.

Mercer completed and presented a strategic asset allocation analysis for the Coal Workers Fund at the December, 2009 Investment Committee meeting. A new asset allocation mix recommended by both Mercer and the CIO was approved for the Coal Workers Fund by the Investment Committee and Board of Directors at their respective December, 2009 meetings. This new asset allocation mix maintained an 80/20 fixed income/equity asset allocation mix but added a new asset class for both fixed income (intermediate duration bonds) and equities (non-US equities) in addition to two existing asset classes (TIPS fixed income and U.S. equities) retained. Mercer completed and presented a strategic asset allocation analysis for the Disabled Workers Fund at the January, 2010 Investment Committee meeting. A new asset allocation for this fund recommended by the CIO and Mercer was approved by the Investment Committee and Board of Directors at their respective January, 2010 meetings. This recommendation included the same four asset classes approved the prior month for the Coal Workers Fund, although the recommended asset allocation mixes differ between the two funds. The new asset allocation mix for the Disabled Workers Fund is a 70/30 fixed income/equity mix. The BWC RFP Evaluation Committee presented investment manager finalists selected and recommended for each of the four approved fixed income (excluding cash) and equities mandates for each of the Disabled Workers Fund and Coal Workers Fund to the Investment Committee and Board for consideration at the February, 2010 meeting. Each of these recommended finalist managers were approved for specific targeted asset class mandates by the Investment Committee and Board at their respective February, 2010 meetings.

Transition Activity Summary

The Priority #1 Transition for the State Insurance Fund (SIF) involving the investment in fixed income securities of the broad Barclays Capital U.S. Aggregate Index commenced in late July, 2009 and was essentially completed in mid-August, 2009 by the transition manager chosen by the BWC Transition Manager Evaluation Committee. This U.S. Aggregate Index has a targeted 15% asset allocation for the SIF portfolio under its new Investment Policy Statement. A total of approximately $2,327 million of invested assets were allocated to this transition whereby approximately $2,204 million of assets at market value were contributed from the Long Government bond portfolio (mostly bonds with some cash) and the remaining approximately $123 million in market value were contributed from the Long Credit bond portfolio. All of these Long Credit bonds were in-kind transferred to the transition account to be strategically retained by the transition manager to represent the long credit bond portion (approximately 5%) of the target U.S. Aggregate Index. Over approximately a three-week period, the BWC transition manager sold longer duration bonds received from the legacy Long Government bond portfolio and purchased shorter duration bonds represented in the target benchmark index. The transition manager reduced the duration of this $2.3 billion transition account bond portfolio from 11.7 years to the target benchmark index duration of 4.4 years by the end of the second day of heavy trading. This significant achievement was accomplished by selling the longest duration bonds first and accumulating short duration securities and cash in order to achieve the portfolio duration target of the U.S. Aggregate bond index as quickly as feasible. Once the duration target of the target benchmark bond index was achieved, additional trading was conducted by the transition manager to both maintain the duration target of this transition account consistent with the target benchmark index while also continually reducing tracking error to the index by accumulating additional bonds represented in the target benchmark index for the transition account portfolio to better match the asset sector profile of the index.

Since mid-August 2009 when the Priority #1 Transition account portfolio was determined by the transition manager to be sufficiently correlated in performance to the target benchmark index, the BWC transition manager has been serving as an interim index investment manager for the Bureau. State Street Global Advisors (SSGA) was recommended by the RFP Evaluation Committee and approved by the Board as the single finalist investment manager for the U.S. Aggregate index mandate at the October, 2009 Board meeting. Necessary background checks on the identified index management team of the approved target asset manager(s) and legal contracting of the management services agreement were completed by late December, 2009, enabling the transition account assets to be transferred to SSGA as the chosen finalist target manager in late December, 2009. The net market asset value of the assets involved in this U.S. Aggregate index mandate transfer was approximately $2.375 billion.

The Investment Division completed all four phases of the Priority #2 Transition for SIF involving investments in a targeted 10% asset allocation in non-U.S. equities of the All Country World Index (ACWI ex-US). The final fourth stage of this transition was completed in mid-December, 2009. The first three phases of this transition occurred between late August and early November, 2009. The BWC transition manager chosen by the BWC Transition Manager Evaluation Committee for this specific transition largely sold Long Government bonds (in first two transition phases) and TIPS (in third transition phase) that were all transferred in-kind to the new transition account for the purpose of funding the purchase of non-U.S. equities with approximate initial respective market values aggregating $1,199 million to date. Each transition varied between $375-425 million in assets sold to fund the international equities purchases. The final phase of this Priority #2 Transition involved the transfer of cash assets valued at approximately $425 million raised from the sale of U.S. equities in the Priority #3 Transition account as directed by BWC. These assets sold consisted of U.S. equities benchmarked to the Russell 3000 index. These cash assets were transferred to the Priority #2 Transition account to fund this final purchase phase of non-U.S. equities to achieve its targeted 10% asset allocation for SIF. The reason for U.S. equities becoming the funding source for this final purchase phase for non-U.S. equities in the Priority #2 Transition was because the U.S. equities market value in the SIF portfolio began to exceed its 23% target asset allocation upper limit range due to its recent significant outperformance compared to the SIF fixed income asset classes. By the Investment Division exercising this funding strategy for this final phase of the Priority #2 Transition, the SIF portfolio was assured of being within its target ranges for each of its asset classes at the end of December, 2009 so that no portfolio rebalancing activity was necessary in early January, 2010. Legal requirements for some of the underlying emerging market country non-securities lending commingled funds being launched as well as the master commingled fund being launched that BWC will invest in have recently been successfully addressed and completed by the Board approved single finalist investment manager (BlackRock, formerly Barclays Global Investors). With the completion early in February, 2010 of all necessary legal requirements for the creation of these new commingled funds, legal contracting with BlackRock as the exclusive investment manager of non-U.S. equity assets of SIF was completed so that the transfer of SIF assets from the Priority #2 transition account to the newly created master commingled fund could occur. This transfer of assets occurred over the last week of February, 2010 with the initial cost basis of the commingled fund units being $1.612 billion.

The Priority #3 Transition for SIF involving the transition of the domestic U.S. equity portfolio ($3.8 billion market value) was executed in October, 2009 by the transition manager chosen by the BWC Transition Manager Evaluation Committee. This transition included a change in the benchmark index for this 20% targeted asset allocation mandate to the broad Russell 3000 Index from the large-cap stock S&P 500 Index. All 500 stocks held in the SIF S&P 500 index separate account managed by Northern Trust (valued at $3.75 billion) were transferred in-kind to the transition account. The transition manager implemented the Priority #3 Transition by selling a portion (15-20% on average) of each of the S&P 500 stocks received into the transition account in order to fund many of the mid-cap and small-cap stocks represented in the Russell 3000 index. These sales aggregated $715 million in market value. This transition manager retained the remaining shares of each of the S&P 500 stocks as those stocks are included in the Russell 3000 index and represent approximately 85% of the total current market value of the benchmark index. As mentioned in the preceding comments regarding the Priority #2 Transition, approximately $425 million in cash from sale proceeds of assets were transferred out of the Priority #3 Transition account in mid-December, 2009 to fund the final purchase phase of the Priority #2 Transition.

Northern Trust Global Investments (Northern Trust) was recommended by the RFP Evaluation Committee and approved by the Board in December, 2009 as a passive index manager for the SIF U.S. Equities mandate for a targeted 14% asset allocation. Mellon Capital Management (Mellon) was recommended by the RFP Evaluation Committee and approved by the Board in January, 2010 as the second passive index manager for the SIF U.S. equities mandate for the remaining 6% targeted asset allocation of this asset class. The assets of the Priority #3 Transition account managed by the BWC chosen transition manager since October 2009 were proportionally transferred in-kind to each of Northern Trust and Mellon as finalist managers at the end of May, 2010 upon legal contracting and background checks being completed for both Northern Trust and Mellon. A total of $3.486 billion of assets at market value were transferred, of which $2.44 billion was directed to Northern Trust and $1.046 billion was directed to Mellon.

The assets of the SIF U.S. Long Government portfolio managed by SSGA aggregating $522 million in market value were transferred in-kind to BlackRock on January 28, 2010. BlackRock was approved as the exclusive passive investment manager of this SIF mandate resulting from the RFP process. BlackRock already managed $746 million market value of long U.S. government bonds for SIF on this transfer date.

A large portion of the SIF U.S. TIPS portfolio managed by SSGA aggregating $2.063 billion in market value was transferred in-kind to BlackRock on February 24, 2010. BlackRock was approved as the largest passive investment manager of this SIF asset class mandate for a targeted 12% of SIF total portfolio market value resulting from the RFP process, with State Street as an existing SIF TIPS passive manager being reduced to a targeted 5% from a targeted 17% of total SIF portfolio market value.

A portion of the SIF U.S. Long Credit fixed income portfolio managed by SSGA aggregating $486 million in market value was transferred in-kind to BlackRock on March 3, 2010. BlackRock was approved as a passive investment manager for this SIF mandate for a targeted 8% of SIF total portfolio market value resulting from the RFP, with State Street as a SIF U.S. Long Credit passive fixed income manager representing a targeted 20% of total SIF portfolio market value. BlackRock already managed $945 million market value of long credit bonds for SIF on this transfer date.

Legal contracting and background checks are also proceeding with all approved Disabled Workers Fund and Coal Workers Fund investment managers. A transition manager has been selected by the Investment Division to implement the necessary asset class mandate shifts approved by the Board for both the Disabled Workers Fund and Coal Workers Fund. Necessary legal contracting with this transition manager is proceeding. It is expected that the transition of these specialty fund assets and their ultimate transfer to respective approved investment managers will occur during the third quarter of calendar year 2010.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of June, 2010.

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June 17, 2010

MWBEs and Institutional Investors – Trends and Approaches

Investment Committee Meeting
Ohio Bureau of Workers' Compensation

Guy M. Cooper
Jordan Nault
Kweku Obed

MWBE and Emerging Managers

- By definition, Minority and/or Women Owned Business Enterprises (MWBEs) are firms that have been certified as having a minority and/or woman own a minimum of 51% of the company (i.e., a majority stake).
- Generally speaking, an Emerging Manager is a money manager that manages no more than $2 billion of assets – this is the industry definition but States can apply their own criteria to what should be considered ‘Emerging’.
- In many instances, an MWBE is an Emerging Manager, however it is possible to operate as an MWBE and not classify as an Emerging Manager.
- In this presentation, we will assume that MWBE and ‘Emerging Manager’ are interchangeable terms (as approximately 70% of the MWBE managers in Mercer’s database have $2 billion or less in assets).

MWBE and Emerging Managers

- In Mercer's experience with Emerging Managers, we have seen strong or growing representation in the following broad asset classes: Domestic Equity, Core US Fixed Income, Non-US Fixed Income, Private Equity and Private Real Estate.
- We have yet to see US-based MWBEs or manager of manager programs command a strong presence in niche asset classes such as Infrastructure and Timber.

Current Trends

- During the past 12 to 36 months, we have seen several public plans either expand their Emerging Manager programs and / or their allocation to minority and female investment managers (or have publicly announced their intention to do so).
- In their quest for additional alpha during these difficult and volatile market conditions it appears that some public plans are expanding their searches to include a broad range of asset classes and investment strategies.
- Examples of asset classes and strategies that are being added or being considered for Emerging Manager programs are fixed income, international equity and private equity.
- As noted by Mark Bruno in his article Emerging Manager Program Shake-up (Pensions & Investments, May 17, 2007) "[as] more performance data has become available on smaller, lesser-known firms, more public retirement systems are taking notice and carving out dedicated Emerging Manager programs".

Apples to Apples: Comparing the BWC with Other Funds

Percent of Asset Categories Passively Managed

	Corporate	Public	Union	BWC
Total Portfolio	14.0%	14.0%	9.2%	100.0%
Domestic Equity	27.9%	47.6%	22.2%	100.0%
Global / International Equity	17.9%	26.4%	0.0%	100.0%
Emerging Markets Equity	16.7%	4.5%	0.0%	N/A
Domestic Fixed Income	21.5%	17.1%	9.1%	100.0%
Global / International Fixed Income	0.0%	6.8%	0.0%	N/A

Average Asset Mix by Type of Fund

	Corporate	Public	Union	BWC[2]
Domestic Equity	25.5%	28.6%	39.7%	21.5%
Domestic Fixed Income	34.2%	25.7%	28.5%	67.2%
Global / International Equity	11.9%	16.0%	8.0%	9.0%
Real Estate	5.2%	8.3%	9.1%	N/A
Private Equity	6.2%	7.3%	5.4%	N/A
Hedge Funds	3.0%	2.2%	7.1%	N/A
Global / International Fixed Income	0.4%	3.6%	< 0.1%	N/A
Cash Equivalents	4.6%	2.2%	1.4%	2.3%
Other	4.9%	1.9%	0.7%	N/A
Emerging Markets Equity	2.1%	1.6%	< 0.1%	N/A
Commodities / Real Assets	0.8%	1.5%	< 0.1%	N/A
Venture Capital	1.1%	1.2%	0.1%	N/A
Total in Equtites[1]	59.9%	67.0%	70.0%	30.5%
Number of Funds	9	40	10	N/A

[1] Domestic, global/international, real estate, private equity, hedge funds, other, emerging markets and venture capital

[2] BWC Allocations as of 3/31/2010

Public, Corporate and Union breakdowns taken from Council of Institutional Investors Asset Allocation Survey 2009; pages 6 and 8

Representative list of institutional investors that have publically shown a commitment to investing with Emerging Managers

Public Funds		
Arkansas Teacher Retirement System	Maryland State Retirement & Pension System	Pennsylvania Treasury Department, The
California Public Employees' Retirement System	Massachusetts Bay Transportation Authority Retirement Fund	Public School Teachers' Pension & Retirement Fund of Chicago
California State Teachers' Retirement System	Michigan Department of Treasury	San Antonio Fire & Police Pension Fund
Chicago Policemen's Annuity & Benefit Fund	Minnesota State Board of Investment	San Francisco City & County Employees' Retirement System
City of Kansas City Employees' Retirement System	Municipal Employees' Annuity & Benefit Fund of Chicago	San Joaquin County Employees' Retirement Association
City of Philadelphia Board of Pensions and Retirement	New York City Board of Education Retirement System	Seattle City Employees' Retirement System
Contra Costa County Employees' Retirement Association	New York City Employees' Retirement System	State of Connecticut Retirement Plans & Trust Funds
Detroit General Retirement System	New York City Fire Department Pension Fund	State Universities Retirement System of Illinois
District of Columbia Retirement Board	New York City Police Pension Fund	Teacher Retirement System of Texas
Illinois Municipal Retirement Fund	New York State Common Retirement Fund	Teachers' Retirement System of the City of New York
Illinois State Board of Investment	New York State Teachers' Retirement System	Teachers' Retirement System of the State of Illinois
Indiana Public Employees' Retirement Fund	Ohio Public Employees Retirement System	Pennsylvania Public School Employees' Retirement System
Los Angeles City Employees' Retirement System	Oregon Public Employees Retirement Fund	
Los Angeles County Employees Retirement Association	Pennsylvania Public School Employees' Retirement System	

Corporate Funds		
Bank of America Corporation	Exelon Corporation	PG&E Corporation
Boeing Company, The	GE Asset Management	PPL Services Corporation
Coca Cola Master Retirement Trust	Liberty Mutual Retirement Benefit Plan	Shell Oil Company

Foundations	Unions
Boulé Foundation	1199 SEIU Employees Benefit and Pension Funds

Why Invest with Emerging Managers?

- Over time it appears that investing with Emerging Managers has evolved from being a social argument to something that can make economic sense in the pursuit of alpha. Through its four main conclusions, *Ted Krum's "Potential Benefits of Investing with Emerging Managers*" seems to reflect the notion that Emerging Managers can be successful alpha generators:
  - *Investors with minimum assets under management requirements often excluded top-performing managers.*
  - *Approximately 40% of core U.S. equity managers in the top quartile of performance managed less than $2 billion.*
  - *Emerging investment managers outperformed larger firms at the median, as well as at the top and bottom quartile levels (this result was consistent across all major style groups and implies that manager-selection skill may be better rewarded when applied to the small-firm universe).*

Direct Investments or Manager of Manager Programs *(1/4)*

- Some Public Plans have a direct relationship with their Emerging Managers, while others prefer to invest in smaller managers through a fund of funds (FoF) or manager of managers (MoM) program.

- Mercer has observed that the decision to invest directly in a manager or to use a FoF/ MoM approach is normally a function of one or more of the following:
  - ***Internal capabilities –*** some plans have limited capacity to research and monitor individual investment managers i.e. plans with fewer Staff may tend to rely on a FoF program to conduct the appropriate due diligence and ongoing monitoring of managers.
  - ***Risk appetite –*** some investors may not feel comfortable investing directly in a firm that is not a household name. Such investors may feel more comfortable allocating their funds to a MoM program that is run by a group of 20-30 people who are solely focused on research, portfolio construction, client service and compliance.
  - ***Legal restrictions –*** Investment Policy Statements / legislation may state that a single investment into a manager's strategy can only represent (as an example) 10% of the manager's total assets under management. If such restrictions exist, a MoM program will be more appropriate vehicle.

Direct Investments or Manager of Manager Programs *(2/4)*

- ***Establishing a track record –*** we have seen that some plans will use MoM programs to ‘incubate’ and ‘graduate’ Emerging Managers who have performed strongly over a set period of time (for example 5 years):
  - The Teachers' Retirement System of the State of Illinois (TRS), for example, looks for firms that can graduate out of the Emerging Managers program and manage assets as a standalone manager.
- The decision to invest directly in an Emerging Manager is a function of different variables, risk appetite, the investment policy statement, comfort level and time horizon.
- TRS shows how an investment in a MoM can serve as a way to directly invest in a standalone manager and also highlights the fact that some plans may also invest directly in emerging firms and allocate funds to a MoM program at the same time.
- The main conclusion that we can draw from this is that the choices of direct investing or going with FoF programs do not have to be mutually exclusive options.

Direct Investments or Manager of Manager Programs *(3/4)*

Over the next few slides, we will provide a brief summary of two plans that have adopted two different approaches to investing in Emerging Managers:

The Firemen's Annuity & Benefit Fund of Chicago (CFIRE)
▪ CFIRE has invested in Emerging Managers for approximately 18 years.
▪ With approximately 25 percent of its $1 billion portfolio invested in Emerging Managers, CFIRE takes a multi-step approach when it evaluates managers.
▪ CFIRE looks at firm-wide criteria, such as year founded, assets under management, number of accounts, and professional staffing, and then narrows its scrutiny to mandate-specific criteria such as assets under management in strategy, portfolio management team, portfolio investment style, performance, risk, correlation and fees (Mercer also participates in the identification and selection process).
▪ CFIRE hired Brandes Investment Partners in 1992, Keeley Asset Management in 1995, and both Earnest Partners and Globeflex Capital were hired in 2005. In recent years, CFIRE has hired RhumbLine Advisers, Logan Capital Management, Advent and Altura.

Direct Investments or Manager of Manager Programs *(4/4)*

New York City Retirement System's (NYCRS)
▪ Approximately 12 percent of NYCRS pension fund is invested with Emerging Managers.
▪ Most of this is done via funds of funds, largely because this approach helps with risk monitoring and back office operations.
▪ In deciding between the direct investment route or FoFs, NYCRS weighs the added fund of funds fees against the compensation cost of internal staffing.
▪ NYCRS has hired an internal person to oversee public markets but is using a fund of funds to hire Emerging Managers in private equity.
▪ NYCRS uses a fund of funds approach for its private equity Emerging Manager program because it is unfamiliar with the universe of small firms.
▪ The private equity program currently looks at investments of $200 million or less, though the fund is proposing to change the threshold and raise the number to between $300 million to $400 million.
▪ NYCRS has also hired emerging public markets managers directly when there was confidence that these firms had the necessary back office and infrastructure (these direct investments are generally in the $1 billion to $5 billion range for assets under management.
▪ NYCRS does not take an equity stake in their investment managers (due to the potential double risk of having an equity stake in a manager and dealing with a performance problem)

Conclusions

- In Mercer's view, the plans that have successfully run MWBE / Emerging Manager programs are the ones that have made sure that these programs are accommodative and in line with their unique goals:
  - For example, CalPERS invests in strategies that are run by MoMs, they also utilize the direct investment approach but are also on the look out for strong potential graduates into their main portfolio.
  - Unlike the New York Retirement System, CalPERS has made the conscious decision to also take equity stakes in Emerging Managers through a manager development program.

- The decision to invest with an Emerging Manager should be viewed by the investor from a strategic and holistic standpoint that is in the context of their total portfolio, time horizon, economic goals and risk appetite.

Conclusions

- As tempting as it may seem, clients should avoid making any key investment decisions that are based on generalities; there is sufficient evidence to show that ***some*** Emerging Managers can generate alpha, ***however***, this does not mean that risks do not exist at a firm or product level.
- In fact, the existence of potential risks highlights the fact that a robust manager selection process is a necessary ingredient in a strategic and successful Emerging Manager program.
- Different retirement plans varying in size, structure, age and location have successfully invested with Emerging Managers in a broad number of ways.
- Therefore as with any investment decision, the process of finding and investing in the right strategy that is run by the right Emerging Manager will require a combination of art, science and a strong due diligence process.

Appendix

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

California Public Employees Retirement System (CalPERS)

- CalPERS is the nation's largest public pension fund with assets totaling approximately $200 billion.
  - CalPERS has invested more than $2.2 billion invested through emerging managers. That comprises more than $1.9 billion invested through two Manager Development Programs – in which the pension takes a minority equity stake in a young firm, as well as giving the firm money to invest – and $303 million in funds of funds.
  - In May 2001, the Investment Committee approved commitments of $475 million to 10 private equity firms for the California Initiative Program. Nine private equity partners and one fund-of-funds were selected to invest in traditionally underserved markets.
  - CalPERS directly invests in businesses owned by women and minorities, including California Urban Investment Partners (CUIP), however a specific policy is not articulated on the website.

California State Teachers (CalSTRS)

- CalSTRS is the largest US teachers' retirement fund, with assets around $140 billion.
- CalSTRS has implemented emerging manager programs totaling about $3.9 billion in:
  - U.S. Equities, totaling $1.8 billion
  - Private Equity, totaling about $1 billion
  - Fixed Income, totaling about $400 million
  - Real Estate, totaling about $667 million

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

Illinois Municipal Retirement Fund (IMRF)

- The $14.3 billion IMRF invests $3 billion total with minority- and women-owned firms and $755 million with small emerging managers as defined by the state – those with $10 million to $10 billion in assets under management.
  - IMRF employs emerging and minority firms for bonds, domestic and international equities.

Illinois State Teachers Retirement System

- The $32 billion TRS will be expanding its $500 million emerging manager program. The program, which had earlier encompassed only the public market asset classes, will now also include investments in private equity, real estate and absolute return.
  - The Teachers' Retirement System of the State of Illinois looks for firms that can graduate out of the emerging managers program and manage assets for the main fund.
  - Around May of this year, the TRS promoted one of its emerging fixed income managers, Dolan McEniry Capital Management.
  - Dolan McEniry Capital Management previously oversaw a $25 million mandate in the emerging manager program. The firm now manages a $170 million mandate in the main portfolio.

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

Los Angeles County Employees Retirement System

- LACERS holds approximately $30 billion in assets
  - In recent years, LACERS has hired three fund of funds of emerging managers for domestic equities, allocating $100 million to an aggregate of 17 managers.
  - LACERS has another fund of funds dedicated to private equity, and retains separate account mandates with minority managers.
  - In 1993, LACERS hired its first minority-owned investment management firms for its active and passive domestic equity, and fixed-income programs. In 2004, it broadened inclusion to the real estate and private equity asset classes.

Maryland State Retirement

- In October 2008, the $35 billion Maryland State Retirement and Pension System hired six emerging manager-of-managers to handle a minimum of $200 million each.
- Maryland’s emerging manager program includes domestic and global fixed income and equity managers.

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

Maryland Injured Workers Insurance Fund (IWIF)

- IWIF is currently searching for emerging investment managers.
  - The $1.6 billion fund will consider domestic equity managers, including large-cap, mid-cap and small-cap, and investment grade core fixed-income managers to oversee mandates of between $10 million and $15 million.
  - The plan intends to put a total of between $40 million and $50 million into Maryland-based emerging managers.

New York City Retirement System

- New York City's five retirement boards invest 12% of their assets with emerging managers across asset classes.
  - The system recently made an additional $450 million commitment to its private equity fund of funds program, which invests in developing managers – those that have $1-5 billion under management.

New York State Common Retirement Fund (CRF)

- The New York State Common Retirement Fund holds approximately $130 billion in assets.
  - The CRF is increasing its private equity commitment to emerging managers, with a focus on women and minority-owned businesses, to $1 billion over the next several years. The move will more than double the amount of capital available to emerging managers.
  - Currently, the Fund has committed $475 million to its private equity emerging manager program, and $108 million has already been invested.

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

Pennsylvania School Employees

- The $60 billion Pennsylvania Public School Employees' Retirement System allocates approximately $440 million to $444 million to emerging managers and plans to allocate roughly $500 million to emerging managers in the future.
  - The revamped program will include emerging managers across all public market asset classes as long as they each run no more than $1.5 billion in total assets, and the maximum number of emerging managers the system may use will be increased to 25, from 20.
  - The system will give preference to minority- and women-owned managers, as well as firms based in Pennsylvania, but will not limit itself to those firms.

Texas Teachers

- The $72 billion Texas Teachers Fund uses 42 emerging managers with mandates worth $600 million in aggregate. Texas Teachers plans to grow the emerging manager program to $1.5 billion in the future.
  - The fund has just promoted Wayzata Investment Partners and Crestview Partners to its mainstream portfolio giving them $200 million each, up from $10 million.

A Sample of Different Approaches to Investing in MWBE / Emerging Manager strategies

Ohio Public Employees Retirement System
▪ Since 2007, the $60 billion Ohio Public Employees Retirement System (OPERS) has supported a manager-of-minority-managers program which has ranged from approximately $150 million to $200 million in assets
▪ OPERS Ohio-Qualified and Minority Manager Policy states that the System is supportive of economic growth in Ohio and recognizes the diversity of its stakeholders. The OPERS Board desires that staff identify, research and evaluate Ohio-qualified and minority managers in its efforts to fulfill its investments objectives. Opportunities will be evaluated on their merit, including risk-adjusted return expectations and consistency with the annual Investment Plan. Efforts will be conducted in a manner consistent with fiduciary duty, demonstrating prudence and consistent with best practices
▪ The policy also states that it is a goal of the OPERS Board to increase its utilization of Ohio and minority investment managers when the investment managers offer quality, services and safety comparable to other investment managers.
▪ OPERS Ohio-Qualified and Minority Manager Policy does not require the System to utilize Ohio-qualified or minority investment managers and OPERS will hire investment managers in a manner that is consistent with its fiduciary duties, as outlined in ORC Sections 145.11 and other applicable laws.
▪ The OPERS Board adopts a goal of 1% (with a range of 0.5% to 2%) of externally managed public markets assets invested with minority managers. These goals will be revisited on a regular basis.

Mercer's Global Investment Management Database (GIMD)

Total Minority-Owned Investment Strategies – Domestic Equity

Asset Class	Growth	Core	Value
Large Cap Equity	41 Managers 48 Strategies	29 Managers 41 Strategies	22 Managers 22 Strategies
Mid Cap Equity	18 Managers 19 Strategies	11 Managers 11 Strategies	12 Managers 13 Strategies
Small/Mid Cap Equity	3 Managers 3 Strategies	5 Managers 5 Strategies	4 Managers 4 Strategies
Small Cap Equity	22 Managers 26 Strategies	18 Managers 18 Strategies	14 Managers 15 Strategies
Multi-Cap Equity	7 Managers 7 Strategies	10 Managers 11 Strategies	7 Managers 7 Strategies

Mercer's Global Investment Management Database (GIMD)

Total Minority-Owned Investment Strategies – International Equity

Asset Class/Style	Managers/Strategies
International Growth	6 Managers, 7 Strategies
International Core	12 Managers, 15 Strategies
International Value	3 Managers, 4 Strategies
International Small/Mid Cap	2 Managers, 2 Strategies
Emerging Markets	6 Managers, 6 Strategies
Global Equity	8 Managers, 8 Strategies

Mercer's Global Investment Management Database (GIMD)

Total Minority

Asset Class/Style	Managers/Strategies
Core Investment Grade	25 Managers, 38 Strategies
Short/Intermediate/Long Duration Focused	45 Managers, 55 Strategies
Core Opportunistic	8 Managers, 8 Strategies
High Yield	6 Managers, 7 Strategies
Other Fixed Income (Govt, Index, MBS, Municipal, Other, TIPS)	20 Managers, 28 Strategies

Mercer’s Global Investment Management Database (GIMD)

Total Minority-Owned Investment Strategies – Alternatives

Asset Class/Style	Managers/Strategies
Hedge Funds/Absolute Return	54 Managers, 108 Strategies
Private Equity	8 Managers, 35 Strategies
Real Estate	5 Managers, 7 Strategies

Mercer's Global Investment Management Database (GIMD)

Total Minority-Owned Investment Strategies – Rated Strategies

Mercer Rating	Managers	Strategies
A	11	20
B+	7	28
B	27	40
C	3	5
N	170+	430+

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

12-month Investment Committee Calendar

Date	July	Notes
7/28/2010	1. Mercer education session, MWBE investment management and manager selection approaches, second discussion 2. Mercer Looking Backwards/Forwards presentation	
Date	**August**	
8/26/2010	1. BWC Investment Division Goals FY2011 2. Investment Consultant Performance Report 2Q10 3. Mercer education session, real estate asset class, first discussion	
Date	**September**	
9/23/2010	1. BlackRock ACWIxUS common trust fund update (in CIO Report) 2. Mercer education session, real estate asset class, second discussion	
Date	**October**	
10/21/2010	1. Investment class performance/value annual report (ORC4121.12(F)(12)], possible vote 2. Investment Consultant services RFP issuance approval, possible vote 3. Self Insured Employers Guarantee Fund (SIEGF) Asset Allocation Analysis report and recommendation, first review, possible vote on asset allocation strategy 4. Annual Review Committee Charter (1st read) 5. Brokerage Activity Fiscal Year 2010 summary report	
Date	**November**	
11/18/2010	1. Annual Review Committee Charter (2nd read), possible vote 2. Investment Consultant Performance Report 3Q10 3. Custodian Fiscal Year 2010 Annual Review	
Date	**December**	
12/15/2010		

12-month Investment Committee Calendar

Date	January	Notes

Date	February
	1. Investment Consultant Performance Report 4Q10

Date	March

Date	April
	1. Investment Consultant services RFP finalist recommendation, possible vote

Date	May 2011
	1. Investment Consultant Performance Report 1Q11

Date	Jun-11

BWC Invested Assets
Estimated and Unaudited
As of July 27, 2010

July2010 MV Decrease Bonds………… - $ 1 million (+0.0% return)
July2010 MV Increase Equities………… + $ 427 million (+8.3% return)

July2010 MV Increase Bonds+Equities......+ $ 426 million
(+2.2% July10 MTD portfolio return including Cash)

BWC Asset Allocation MV 7/27/10

Bonds*…………	$13,594 million	70.2%
Equities*……….	5,588 million	28.9%
Cash……………	175 million	0.9%
TOTAL………...	$19,357 million	100.0%

* includes nominal cash held by outside managers

Portfolio Return Calendar 2008……… -2.3% (-$444 million net inv. income)
Portfolio Return Fiscal Year 2009…… -1.1% (-$195 million net inv. income)
Portfolio Return Calendar 2009………+8.6% (+$1,505 million net inv. income)
Portfolio Return Fiscal Year 2010…..+12.0% (+$2,050 million net inv. income)

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