BWC Board of Directors

Investment Committee Agenda

William Green Building
Thursday, October 21, 2010
Level 2, Room 2
9:30 a.m. – 11:30 a.m.

Call to Order
Bob Smith, Committee Chair

Roll Call
Linda Byron, Scribe

Approve Minutes of the September 23, 2010 Meeting
Bob Smith, Committee Chair

Review and Approve Agenda*
Bob Smith, Committee Chair

New Business / Action Items

1. BWC Full Service Investment Consultant
   Request for Proposals Issuance Recommendation
   Bob Smith, Committee Chair
   Bruce Dunn, Chief Investment Officer
   Vote to recommend approval to the Board of Directors

2. Annual Report Draft (Fiscal 2010) on the Performance and Value of each
   Investment class [per ORC 4121.12(F)(12)]
   Bruce Dunn, Chief Investment Officer
   Vote to recommend approval to the Board of Directors

Discussion Items

1. Investment Committee Charter Annual Review, first reading
   Don Berno, Board Liaison
   Ann Shannon, Legal Counsel

2. Monthly and Fiscal Year to Date Portfolio Value Comparisons
   - September 2010/August 2010
   - September 2010/June 2010

   Bruce Dunn, Chief Investment Officer

3. Month-End Portfolio Asset Allocation Values
   - September 2010/August 2010

   Bruce Dunn, Chief Investment Officer

4. Quarter-End Portfolio Target Asset Allocation Results and Variances
   - September 2010

   Bruce Dunn, Chief Investment Officer

5. CIO Report – September 2010
   Bruce Dunn, Chief Investment Officer

6. Mercer Presentation on Real Estate as an Asset Class, second discussion
   - Peer Investor Activity

   Bob Smith, Committee Chair
   Mercer Team

7. Consideration of CIO Investment Strategy Priorities proposed for Calendar Years 2011 and 2012, second review
   Bob Smith, Committee Chair

8. Committee Calendar
   Bob Smith, Committee Chair

Adjourn

Bob Smith, Committee Chair

Next Meeting: Thursday, November 18, 2010

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

DATE: October 13, 2010

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **BWC Full Service Investment Consultant**
Request For Proposals Issuance Recommendation

Background

A Request for Proposals (RFP) was issued on October 30, 2007 by the BWC for the services of an Investment Consulting firm. The purpose of this RFP was to identify an investment consulting firm that could provide a comprehensive range of consulting advice and services to assist and advise the BWC Board of Directors, its Investment Committee and BWC staff in carrying out its fiduciary duties and oversight responsibilities with regards to the BWC invested assets.

Mercer Investment Consulting, Inc. (Mercer) was approved as the new BWC investment consultant on January 25, 2008 by the BWC Board of Directors. An investment consulting contract dated February 6, 2008 was executed by BWC and Mercer. (Wilshire Associates had been previously serving as the BWC investment consultant since December 2005 and was replaced by Mercer with this action of the BWC Board).

The investment consulting contact with Mercer was for an initial 17-month period starting from February, 2008 and ending June 30, 2009, with two additional one-year renewal options, at the sole discretion and option of BWC. The Investment Committee recommended and the Board approved, at respective prior meetings, each of the two one-year renewal options with Mercer. As a result, the current investment consulting services contract with Mercer has a final contract term ending June 30, 2011 without any additional renewal option.

<u>Action Item</u>

The Action Item is for the BWC Investment Committee and Board of Directors to approve BWC staff to issue a new RFP for the services of a Full Service Investment Consultant of the Bureau. A proposed timeline of important milestone dates for the proposed RFP process to select an investment consultant is provided with this memorandum in both tabular and graphic form.

If approved by the Board at its October 22, 2010 meeting, the RFP would be issued on November 16, 2010 with the deadline for RFP bid response submission being January 20, 2011. An RFP Evaluation Committee will evaluate and grade all qualified responses received over the period January 21, 2011 to February 7, 2011 with finalist candidate(s) identified on February 9, 2011. Interviews with finalist candidate(s) would be conducted at the William Green Building over one or two consecutive dates between the period from February 21 to March 4, 2011 with an on-site visit of a recommended finalist occurring on one date between the period March 2-15, 2011. The finalist recommendations for approval by the Investment Committee and Board would then be presented by the Evaluation Committee at the March 24-25, 2011 respective scheduled meetings.

In order to maintain the integrity of the RFP process, it is important that both the BWC Board of Directors and BWC staff enter into a "Blackout Period" as it relates to the RFP full service investment consultant search. BWC Board members and staff need to refrain from discussing any aspect of the RFP with any respondent or potential respondent to the RFP, other than as permitted under the terms of the RFP. The Blackout Period begins effective upon approval given by the Board for BWC staff to issue the RFP and will remain in effect until the finalist investment consultant is under contract with BWC.

The RFP to be issued by the Bureau is seeking a <u>full service</u> investment consultant who is capable of providing expert investment advice and recommendations as well as a breadth of investment consulting services to the Bureau that includes the following:

- Strategic asset allocation, portfolio structure, and risk sensitivity
- Asset allocation and liability studies (targeted for 2012)
- Investment policies, strategies and guidelines
- Quarterly performance monitoring and reporting
- Ongoing due diligence of public market investment managers
- Assist in searches with BWC staff for new stock/bond/alternative asset class investment managers
- Market research
- Education sessions

It is expected that the investment consultant will participate in each monthly Investment Committee meeting. The investment consultant may also be asked to participate in full Board meetings on an as needed basis. The selected investment consultant will be a fiduciary to BWC, work closely with BWC staff and will report independently of BWC staff directly to the BWC Investment Committee and the Board.

The RFP proposals received will initially be evaluated and scored on the following criteria and weightings to determine the selection of the finalist investment consulting firm or firms:

- 30% background, profile and organization
- 50% quality and depth of services, experience and professional staff offered
- 20% proposed fees

Mercer announced last week that the firm made the decision to discontinue its U.S. public fund defined benefit investment consulting business. The BWC staff has confirmed that Mercer intends to no longer provide investment consulting support services to its identified U.S. public fund clients with defined benefit liabilities, including the Bureau, after a wind-down transition period. This transition period has been represented by the BWC Mercer senior consultant as having a targeted conclusion no later than the end of March, 2011. This represents an indicated cessation of investment consulting services provided by Mercer to the Bureau that is three months prior to the contracted termination date of June 30, 2011 as reflected in the current Second Addendum to the original Mercer contract.

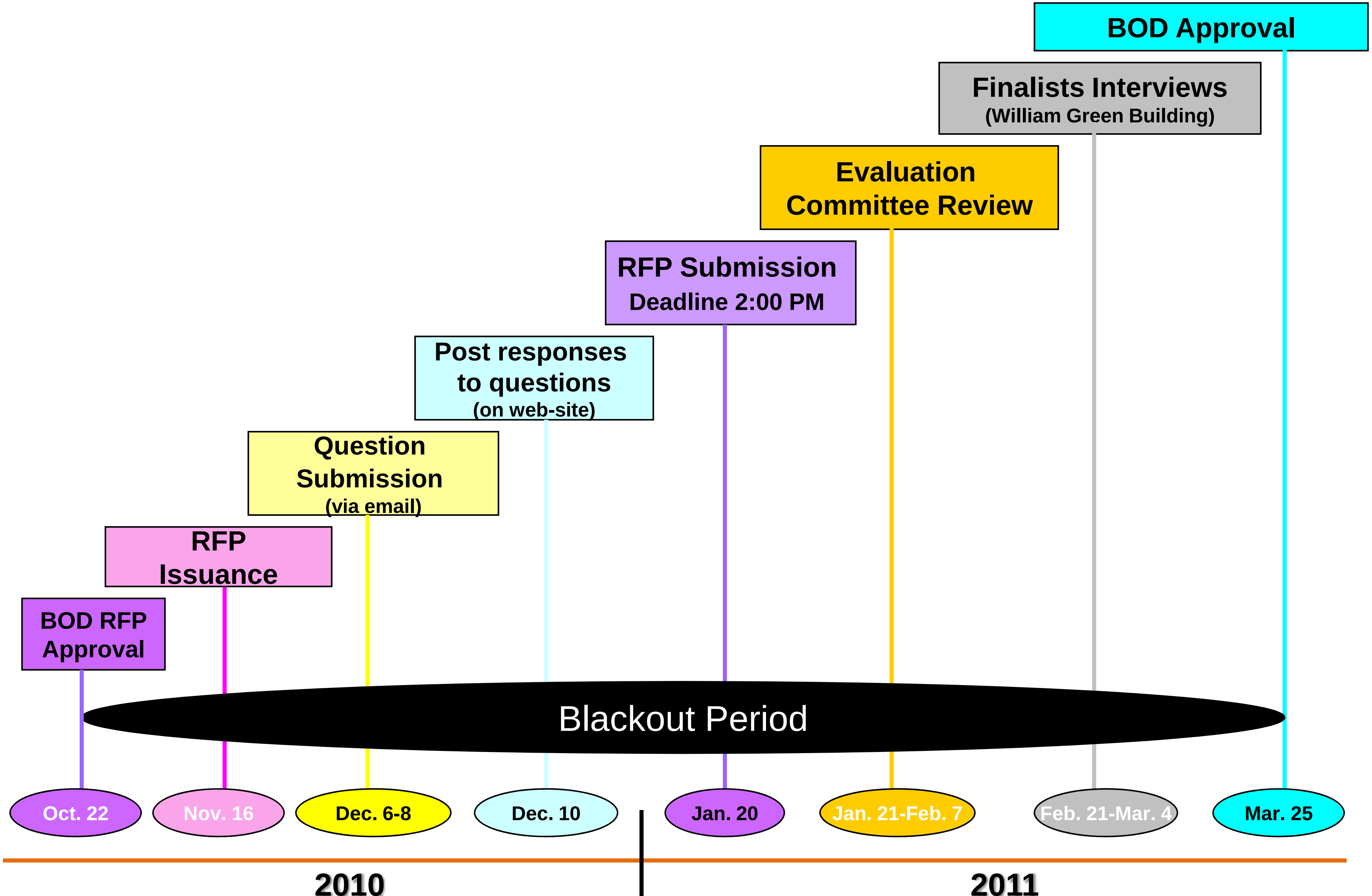
The BWC staff desires to have an orderly transition to a new investment consulting firm. As a result, it is recommended that the initial term of the BWC investment consulting services contract to be entered into with the new approved investment consulting firm emerging from the RFP selection process be for an initial approximate two-year, three-month term expected to commence in April, 2011 and ending June 30, 2013 with up to three one-year renewal options, at the sole discretion and option of BWC. If BWC is satisfied with the services provided by the contracted investment consulting firm over the length of the contract, this would result in a five-year, three-month tenure for the approved investment consulting firm ending June 30, 2016. Under this full tenure period, a new RFP for investment consulting services need not be issued by BWC until the fourth quarter of calendar year 2015.

If the investment consultant firm fails to fulfill its obligations under the contract in a timely and professional manner or violates any agreement under the contract and RFP or applicable Ohio statutes, BWC shall have the right to terminate the contract on one day advance notice for defaults not subject to cure. For defaults subject to cure, the consultant firm would have 15 days to cure such default. In addition, there is a *Termination for Convenience* clause in the RFP whereby BWC, in its sole determination, may terminate the contract with the firm *for convenience* by giving not less than 30 days advance notice to the firm of its intent to so terminate such contract without being required to specify a cause.

Full Service Investment Consultant RFP Timeline

RFP ACTION ITEM	TIMELINE
Investment Committee and BOD MEETING *(BWC staff requests BOD approval to issue RFP)*	***Oct. 21-22, 2010***
Issue RFP	***Nov. 16, 2010***
RFP Advertisement in Pensions & Investments (*Bi-weekly publication*)	Nov. 15/29, 2010 editions
Open Period for respondents' question submission via email Post responses to questions on BWC website on or before	Dec. 6-8, 2010 Dec. 10, 2010
Deadline for submissions of Proposals 2:00 PM	***Jan. 20, 2011***
Evaluation Committee review/grading of proposals	Jan. 21- Feb. 7, 2011
Evaluation Committee finalist candidates identified	Feb. 9, 2011
Interviews of Finalists at William Green Building (*one or two dates*)	Feb. 21- Mar. 4, 2011
On-site visit of Finalist (*one date*)	Mar. 2-15, 2011
Investment Committee and BOD MEETING *(Finalist recommendation for approval)*	***Mar. 24-25, 2011***

Full Service Investment Consultant RFP Timeline



DATE: October 13, 2010

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Asset Class Annual Report for Fiscal Year 2010**

Ohio Revised Code section 4121.12(F)(12) states that the BWC Board of Directors shall "submit a report annually on the performance and value of each investment class to the governor, the president and minority leader of the senate, and the speaker and minority leader of the house of representatives".

The following proposed Asset Class Annual Report for Fiscal Year 2010 in final draft form is provided for your review. This proposed Annual Report will be presented and discussed at the Investment Committee meeting on October 21, 2010.

Ohio Bureau of Workers' Compensation

Fiscal Year 2010 Investment Class Annual Report Comments

Background

After the U.S. and global financial markets experienced an extreme level of volatility and asset class performance in fiscal year 2009 ended June 30, 2009 with Gross Domestic Product declining in the U.S., Europe and Japan over this period, the U.S. and global economy strengthened in fiscal year 2010 ended June 30, 2010. The start of the recovery of the U.S. economy occurring in fiscal 2010 was attributable in part to an extremely accommodative U.S. Federal Reserve monetary policy providing tremendous liquidity to the U.S. financial system. Short-term interest rates as well as core inflation were very low throughout this period. Credit markets recovered to function at near normal conditions as liquidity of non-Treasury bonds improved significantly. Many large and important financial institutions measurably strengthened their capital position by issuing new stock and paying back all TARP received funds. Job growth remained modest and disappointing, however, for the first year of recovery from a deep recession. Consumer confidence remained fragile due to the unemployment rate nationally hovering slightly below 10%.

The investment portfolio of the Bureau rebounded strongly in fiscal year 2010 with a total return of 12.0% (net of investment management fees) after providing a total return of negative 1.1% for fiscal year 2009 which was nevertheless an excellent relative return compared to the double-digit negative returns posted by most public fund institutional portfolios in fiscal year 2009. Although monthly BWC total bond returns and particularly total stock returns fluctuated widely over the course of fiscal year 2010 with monthly returns of portfolio stocks versus portfolio bonds of the Bureau actually moving in opposite directions (one positive and the other negative) for seven of the twelve months, their respective portfolio returns for the year converged over the last two months of the fiscal year. The BWC bond portfolio provided a net return of 13.0% and its stock portfolio had a net return of 12.3% for fiscal year 2010.

The Board of Directors of the Bureau in April 2009 approved a change in asset allocation targets for the State Insurance Fund to 70% fixed income and 30% equities from 80% fixed income and 20% equities, with the 10% increase in equities allocated to international equities (formerly 0% allocation) and the 10% reduction in fixed income reducing long duration bond exposure. In addition to this portfolio asset allocation change, there were several asset allocation target changes made within the portfolio fixed income classes also approved by the Board to reduce average duration of the bond portfolio. These decisions were made by the Board after several careful reviews of a rigorous asset-liability modeling study requested of the Bureau's investment consulting firm Mercer. The new asset allocation mix for the State Insurance Fund, representing approximately 91.5% or $17.358 billion of total Bureau invested assets ($18.971 billion) on June 30, 2010, is expected to increase its portfolio return and lower its variance or dispersion of expected annual portfolio return over the long term.

The BWC investment staff carefully planned and supervised the implementation and execution of three major transition strategies for the State Insurance Fund during fiscal year 2010. Each of these respective transition strategies, endorsed by Mercer as BWC investment consultant, were performed by BWC transition managers that were selected by the BWC transition manager evaluation committee. The Bureau has a pool of three transition managers under respective optional use contracts. Each of these transition managers had previously been recommended for potential use by BWC staff and were approved by the Board under a recent RFP bid process.

These transition activities for the State Insurance Fund portfolio occurred over the first six months of fiscal year 2010 ending December 2009. As a result, the State Insurance Fund achieved its targeted asset allocation exposure in all approved fixed income and equity asset classes consistent with its new investment policy statement by December 2009. These three respective transition portfolios, as well as in-kind transfers of assets from legacy investment managers, were subsequently delivered to new Board approved investment managers in stages over the period December 2009 through May 2010. These transfer of assets were also carefully planned and supervised by the BWC investment staff in part to minimize overall transaction costs.

In addition to the investment policy and asset allocation changes for the State Insurance Fund (SIF) portfolio described herein, investment strategy and asset allocation investment policy changes occurred for both the Disabled Workers' Relief Fund (DWRF) and Coal Workers' Pneumoconiosis Fund (CWPF) in fiscal year 2010. These investment strategy changes also resulted from respective strategic asset allocation analyses performed and presented by investment consultant Mercer to the Investment Committee of the Board in December 2009 for CWPF and January 2010 for DWRF. Asset allocation investment policy changes for CWPF and DWRF were approved by the Investment Committee and the Board at their respective meetings in those months.

Similar to the asset allocation changes approved for SIF in April 2009, changes in asset allocation targets for DWRF (invested assets $1.24 billion on 6/30/10) resulted in the equity weighting being increased to 30% from 20% with a similar 10% reduction made to fixed income investments (including cash) from 80% to 70%. The entire 10% equity allocation increase for DWRF will be from adding a new 10% allocation to non-U.S. equities, with U.S. equities remaining at a 20% allocation. The DWRF fixed income portfolio change will result in intentionally shortening its weighted average duration by eliminating the previous 59% portfolio allocation to long duration bonds and spreading the new 70% allocation between U.S. TIPS (new target 35% versus former 20% target) and adding the intermediate duration U.S. Aggregate benchmark index (new target 34%), with cash remaining at 1%.

The 80/20% fixed income/equity asset allocation targets remained unchanged in the new investment strategy approved for CWPF (invested assets $265 million on 6/30/10) but the asset sectors within both major asset classes are identical to that approved for DWRF and the respective target weightings are proportionally similar to DWRF. The new asset allocation strategy approved for CWPF is 40% U.S. TIPS; 39% U.S. Aggregate bonds; 1% cash for its 80% fixed income allocation, and 13% U.S. equity; 7% non-U.S. equity for its 20% equity allocation.

The new approved asset allocation targets for both DWRF and CWPF were subsequently achieved in August 2010 when respective transition strategies were implemented by the BWC investment staff and executed by an approved transition manager chosen by the BWC investment staff.

Mercer presented a strategic asset allocation analysis on the Public Work-Relief Employees' Fund (invested assets $25 million on 6/30/10) and the Marine Industry Fund (invested assets $19 million on 6/30/10) 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 (99% intermediate bonds, 1% cash) and resulted in no change in investment strategy.

Valuation and Performance

Total investment assets at fair value held by the Bureau were $18,971 million on June 30, 2010, an increase of $1,894 million when compared to $17,077 million on June 30, 2009. As stated earlier, the total rate of return on invested assets of the Bureau for the fiscal year 2010 ended June 30, 2010 was 12.0% net of investment management fees. Net investment income reported for fiscal year 2010 was $2,050 million, comprised of $723 million in interest and dividend income ($641 million interest income; $82 million dividend income) plus $1,334 million appreciation in fair value of investments less $7 million in investment expenses, including $5 million in investment manager fees. These investment manager fees represented an average annual fee of less than 3 basis points (3/100 of 1%) of total average month-end value of bond and stock assets managed by outside passive indexed managers for fiscal 2010.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2010 was 70.5% bonds, 27.2% stocks and 2.3% cash and cash equivalents. This asset mix compares to 76.4% bonds, 20.6% stocks and 3.0% cash and cash equivalents on June 30, 2009. The asset allocation increase in stocks and decrease in bonds at the end of fiscal 2010 compared to fiscal 2009 was largely attributable to the 10% State Insurance Fund asset allocation strategy shift from bonds to non-U.S. stocks implemented during fiscal 2010.

Unlike fiscal year 2009 when both the stock and bond markets were extremely volatile, there were no quarterly portfolio rebalancing events required in fiscal year 2010 prompted by one or more specific bond or stock asset classes falling outside their specific defined asset allocation ownership target range per the investment policy statement. However, there were significant transition-related movements between asset classes during fiscal 2010 that were required to implement and complete the new State Insurance Fund investment strategy. In addition, there was some minor asset class portfolio rebalancing at month-end July 2009 totaling $55 million involving the transfer to the U.S. equity portfolio of cash interest income received from bond portfolios. This activity was directed by the BWC investment staff in support of the increase in the SIF stock portfolio allocation to 30% from 20%.

Portfolio asset redemptions for cash required to fund Bureau operations totaled $71 million in fiscal 2010, involving $50 million for SIF, $19 million for DWRF and $2 million for CWPF. A total of $58 million involved U.S. equity portfolio redemptions with the remaining $13 million obtained from bond portfolio redemptions. Columns D, E, and F of the table provided at the end of this Annual Report summarize the asset class transfer activity occurring over fiscal 2010. These activities are important to highlight because they had a material impact on the respective fair value levels of both bond and equity portfolios over the course of fiscal 2010.

As column D of the referenced table reflects, the major portfolio transition activity involving Bureau asset classes in fiscal 2010 involved obtaining a targeted 10% exposure to non-U.S. equities for SIF that started the fiscal year at 0%. The build up of the SIF Non-U.S. Equity portfolio by the Bureau transition manager occurred over four monthly stages between late-August 2009 and mid-December 2009. The strategy of staging the timing of SIF investments in this new asset class was suggested by the BWC Investment Committee. A total of $1,644 million was directed to the purchase of Non-U.S. Equities and each of the four purchase stages in transition were between $375-435 million in market value at cost. The first two stages were funded largely by the sale of long duration U.S. government bonds and the third stage was funded from the sale of U.S. Treasury inflation protected securities (TIPS). Due to significant appreciation in fair value of the SIF U.S. equity portfolio between the beginning of fiscal 2010 and December 2009 (+18.5% net return fiscal year-to-date through November 2009) whereby U.S. equities were driven near the upper end of their 17-23% target allocation range, the BWC investment staff utilized the SIF U.S. equity portfolio to fund the last purchase transition stage for non-U.S. equities totaling $425 million in market value at cost.

To summarize these SIF portfolio transition activities, modest portfolio rebalancing asset transfers and operation redemptions, the bond portfolio for fiscal 2010 had net investment outflows of $1,287 million consisting of $873 million from long duration bonds (mostly U.S. government bonds) and $414 million from U.S. TIPS. These bond net outflows were largely redirected towards the purchase of non-U.S. equities which totaled $1,644 million, with net outflows from the U.S. equity portfolio of $428 million contributing towards an additional $425 million of non-U.S. equity purchases. These asset class flow of funds activities are reflected in the table of this report.

The total fair value of the bond portfolio of the Bureau was $13,381 million on June 30, 2010 compared to $13,050 on June 30, 2009, representing an increase of $331 million. As explained herein, the bond portfolio had net outflows totaling $1,287 million during the 2010 fiscal year period initiated primarily for SIF transition activity. Excluding these significant net redemptions, the bond portfolio had an increase in fair value of $1,618 million for fiscal year 2010. The total rate of return of bonds owned by the Bureau was 13.0% for fiscal year 2010. All bonds owned during fiscal year 2010 were passively managed by two index managers under contract and by Bureau transition management firms during the periods of SIF transitions. These bonds were managed to defined target benchmark indexes by these Bureau investment managers throughout the fiscal year.

The total fair value of $13,381 for the bond portfolio of the Bureau on June 30, 2010 included $3,339 million of U.S. TIPS, with the remaining $10,042 million of bonds owned consisting of a combination of U.S. government Treasuries and agencies, mortgage-backed securities (largely government agency single-family residential loan pools but also some commercial mortgage loan pools as well) and credit bonds (mostly corporates with some taxable municipals, sovereigns and supranationals). The U.S. TIPS portfolio declined in fair value by $117 million in fiscal 2010 from $3,456 million on 6/30/09. Adjusted for transition activity and modest rebalancings that created net outflows of $414 million from the U.S. TIPS portfolio, the adjusted fair value change of the U.S. TIPS portfolio was a positive $297 million and represented a total rate of return of 9.6% for fiscal 2010.

The remaining bond portfolio, excluding U.S. TIPS, increased in fair value by $448 million in fiscal 2010 from $9,594 million on 6/30/09 to $10,042 million on 6/30/10. Adjusted for significant transition net outflows of $860 million and $13 million of net rebalancing outflows, the adjusted fair value change of the non-TIPS bond portfolio of the Bureau was an increase in fair value of $1,321 million for fiscal 2010 which represented a total rate of return of 14.1% for fiscal 2010.

The bond portfolio of the Bureau maintained a high average credit quality of “AA” over the fiscal year 2010 with over 50% of the fair value of bonds held on June 30, 2010 being of “AAA” quality. The weighted average effective duration of the bond portfolio of the Bureau on June 30, 2010 was 8.8 years, based on duration calculations of the Bureau investment accounting vendor as represented in the fiscal 2010 audited financial statement of the Bureau.

The total fair value of the equities portfolio of the Bureau was $5,149 million on June 30, 2010 compared to $3,516 million on June 30, 2009, representing an increase of $1,633 million. As mentioned earlier, the equities portfolio had purchases of $1,644 million for non-U.S. equities, a new asset class for the SIF portfolio targeted at a 10% allocation. Of this $1,644 million of non-U.S. equity purchases, $1,274 million was funded from bond sales and $370 million was funded from U.S. equity sales, as reflected in the table of this report.

The fair value of the U.S. equities portfolio was $3,640 million on June 30, 2010, an increase of $124 million in fair value compared to $3,516 million on June 30, 2009. Since there were total outflows of $428 million from the U.S. equities portfolio for transitions/rebalancings ($370 million) and to fund operations ($58 million), the adjusted fair value increase in the U.S. equities portfolio was $552 million. The U.S. equities portfolio of the Bureau had a total rate of return of 15.0% for fiscal 2010.

As previously mentioned, the non-U.S. equities portfolio was created in fiscal 2010 as a targeted new asset class for the SIF portfolio. A total of $1,644 million at cost was invested in this new asset class over four transition stages between late August and mid-December of 2009. The non-U.S. equities portfolio ended fiscal year 2010 with a fair value of $1,509 million. The total rate of return of the new non-U.S. equity portfolio from the first stage inception date of late August 2009 to fiscal year-end 2010 was a negative 3.4%.

Combining the U.S. equities portfolio and the newly created non-U.S. equities portfolio, the total return of the equities portfolio of the Bureau was 12.3% for fiscal 2010. The adjusted fair value change of the equities portfolio was a positive $417 million for fiscal 2010 after reflecting inflows and outflows from transition activities, rebalancings and operations fundings.

There remained one private equity investment owned by the Bureau during fiscal year 2010 that is being liquidated via its own portfolio sales. A cash distribution of $0.1 million was received by the Bureau from this investment in fiscal year 2010, reducing its carrying value to less than $0.1 million on June 30, 2010. It is doubtful any additional funds will be received from this investment in the future and this investment may be written down to zero value in fiscal 2011.

Total cash and cash equivalents of the Bureau had a fair value of $436 million on June 30, 2010 compared to $504 million on June 30, 2009. The Bureau utilized an institutional U.S. government money market fund offered by its custodian bank throughout fiscal year 2010 to earn interest income on its short-term invested assets. Short-term yields on money market investments remained very low throughout the fiscal year as the Federal Reserve Bank kept the targeted federal funds rate between 0% and 0.25% and had a very accommodative monetary policy with low interest rates to help the U.S. economy to emerge from a severe recession. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was a very low 0.1% for fiscal year 2010.

As referenced throughout this Annual Report, the following table provides a summary of asset class valuations, relevant funds transfer activity largely driven by SIF asset class transitions, and performance returns as stated herein.

Ohio Bureau of Workers' Compensation
Asset Class Fair Value/Performance Summary
Fiscal Year 2010 Ending June 30, 2010

($millions)	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Asset Class	Fair Value 6/30/10	Fair Value 6/30/09	Actual Fair Value Change	Net From Portfolio Rebalancing/ Transitions	Net For Operations Fundings	Total Inflow/ (Outflow)	Adjusted Fair Value Change	FY 2010 Annual Return
Bonds ex U.S. TIPS	$ 10,042	$ 9,594	$ 448	$ (860)	$ (13)	$ (873)	$ 1,321	+ 14.1%
U.S. TIPS	3,339	3,456	(117)	(414)		(414)	297	9.6%
Total Bonds	13,381	13,050	331	(1,274)	(13)	(1,287)	1,618	13.0%
U.S. Equities	3,640	3,516	124	(370)	(58)	(428)	552	15.0%
Non-U.S. Equities	1,509	—	1,509	1,644		1,644	(135)	(3.4%)*
Total Public Equities	5,149	3,516	1,633	1,274	(58)	1,216	417	12.3%
Miscellaneous	5	6	(1)				(1)	
Cash & Equivalents	436	504	(68)	0	71	71	(139)	0.1%
Net Change				0	0	0	1,895	12.0%
Total Invested Assets	$18,971	$17,076	$ 1,895					

Column Definitions

C = A minus B
F = D plus E
G = C minus F

Asset Class fair values shown exclude accrued investment income and trade payables/receivables

Amounts rounded to nearest $1 million as reflective in several summations in table

* Return since investment inception of $376 million made in late August 2009

OBWC Board of Directors
Investment Committee Charter

Purpose

The purpose of the Investment Committee is to ensure that the assets of the Ohio Bureau of Workers' Compensation (OBWC) are effectively managed in accordance with the laws of the State of Ohio, and the Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines. The Investment Committee:

- assists the Board of Directors in the review and oversight of the State Insurance Fund and each Specialty Fund (collectively the Funds) assets;
- develops and monitors the implementation of the BWC's investment policy
- reviews opportunities and challenges the Board of Directors needs to discuss as they fulfill the statutory requirement to ". . . fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund . . .".

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

The Committee shall be composed of a minimum of five (5) members. Two members shall be the members of the Board who are the investment and securities experts. The Board, by majority vote, shall appoint at least three additional members of the Board to serve on the Investment Committee and may appoint additional members, who are not Board members, as the Board determines necessary. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions (RC 4121.129(C)(1)). Bureau management personnel cannot serve as a Committee member.

The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. If the Board chair is not a member of the Committee, he/she shall be an ex-officio member. As an ex-officio member, the Board chair shall not vote if his/her vote will create a tie.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Members of the Investment Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the members of the Committee who are appointed as the investment and securities expert members of the Board.

Meetings

The Investment Committee will meet at least nine (9) times annually. The Committee Chair will provide a report of the meeting at the next subsequent Board meeting. Additional meetings may be requested by the Committee Chair, 2 or more members of the Committee, or the Chair of the Board.

A quorum shall consist of a majority of Committee members. Committee meetings will be conducted according to Robert's Rules of Order. All Directors are encouraged to attend the Committee meetings.

The Committee will invite members of management, investment advisors, fiduciary counsel and/or others to attend meetings and provide pertinent information as necessary

Minutes for all meetings of the Committee will be prepared to document the actions of the Committee in the discharge of its responsibilities.

Duties and Responsibilities

The Investment Committee is charged with overseeing all investment-related matters and activities of the BWC. The Committee evaluates proposals requiring Board action and makes recommendations for consideration by the Board. The Committee shall:

1. Assist the Board in meeting the following statutory requirements:
   - Develop and recommend the strategic asset allocation and investment policy for the Funds in accordance with RC 4123.442 and submit to the Board for approval.
   - Periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. (RC 4121.12(F)(7))
   - Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties. (RC 4121.12(F)(8))
   - Prohibit, on a prospective basis, any investment the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval (RC 4121.12(F)(9)).
   - Recommend the opening and closing of each investment class and submit to the Board for approval. (RC 4121.12(F)(10))
   - Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval. (RC 4121.12(F)(11))

- Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives. (RC 4121.12(F)(12))
- Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer (RC 4121.129(C)(2)(c)).
- Recommend outside investment counsel with whom the Board may contract to assist the Investment Committee in fulfilling its duties (RC 4121.129(C)(2)(d)).
- Review the performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds (RC 4121.129(C)(2)(e)).
- Consult with the Administrator and recommend to the Board the appointment of the Chief Investment Officer. (RC 4123.441)

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2. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.
3. Monitor and review the investment performance of the Funds on a quarterly basis to determine achievement of objectives and compliance with this investment policy.
4. Coordinate with other Board committees on items of common interest, including but not limited to an annual discussion of investment issues which would impact the Board's statutory requirement to ". . . fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund . . .".
5. At least annually, review this charter and submit any proposed changes to the Governance Committee and to the Board for approval.
6. Create, by majority vote, a subcommittee consisting of one or more Directors on the Committee. In consultation with the Chair, other Board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. The subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Committee. The Committee by majority vote may dissolve the subcommittee at any time.
7. Perform such other duties required by law or otherwise as are necessary or appropriate to further the Committee's purposes, or as the Board may from time to time assign to the Committee.

Review & Approved 112107, Bob Smith, Chair Revised 012408 Revised 092408 Annual Review and Revision 112108 Annual Review and Revision 112009 Annual Review and Revision 111910

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

Asset Sector	Market Value September 30, 2010	% Assets	Market Value August 31, 2010	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2010	% Assets	Increase(Decrease) Prior Fiscal Year-End	% Change
Bonds	14,004,085,457	68.7%	14,021,595,598	70.0%	(17,510,141)	-0.1%	13,537,054,766	71.2%	467,030,691	3.5%
Equity	5,942,418,238	29.2%	5,424,400,862	27.1%	518,017,376	9.5%	5,154,562,423	27.1%	787,855,815	15.3%
Net Cash - OIM	60,369,903	0.3%	54,220,350	0.3%	6,149,553	11.3%	64,622,125	0.3%	(4,252,222)	-6.6%
Net Cash - Operating	323,624,177	1.6%	474,510,606	2.4%	(150,886,429)	-31.8%	218,991,596	1.2%	104,632,581	47.8%
Net Cash - SIEGF	48,193,580	0.2%	44,811,060	0.2%	3,382,520	7.5%	47,335,733	0.2%	857,847	1.8%
Total Net Cash	432,187,660	2.1%	573,542,016	2.9%	(141,354,356)	-24.6%	330,949,454	1.7%	101,238,206	30.6%
Total Invested Assets	$20,378,691,355	100%	$20,019,538,476	100%	$359,152,879	1.8%	$19,022,566,643	100%	$1,356,124,712	7.1%

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.

September 2010/August 2010 Comparisons

- Net investment income in September 2010 was $507 million representing a monthly net portfolio return of +2.5% (unaudited).
- Bond market value decrease of $(17.5) mm comprised of $52.5 mm in interest income, $(68.2) mm in OIM realized/unrealized losses ($22.4 mm net realized gain), and by $1.8 mm in OIM net bond sales, representing a monthly net return of -0.1% (unaudited).
- Equity market value increase of $518.0 mm comprised of $7.3 mm of dividend income and $513.4 mm in net realized/unrealized gains ($0.5 mm net realized gain), offset by $2.7 mm in OIM net equity sales, representing a monthly net return of +9.6% (unaudited).
- Net cash balances decreased $(141.4) mm in September 2010 largely due to decreased operating cash balances of $(150.9) mm.
  JPMorgan US Govt. money market fund had 30-day average yield of 0.12% for September 2010 (0.11% for Aug10) and 7-day average yield of 0.12% on 9/30/10 (0.11% on 8/31/10).

September 2010/June 2010 FYTD Results

- Net investment income for FYTD2011 was $1,262 million largely comprised of $171 mm of interest/dividend income and $1,091 mm of net realized/unrealized gains ($153 mm net realized gain), offset by $2 mm in fees, representing a FYTD2011 net portfolio return of +6.6% (unaudited).
- Bond market value increase of $467 mm for FYTD2011 comprised of $149 mm in interest income and $437 mm of net realized/unrealized gains ($130 mm net realized gain), offset by $113 mm in OIM/TM net bond sales and by $6 mm in operations redemptions, representing a FYTD2011 net return of +4.2% (unaudited).
- Equity market value increase of $788 mm for FYTD2011 comprised of $21 mm in dividend income, $654 mm in net realized/unrealized gains ($23 mm net realized gain) and $119 mm in OIM/TM net equity purchases, offset by $6mm in miscellaneous asset redemptions, representing a FYTD2011 net return of +13.5% (unaudited).

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

As of September 30, 2010

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 12,836,380	68.6%	$ 902,585	69.3%	$ 220,482	79.3%	$ 25,549	98.7%	$ 19,089	97.7%	$ -	0.0%	$ -	0.0%	$ 14,004,085	68.7%
Long Credit	5,673,768	30.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,673,768	27.8%
Long Government	1,479,410	7.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,479,410	7.3%
Long Gov/Credit	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
TIPS	3,130,737	16.7%	461,821	35.5%	111,007	39.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,703,565	18.2%
Aggregate	2,552,465	13.7%	440,764	33.8%	109,475	39.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,102,704	15.2%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	25,549	98.7%	19,089	97.7%	-	0.0%	-	0.0%	44,638	0.2%
Stocks	5,489,205	29.4%	396,846	30.5%	56,367	20.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,942,418	29.2%
Russell 3000	3,726,132	19.9%	261,972	20.1%	35,951	12.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,024,055	19.7%
MSCI ACWI ex-U.S.	1,758,483	9.5%	134,845	10.4%	20,416	7.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,913,744	9.5%
S&P 500	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Dividends Receivable	4,555	0.0%	29	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,584	0.0%
Miscellaneous	35	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	35	0.0%
Net Cash & Cash Equivalents	374,181	2.0%	2,233	0.2%	1,058	0.4%	334	1.3%	441	2.3%	48,194	100.0%	5,747	100.0%	432,188	2.1%
Total Cash & Investments	$ 18,699,766	100.0%	$ 1,301,664	100.0%	$ 277,907	100.0%	$ 25,883	100.0%	$ 19,530	100.0%	$ 48,194	100.0%	$ 5,747	100.0%	$ 20,378,691	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 fee

Policy Fund Asset Allocation	SIF	DWRF	BLF	PWRF	MIF	SIEGF	ACF
Bonds	69%	69%	79%	99%	99%	-	
Stocks	30%	30%	20%	-	-	-	NA
Cash	1%	1%	1%	1%	1%	100%	
Total	100%	100%	100%	100%	100%	100%	

State Insurance Fund (SIF)

All equity indices returns notably increased for the MSCI ACWI ex-U.S. (+9.95%), Russell 3000 (+9.44%) as well as S&P 500 (+8.92%) in the month of September. As a result the equity allocation increased to 29.4% for the month from 27.2% for the prior month-end. Bond indices returns increased for U.S. TIPS Index (+0.60%) and the U.S. Aggregate Bond Index (+0.11%) but decreased for the Barclays Capital Government Long Term Index (-1.49%) as well as slightly decreased for the Barclays Capital Long Credit Index (-0.06%) in September. The SIF strong equity performance along with a slightly net negative bond indices resulted in the overall bond asset allocation decreasing from 69.9% at end of August to 68.6% at end of September.

Cash allocations decreased from 2.8% at end of August to 2.0% at end of September largely due to decreased SIF operating cash of $149.6 million offset by $7.8 million in increased SIF investment manager cash balances.

Disabled Workers' Relief (DWRF) and Coal Workers' Pneumoconiosis Funds(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 (see Policy Fund Asset Allocation chart). Transitions were completed in August , 2010 for the the Barclays U.S. Aggregate, U.S. TIPS, Russell 3000 and the MSCI ACWI ex-U.S. asset classes and final placement of funds to approved target commingled investment managers were also completed in August, 2010.

Public Work-Relief Employees' Fund (PWRF) and Marine Industry Fund (MIF)

The Barclays Capital Government/Credit Intermediate index increased +0.47% in the month of September.

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 August 31, 2010

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	$ 12,859,867	69.9%	$ 897,874	71.1%	$ 219,410	80.7%	$ 25,438	98.7%	$ 19,006	97.8%	$ -	0.0%	$ -	0.0%	$ 14,021,595	70.0%
Long Credit	5,699,272	31.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,699,272	28.5%
Long Government	1,499,539	8.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,499,539	7.6%
Long Gov/Credit	-	0.0%	-	0.0%	3	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3	0.0%
TIPS	3,103,042	16.9%	459,095	36.3%	110,350	40.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,672,487	18.3%
Aggregate	2,558,014	13.9%	438,779	34.7%	109,057	40.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,105,850	15.5%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	25,438	98.7%	19,006	97.8%	-	0.0%	-	0.0%	44,444	0.2%
Stocks	5,010,521	27.2%	362,407	28.5%	51,473	18.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,424,401	27.1%
Russell 3000	3,401,817	18.5%	239,435	18.9%	32,858	12.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,674,110	18.3%
MSCI ACWI ex-U.S.	1,599,651	8.7%	122,665	9.7%	18,572	6.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,740,888	8.8%
S&P 500	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Dividends Receivable	9,018	0.0%	307	0.0%	43	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	9,368	0.0%
Miscellaneous	35	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	35	0.0%
Net Cash & Cash Equivalents	517,091	2.8%	5,059	0.4%	1,167	0.4%	342	1.3%	418	2.2%	44,811	100.0%	4,654	100.0%	573,542	2.9%
Total Cash & Investments	$ 18,387,479	100.0%	$ 1,265,340	100.0%	$ 272,050	100.0%	$ 25,780	100.0%	$ 19,424	100.0%	$ 44,811	100.0%	$ 4,654	100.0%	$ 20,019,538	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 fee

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 (-4.71%), S&P 500 (-4.51%) as well as the MSCI ACWI ex-U.S. (-2.75%) in the month of August. As a result the equity allocation decreased to 27.2% for the month from 29.2% for the prior month-end. Additionally, all bond indices returns increased for the Barclays Capital Government Long Term Index (+6.63%), Barclays Capital Long Credit Index (+4.04%), U.S. TIPS Index (+1.72%) as well as the U.S. Aggregate Bond Index (+1.29%) in August. The SIF poor equity performance was offset by a positive bond indices resulting in the overall bond asset allocation increasing from 69.5% at the end of July to 69.9% at end of August.

Cash allocations increased from 1.3% at end of July to 2.8% at end of August largely due to seasonally increased SIF operating cash of $288.6 million offset by $1million in decreased net SIF 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 (see Fund Asset Allocation chart insert.) Transitions were completed in August through early September, 2010 for the the Barclays U.S. Aggregate, U.S. TIPS, Russell 3000 and the MSCI ACWI ex U.S. asset classes and final placement of funds to approved target investment managers.

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		

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 early 2011.

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

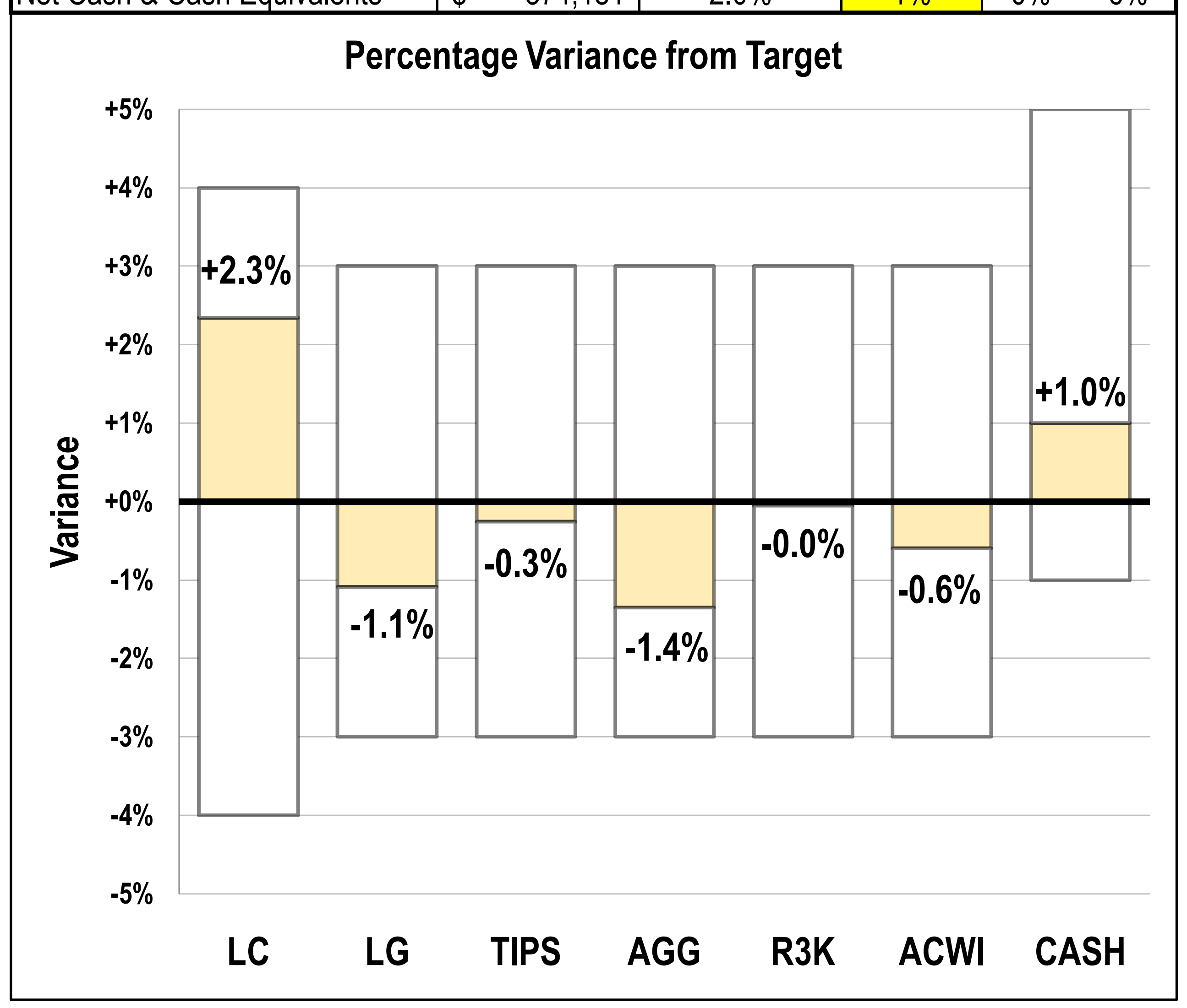
Ohio Bureau of Workers' Compensation
Investment Asset Allocation by Fund - Target Variance

As of September 30, 2010

(in thousands)

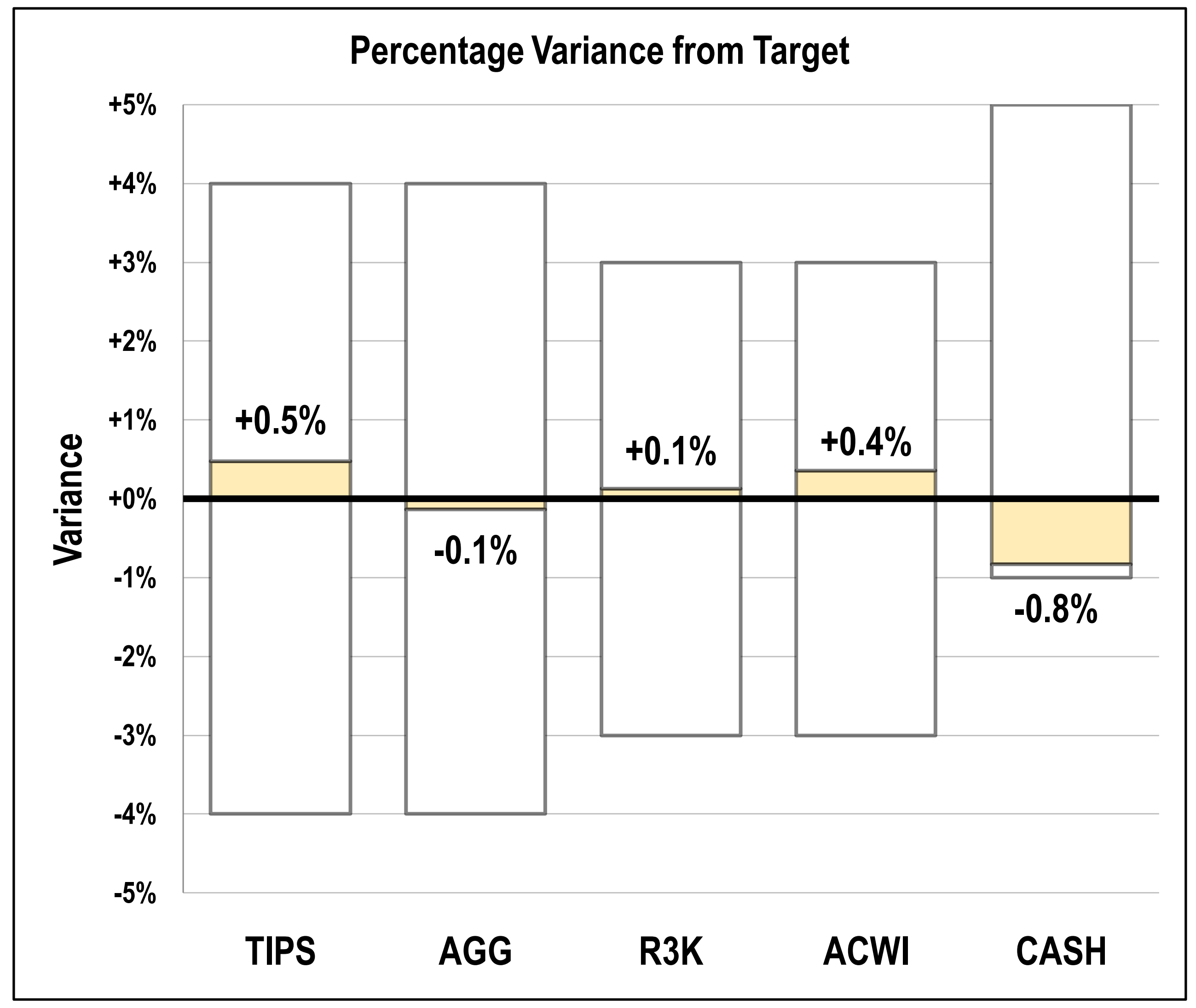
State Insurance Fund

Asset Class	Market Value	Actual	Target	Range
Long Credit	$ 5,673,768	30.3%	28%	24% — 32%
Long Government	$ 1,479,410	7.9%	9%	6% — 12%
TIPS	$ 3,130,737	16.7%	17%	14% — 20%
Aggregate	$ 2,552,465	13.6%	15%	12% — 18%
Russell 3000	$ 3,730,687	20.0%	20%	17% — 23%
MSCI ACWI ex-U.S.	$ 1,758,483	9.4%	10%	7% — 13%
Miscellaneous	$ 35	0.0%	0%	0% — 0%
Net Cash & Cash Equivalents	$ 374,181	2.0%	1%	0% — 6%



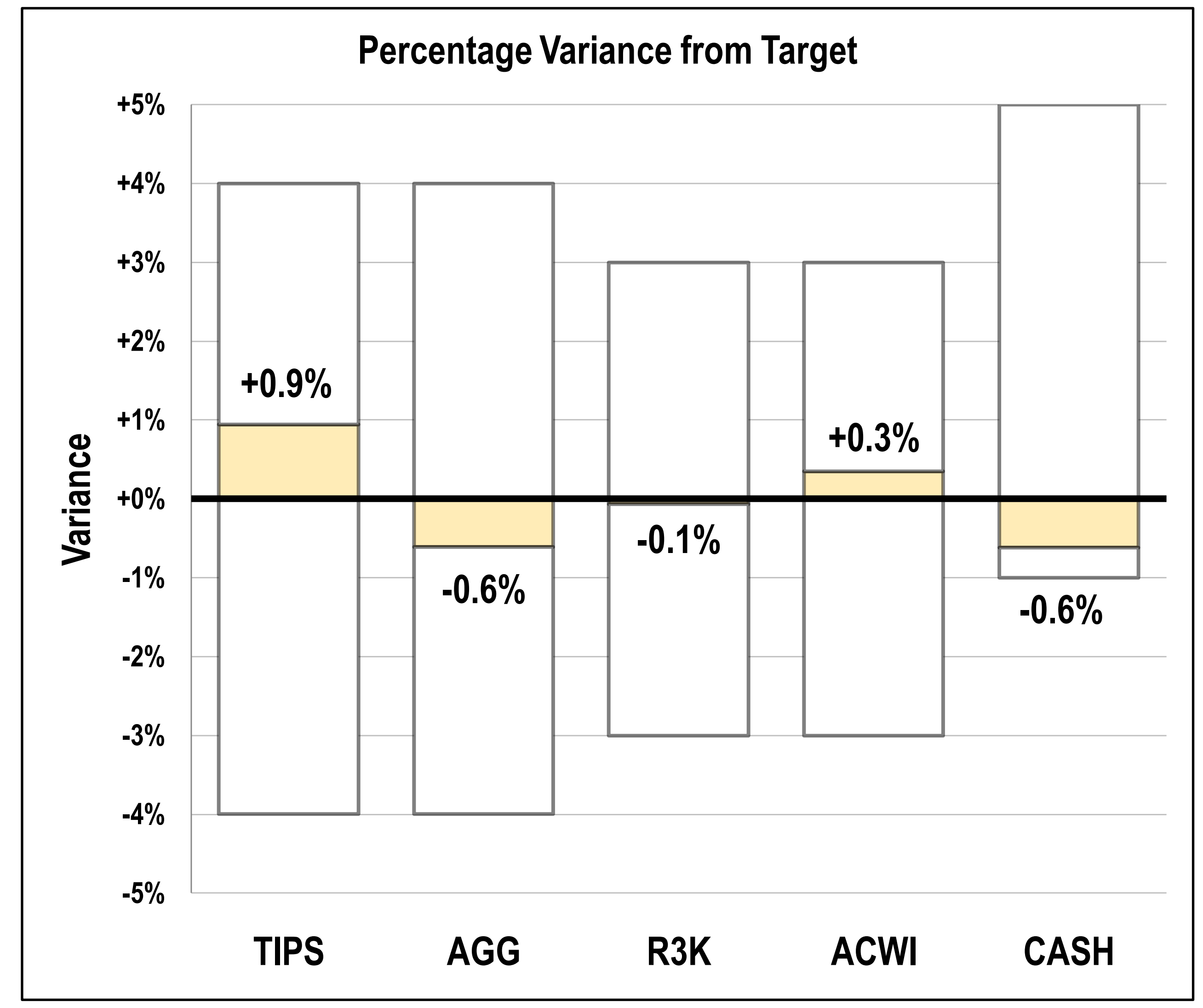
Disabled Workers' Relief Fund

Asset Class	Market Value	Actual	Target	Range
TIPS	$ 461,821	35.5%	35%	31% — 39%
Aggregate	$ 440,764	33.9%	34%	30% — 38%
Russell 3000	$ 262,001	20.1%	20%	17% — 23%
MSCI ACWI ex-U.S.	$ 134,845	10.4%	10%	7% — 13%
Net Cash & Cash Equivalents	$ 2,233	0.2%	1%	0% — 6%



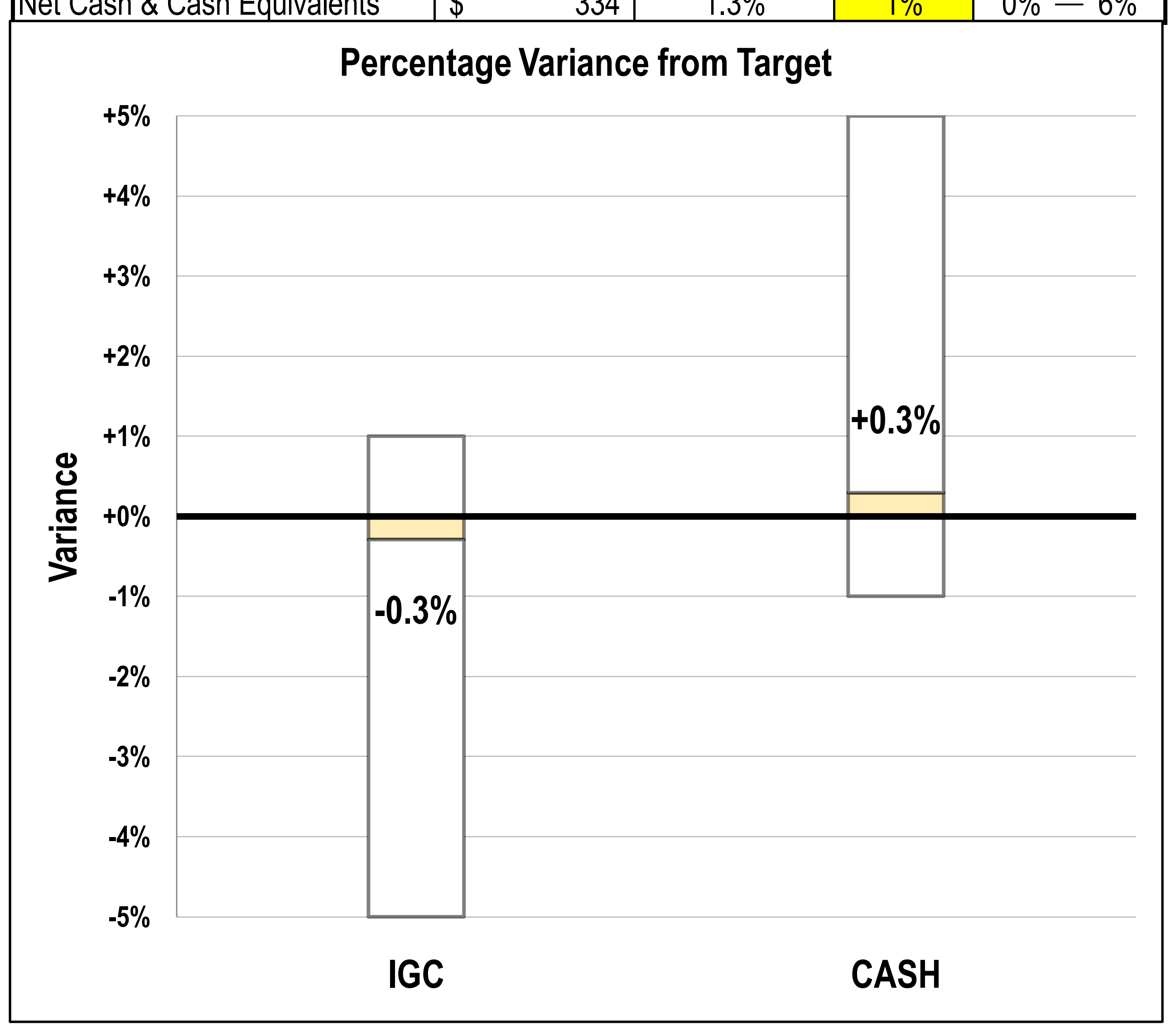
Coal Workers' Pneumoconiosis Fund

Asset Class	Market Value	Actual	Target	Range
TIPS	$ 111,007	39.9%	39%	35% — 43%
Aggregate	$ 109,475	39.4%	40%	36% — 44%
Russell 3000	$ 35,951	12.9%	13%	10% — 16%
MSCI ACWI ex-U.S.	$ 20,416	7.3%	7%	4% — 10%
Net Cash & Cash Equivalents	$ 1,058	0.4%	1%	0% — 6%



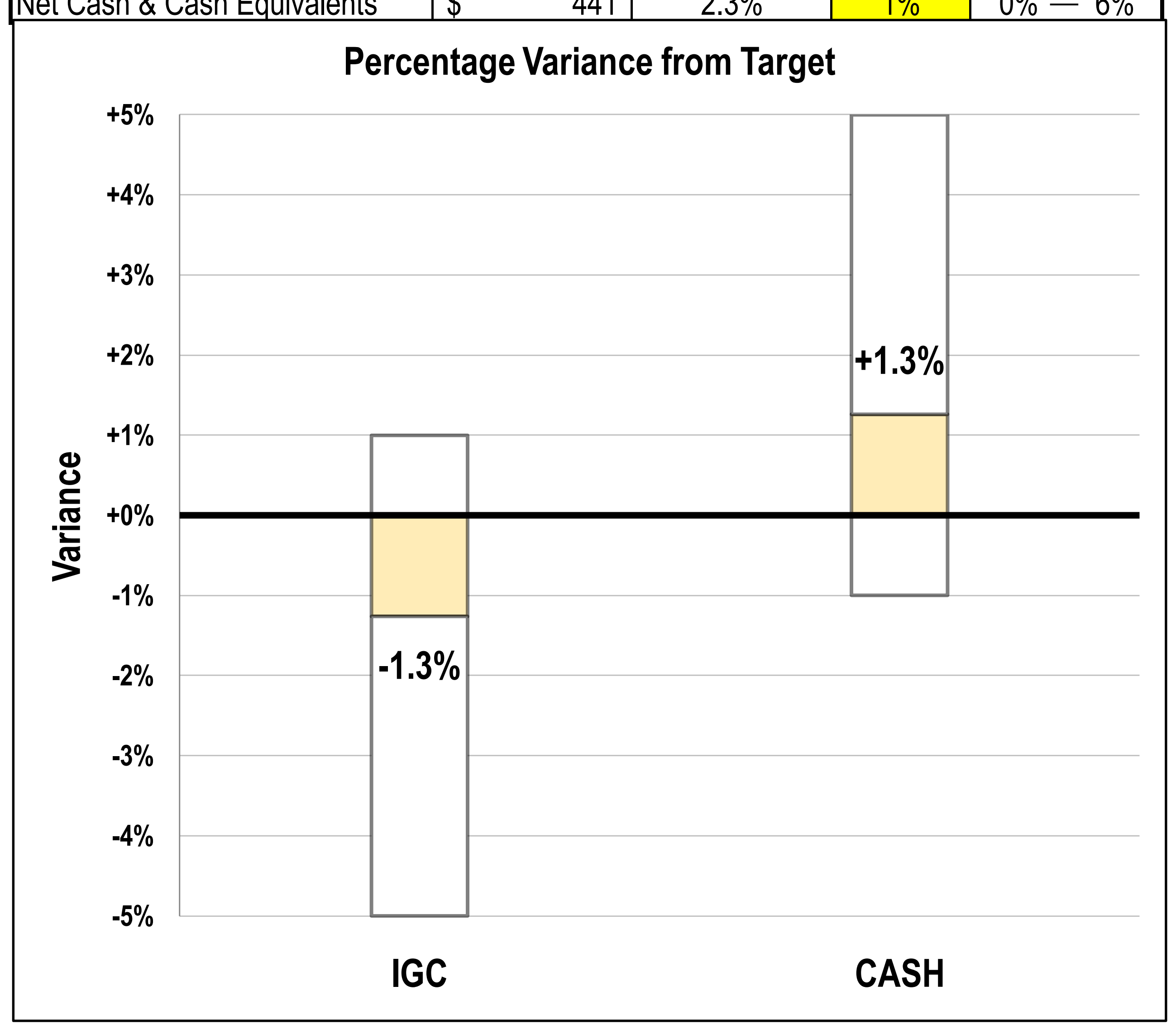
Public Work-Relief Employees' Fund

Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	$ 25,549	98.7%	99%	94% — 100%
Net Cash & Cash Equivalents	$ 334	1.3%	1%	0% — 6%



Marine Industry Fund

Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	$ 19,089	97.7%	99%	94% — 100%
Net Cash & Cash Equivalents	$ 441	2.3%	1%	0% — 6%



Self Insured Employers Guarantee Fund

Asset Class	Market Value	Actual	Target	Range
Net Cash & Cash Equivalents	$ 48,194	100%	100%	N/A

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

Prepared by: Investment Division
10/14/10

INVESTMENT DIVISION

TO:	Marsha Ryan, Administrator BWC Investment Committee BWC Board of Directors
FROM:	Bruce Dunn, CFA, Chief Investment Officer
DATE:	October 13, 2010
SUBJECT:	CIO Report September, 2010

Fiscal Year 2011 Goals

The Investment Division has three major goals for the new fiscal year 2011. 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 and from Board actions impacting/revising the BWC Investment Policy.

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

The Investment Division executed a comprehensive portfolio transition strategy in multiple stages throughout fiscal year 2010 for the State Insurance Fund that was completed at the end of May, 2010. This completed transition activity evolved from an asset-liability study of BWC investment consultant Mercer in which a new asset allocation strategy was approved by the BWC Investment Committee and Board of Directors at their respective March, 2009 meetings. Such new approved investment strategy target asset allocations for the State Insurance Fund were subsequently reflected in a new Investment Policy Statement approved by the BWC Investment Committee and Board of Directors at their respective April, 2009 meetings.

Mercer also completed and presented for consideration a strategic asset allocation analysis on the Disabled Workers Fund and the Coal Workers Fund at the December, 2009 and January, 2010 Investment Committee meetings. The Investment Committee and Board of Directors approved the new 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 reviewed and revised by the Board of Directors at these respective meetings.

A transition manager was selected by the Investment Division in the fourth quarter of FY2010 to implement and execute the necessary asset class mandate shifts approved by the Board for both of these specialty funds. All necessary legal contracting with both the transition manager and each of the target commingled fund investment managers approved by the Board was completed in July, 2010. The final transition strategy was also approved by the BWC CIO in July, 2010. The transition of these specialty fund assets was then implemented and completed in August, 2010.

The Investment Division is committed to support and implement any revisions to the BWC Investment Policy Statement that may include additional identified asset classes or investment management style changes that are considered under Strategic Goal Two which follows. As always, the CIO will report on Investment Policy compliance to the Investment Committee and Board via this monthly CIO report with any exceptions noted and addressed.

Strategic Goal Two – NEW INVESTMENT CONSIDERATIONS

Over the latter half of fiscal year 2010, the Investment Division began to explore with Mercer the potential employment of active management of each bond and stock asset class targeted as mandates of the State Insurance Fund. Mercer 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 consideration of Minority-or-Women-Owned (MWBE) investment managers to manage a portion of BWC assets has recently been addressed by the Investment Committee. Mercer provided two education sessions on MWBE manager utilization by institutional investors in Investment Committee meetings in June and July, 2010. A proposal for consideration on MWBE asset management next steps for the Bureau was made by Mercer and the CIO at the August, 2010 Investment Committee meeting. A proposed investment policy presented by the CIO and Mercer addressing MWBE investment managers that amends Section VIII of the Investment Policy Statement was approved by the Investment Committee and adopted by the Board at their respective September, 2010 meetings. A Manager-of-Manager (MoM) structure for the selection of MWBE managers was approved by the Board. A RFP process will be initiated for the selection of any MoM firm who will in turn be charged with the selection of specific MWBE firms managing assets in specified approved asset classes with the goal of achieving above benchmark returns. An initial MWBE funding level targeted at 1% of SIF investment assets was approved by the Board. The specific timing for implementation of this MWBE investment manager program will be determined by the Board. Any engagement of asset management of targeted BWC funds by MWBE managers would likely result in active management of such funds.

A first presentation on real estate as an asset class was made by Mercer to the Investment Committee at the August, 2010 meeting. A second presentation on peer investor investments in real estate assets will be made by Mercer at the October, 2010 Investment Committee meeting.

Mercer also provided to the Investment Committee at its August, 2010 meeting an updated investment policy decisions chart related to potential investment strategy revisions for consideration by the Investment Committee. Some of these topics are outlined above. At the request of the Chair and Vice Chair of the Investment Committee, the CIO presented his investment strategy recommendations for the State Insurance Fund in a report dated September 14, 2010. These recommendations included seven strategy priorities and estimated implementation timelines to completion, some of which are outlined herein. The CIO recommendations of new investment strategies included active investment management for portions of four SIF asset class mandates (Long Credit fixed income, U.S. Aggregate core fixed income, U.S. equities and Non-U.S. equities) as well as strategies for MWBE asset management, cash management, and real estate investing.

For any new investment consideration approved by the Investment Committee and Board in fiscal year 2011, the Investment Division will planfully coordinate and implement all action steps necessary to achieve such objectives. Any new objectives involving the selection of new investment managers will typically require the crafting and issuance of a RFP by the Investment Division working with the assistance of the Legal and Fiscal and Planning Divisions.

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. The CIO will provide a report detailing cash management recommendations to the Investment Committee and Board when appropriate after further research.

In the Deloitte Comprehensive Study Report provided to the Board in December, 2008 and presented at the Actuarial Committee meeting, Deloitte recommended BWC explore the consolidation of each of the Disabled Workers Fund, Coal Workers Fund and Marine Industry Fund into the State Insurance Fund for efficiencies, cost savings and added financial strength under a combined fund. Further research to combine such specialty funds into SIF will be performed internally by appropriate BWC Divisions, including the Investment Division. It is fully recognized that any combining of specialty trust funds will take Bureau initiative and will require legislative change.

Strategic Goal Three – INTERNAL INVESTMENT PROCEDURES

The Investment Division will continue to maintain as well as establish and improve internal investment policies and procedures that are written and documented. Among the procedures addressed as well as revised/updated 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, asset class rebalancing, RFP/RFQ/RFI processes, vendor invoice payments and passive investment management review.

Among the policies and procedures that will be addressed in fiscal year 2011 will be administrative areas such as Investment Division internal budgeting, travel, electronic storage of investment documents/records and document file retention schedules of RIM documents. Internal processes will also be developed for the monitoring of active style investment managers in advance of the future selection and engagement of any such active managers resulting from any new active management investment strategy approved by the Board. The formulation of proper detailed policies and procedures with regards to potential Investment Division cash management of portfolio assets will also be essential before any such actions occur.

Communication with and support of the BWC Internal Audit Division in reviewing existing/new investment-related policies and procedures and providing suggested improvements is a valuable resource for the Investment Division. The BWC Internal Audit Division will be engaged as appropriate in auditing identified Investment Division internal policies and processes.

Quarterly Investment Manager Meetings Summary (Second Quarter 2010)

BlackRock

(Passive Long Government Fixed Income, Passive Long Credit Fixed Income, Passive TIPS Fixed Income, Passive Non-U.S. Equities)

The BWC CIO and Director of Investments met with many representatives of BlackRock during meetings held on August 4, 2010 at their offices in San Francisco. The remaining BWC Investment staff in Columbus participated in the 2Q10 quarterly OIM meeting with BlackRock via conference call.

With the BlackRock acquisition of Barclays Global Investors (BGI) having been completed on 12/01/09, the combined BlackRock had total client assets under management of $3.15 trillion as of 6/30/10, well balanced between public equities of $1.38 trillion and fixed income of $1.08 trillion. When asked by the CIO about lost assets of clients due to combined managers resulting from the merger, BlackRock management indicated many of their clients changed their investment policies to accommodate both BlackRock and legacy BGI management of their portfolio at higher limits. BlackRock also acknowledged that the legacy BGI information systems were superior to those of BlackRock and readily accepted such BGI systems in the integration, although the BlackRock Solutions platform and its Aladdin software was utilized by both companies for fixed income analytics.

The BlackRock Global Head of Index Equity, Amy Schioldager, led the discussion on the non-U.S. commingled equity portfolio. BlackRock reported the SIF ACWI ex-U.S. indexed commingled non-lendable “B” fund had a negative return of 12.44% for 2Q10 versus the benchmark index return of negative 12.45%. Most of the negative return was attributable to the month of May 2010 when the portfolio had a negative 10.65% return during the height of the concern regarding Greece and the potential contagion that was feared to spread to other European nations which put significant downward pressure on the Euro exchange rate to the U.S. dollar. The slight 2Q10 tracking error for the fund is very impressive as the predicted tracking error for the fund is 20-50 basis points per annum as represented by BlackRock. The MSCI semi-annual index review and changes for its benchmark compositions was announced on 5/11/10 and became effective on 5/26/10.

The two-way turnover for the EAFE index, the largest component of the ACWIxUS benchmark, was 3.5% and included 16 Israel additions as Israel was upgraded to the MSCI EAFE from the MSCI Emerging Market Index. Ms. Schioldager indicated that a continuing trend among U.S. pension funds was to reduce their home country equity bias in favor of more equity portfolio weightings towards both developed non-U.S. country markets and emerging markets and even frontier markets. UK and Canadian clients of BlackRock have especially emphasized increasing allocations to emerging markets. The total market cap of U.S. stocks to worldwide stocks is now only approximately 37%. Approximately 95% of BlackRock managed global equity assets are unhedged to the local currency as only a small portion of clients desire foreign exchange hedged portfolios. There has been no change in foreign exchange execution strategy for the global indexing group since the merger.

Turning to the SIF fixed income portfolios under BlackRock management, BlackRock reported that the SIF separate account Long Government portfolio returned 11.85% over 2Q10 versus 11.83% for the benchmark index and that the SIF separate account Long Credit portfolio returned 5.99% versus the 5.93% benchmark index return for 2Q10. The SIF Long Government portfolio held 74 issues of the 123 issues in the benchmark and the SIF Long Credit portfolio owned 757 of the 1,158 issues in the benchmark index on 6/30/10. BlackRock reported the SIF separate account TIPS portfolio returned 3.84% for 2Q10 versus the benchmark index return of 3.82%. There was strong demand for both a 5-year and 10-year TIPS auction during the second quarter. Price return due to lower nominal Treasury rates over this period dominated inflation adjusted return and real coupon return for TIPS for the quarter.

After the conference call on quarterly fund performance ended, meetings were held by the CIO and Director of Investments with additional representatives of BlackRock on various subject matters requested in advance by the CIO. Information was learned about the “Green Package” portfolio risk management suite of reports available to BlackRock clients for a fee that provides full transparency into portfolio risks and expenses across asset classes. This software can be broken out from the comprehensive BlackRock Solutions software sold to clients. Information was also learned on how BlackRock approaches active management of fixed income from both a model-based approach concentrated in San Francisco that utilizes technology to generate investment ideas as well as from a separate fundamental disciplined approach based in New York that blends both bottom-up and top-down investment themes. BlackRock currently managed $37 billion of active U.S. investment grade credit and long duration credit ($9 billion) portfolios. Both approaches utilize separate dedicated teams of experienced portfolio managers and investment professionals. Active credit management by BlackRock has a strong 1, 3 and 5 year track record.

The session wrapped up with an introduction to the management of real estate assets by BlackRock. Total private real estate assets under management by BlackRock totaled over $15 billion, with offerings in core open-end funds, value-added open-end and closed-end funds, and opportunistic closed-end funds. BlackRock believes this is a good entry point in the real estate cycle for institutional investors as commercial real estate overall is bottoming and buyer pricing looks relatively attractive with a favorable price/cost ratio now. Apartments are now recovering in value the quickest, industrial and retail properties have bottomed and office properties are still experiencing declines in net operating income. Core real estate properties are not distressed but BlackRock sees little new supply coming to the market over the next three years and estimated total returns for its core open-end funds are 8-10% with 2/3 of returns from income and 1/3 from equity appreciation. Leasing income is 78% correlated with inflation on average for core BlackRock real estate funds.

Mellon Capital Management

(Passive All Cap U.S. Equity)

The BWC CIO and Director of Investments met with representatives of Mellon Capital Management (MCM) on August 5, 2010 at their headquarters office in San Francisco. The remaining BWC investment staff in Columbus participated in the initial quarterly investment management meeting with MCM via conference call.

MCM became the newest passive indexed manager of the SIF portfolio in late May, 2010 when a total of $1.046 billion market value of Russell 3000 indexed assets were transferred in-kind to MCM from the transition account previously managed by a BWC chosen transition manager. MCM reported that this newly managed separate account SIF portfolio had a negative return of 5.71% for the first full month of its management in June, 2010 compared to the Russell 3000 benchmark index return of negative 5.75%. This positive tracking error of 4 bp was comprised of +2 bp for portfolio composition difference to the index, +1 bp for cash drag and +1 bp for dividend accruals. The Russell 3000 index reconstitution was completed on June 25. MCM received approximately 2,200 in-kind securities of the benchmark index from the transition manager and purchased approximately 100 new names in the first several days of trading with a net increase of an additional 200 eligible securities purchased on or around the June 25 actual date of index reconstitution. MCM indicated it is comfortable not owning approximately 500 names in the index. The BWC CIO was very satisfied with the MCM execution of its trading strategies for the SIF portfolio over this first month of rebalancing the portfolio from both the transition and index reconstitution events.

After discussions on the management of the Russell 3000 indexed portfolio concluded, the BWC investment staff received a corporate update. MCM managed $171 billion in assets as of 6/30/10, of which $107 million were equity indexed portfolios, $17 million were fixed income indexed portfolios, and $47 million were actively managed portfolios. Ron O'Hanley, the former head of asset management for parent BNY Mellon, departed in July, 2010 to accept a senior position at Fidelity Investments. It was just announced the day before this August 5 meeting that his replacement will be Curtis Arledge who was a senior-level fixed income executive officer at BlackRock. Mr. Arledge worked previously with Bob Kelly, current CEO of BNY Mellon, at Wachovia Bank. It is expected that Charles Jacklin, current CEO of MCM, will report directly to Mr. Arledge as he had to Mr. O'Hanley.

After the conference call with BWC investment staff concluded, the CIO and Director of Investments met with several additional senior-level MCM investment officers. Discussions were held with both David Jiang, EVP of global indexing, and Michael Ho, EVP and Chief Investment Officer of MCM. Mr. Jiang recently relocated to San Francisco headquarters after serving for 8 years as CIO of the Asia asset management group of MCM. MCM has a strong relationship with a number of large Asian sovereign funds who view indexed portfolios as core assets. MCM indicated that for new asset flows, there is a 60/40 bias towards non-securities lending portfolios. MCM has a strong defined contribution business which has exhibited solid asset growth. More MCM pension clients are moving towards tactical asset allocation strategies to obtain added returns. Under the supervision of Mr. Ho, MCM has developed tactical asset allocation strategies for clients that have been effective and well received by clients.

<u>State Street Global Advisors</u>
(Passive Long Credit Fixed Income; Passive Long Government/Credit Fixed Income; Passive Intermediate Duration Fixed Income; Passive TIPS Fixed Income)

The BWC investment staff as well as Administrator Ryan met with the BWC primary relationship manager, the senior fixed income portfolio manager (John Kirby) and a principal of SSGA who is an EVP of parent State Street Corp. (Nicholas Bonn) on August 17, 2010 at the Investment Division offices. In addition, the group heard via conference call from a SSGA U.S. TIPS portfolio manager (Marc Touchette).

It was mentioned that Paul Braake, head of passive equities management, will relinquish his primary duties and become an advisor at the end of 2010 and will be replaced by Lynn Blake. The BWC Board met Mr. Braake in February, 2010 when the Board approved SSGA as passive commingled fund manager for the new Russell 3000 indexed U.S. equities strategy for the Disabled Workers' Fund and Coal Workers' Fund. Jay Hooley, a twenty-year veteran at State Street, became the new CEO of parent State Street Corp. in March 2010 replacing Ron Logue. The current CEO is maintaining a similar business strategy as his predecessor but is focusing intently on cost control and is reducing the unit cost of custodial services. Discussions occurred on custodian foreign exchange activities and Mr. Bonn provided an update and more background information on the lawsuit filed last year by the California Attorney General regarding custodial foreign exchange activities for client CALPERS. State Street Bank and Trust (SSBT) has recently lifted remaining securities lending client redemption restrictions and expects only modest net redemptions in the foreseeable future. SSBT is the largest securities lender in the world and, like other securities lenders, has seen reduced net income derived from securities lending activities with net lending interest income revenue margin squeezed.

SSGA had slightly under $1.78 trillion in assets under management as of 6/30/10, with approximately $1.2 trillion under passive management, $103 billion active or enhanced indexed managed and $458 billion of cash assets under management. The equity/fixed income split for passive assets under management was 60/40. Over 64% of its clients have two or more strategies under SSGA management with 85% of new business coming from existing clients.

SSGA reported that the SIF Long Credit portfolio had a return of 5.89% for 2Q10 compared to the benchmark index return of 5.93% whereas the BWC custodian and performance vendor (JP Morgan Chase) reported a portfolio return (before management fees) of 5.93% that matched the index. SSGA reported that the SIF U.S. Aggregate portfolio had a return of 3.40% for 2Q10 compared to the benchmark index return of 3.49% and the custodian reported return for this SIF portfolio of 3.46%. As is typical for these two portfolios, variations in reported performance returns are attributable to price variations in the different sources used by the manager compared to the custodian. The taxable municipal Build America Bonds in both these portfolios continue to perform relatively well (except for State of Illinois GO bonds) and there has been more taxable municipal revenue bonds issued that are offering further diversification of names. The slight underperformance to the benchmark of the SIF U.S. Aggregate portfolio was split between asset allocation (U.S. government bonds underweighted by 0.5% to index) and security selection. The portfolio managers continued to reduce the MBS TBA positions as many identified MBS specific pools were purchased during the quarter at attractive prices.

Total 2Q10 return of the DWRF and BLF LDFI portfolio reported by SSGA were 8.44% and 8.54%, respectively, compared to the benchmark return of 8.56%, whereas the BWC custodian reported quarterly returns of 8.45% for DWRF and 8.51% for BLF. The underperformance in the LDFI portfolio of DWRF and BLF in 2Q10 was attributable to a combination of cash drag in a strong performance quarter and an approximate 1% underweight of Treasuries and 1% overweight in Corporate Credits in the portfolio compared to the benchmark index during a quarter where the Long Government portion of the benchmark index returned 11.83% and the Long Credit portion of the index returned 5.93%, a significant difference in performance between these two sectors making up 85% of the benchmark index. The two smaller specialty funds (Public Work-Relief Employers' Fund and Marine Industry Fund) investment in the commingled Intermediate Duration Fixed Income Fund managed by SSGA had a return of 2.95% for 2Q10 reported by both SSGA and the BWC custodian compared to the benchmark return of 2.97%.

The TIPS portfolio managed by SSGA for each of SIF, DWRF and BLF had total returns of 3.83% for 2Q10 as represented by SSGA which closely matched the benchmark quarterly return of 3.82%. The BWC custodian reported 2Q10 TIPS portfolio performance of 4.01% for all three BWC portfolios or 0.19% higher than SSGA which represents the difference in pricing sources used by SSGA (Barclays Capital) and the custodian (Interactive Data). These pricing differences have been addressed and discussed in previous quarterly reports to the Board but pricing volatility between these two pricing sources continues to decline. The TIPS portfolio manager indicated the TIPS real yield curve flattened during the quarter and TIPS underperformed nominal Treasuries significantly in 2Q10 reflecting investor flight to quality and risk aversion with renewed fears of a "double dip" recession surfacing combined with European sovereign risk concerns. For example, 10-year Treasuries declined 90 bps over 2Q10 whereas 10-year TIPS declined 49 bps over the same period so breakeven 10-year yield spreads tightened by 41 bps with muted inflation expectation. SSGA continues to see inflows into the TIPS asset class due to real asset portfolio diversification objectives and inflation hedging strategies as investors are concerned with the longer term consequences of current U.S. government policy creating larger deficits.

Northern Trust
(Passive All Cap U.S. Equity; Passive Large Cap U.S. Equity)

The BWC investment staff met on August 18, 2010 at the Investment Division offices with the primary portfolio manager of both the new Northern Trust managed Russell 3000 passive indexed separate account fund and the S&P 500 passive indexed commingled fund. Also in attendance were the two members of the Northern Trust relationship management team.

The senior relationship manager provided an update on securities lending of its securities eligible managed portfolios. Northern Trust lifted all remaining redemption restrictions across all of its securities lending products in mid-July 2010 except for some short-term duration extension fixed income portfolios that were among the most problematic portfolios that took duration bets on MBS and ABS. These portfolios where some redemption constraints still exist total approximately $3.5 billion in current AUM. Northern Trust has created more non-lending strategy funds where none were previously offered. Northern Trust did encounter a large amount of flows from securities lending to non-lending funds when redemption gates were partially lifted earlier. Now that redemption structures have been totally lifted, there has not been much additional flows from lending to non-lending funds as most investors wanting to redeem securities lending assets had already done so. Northern Trust has observed equal flows into both lending and non-lending funds offered. Most Northern Trust defined contribution pension clients have moved to non-lending funds but its defined benefit clients are staying with securities lending eligible funds.

As a large custodian bank, Northern Trust is experiencing challenges in growing topline revenues with reduced securities lending income and foreign exchange revenue. NT is looking to add currency overlay services as added foreign exchange volatility is creating demand. NT also recently launched a frontier market equity commingled fund that was seeded by a state pension defined benefit plan.

The S&P 500 non-lending commingled fund managed by Northern Trust that includes DWRF and BLF assets had a return of negative 11.41% compared to the negative 11.43% return of the S&P 500 benchmark index for 2Q10. The 2 basis point outperformance was entirely attributable to an class action settlement (Qwest). All units owned by DWRF and BLF in the commingled fund were subsequently redeemed in early August in exchange for in-kind securities transferred into new respective transition accounts at the BWC custodial bank in order to position the portfolio for the large transition that was executed in August, 2010 for these two specialty funds. The NT portfolio manager indicated this conversion of units for physical securities was performed very efficiently from his perspective.

A total of $2.44 billion market value of Russell 3000 indexed stocks owned in a SIF transition account were transferred in-kind to Northern Trust as a new target separate account passive indexed manager at the end of May, 2010. Northern Trust reported that this newly managed SIF portfolio had a negative return of 5.71% for the month of June, 2010 compared to the Russell 3000 benchmark index return of negative 5.75%. The NT portfolio manager attributed this 4 basis points of outperformance to a combination of cash drag (2.5 bp) and Russell 3000 index rebalancing as the reconstitution of the Russell 3000 index occurred in late June. The PM indicated that the Russell 3000 index reconstituted two-way turnover was almost 7% in June, 2010 versus 3.5% in 2009. Northern Trust had a well thought-out trading strategy for coping with the benchmark index changes in June as well as for adjusting the SIF transition portfolio of benchmark stock positions received from the transition manger. Approximately 2,200 names were received from the transition manager at the end of May and the NT PM added approximately 300 additional eligible stock issues during June.

In summary, the BWC investment staff was very pleased with both the initial performance of the new SIF Russell 3000 index portfolio managed by NT for the challenging initial month of June, 2010, given the combination of the benchmark reconstitution that occurred that month as well as the rebalancing trading that occurred by NT that added additional stocks to the portfolio to more closely replicate the benchmark index.

Compliance

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

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Ohio Bureau of Workers' Compensation

Asset Allocation in Real Estate by Plan Type

September 23, 2010

Guy M. Cooper
Jordan Nault
Kweku Obed

Asset Allocation in Real Estate
Total Assets of Participating Funds

Type	Number of Funds	Market Value ($, Millions)
Public	40	1,280,563
Union	10	9,219
Corporate	9	53,722
All Funds	59	1,343,505

Data taken from Council of Institutional Investors Asset Allocation Survey 2009; page 1

Asset Allocation in Real Estate
Historic Unweighted Asset Mix

Asset Class	2009	2008
Domestic Equity	30.0%	36.3%
Domestic Fixed Income	27.5%	24.4%
Global / International Equity	14.1%	17.6%
Real Estate	7.9%	6.4%
Private Equity	6.7%	4.4%
Hedge Funds	3.2%	2.0%
Global / International Fixed Income	2.5%	2.7%
Cash Equivalents	2.4%	1.1%
Other	2.1%	1.7%
Emerging Markets Equity	1.4%	2.0%
Commodities / Real Assets	1.1%	0.9%
Venture Capital	1.1%	0.5%

Data taken from Council of Institutional Investors Asset Allocation Survey 2009; page 4

Asset Allocation in Real Estate

Ranges of Asset Allocation in Real Estate

Type	Lowest	Median	Highest	Participation Rate
Corporate	0.2%	4.9%	13.0%	100.0%
Public	0.3%	8.8%	18.6%	97.5%
Union	5.5%	9.2%	18.7%	90.0%

Data taken from Council of Institutional Investors Asset Allocation Survey 2009; page 5

Asset Allocation in Real Estate
Asset Mix by Fund Type

Asset Class	Corporate	Public	Union	BWC [2]
Domestic Equity	25.5%	28.6%	39.7%	19.2%
Domestic Fixed Income	34.2%	25.7%	28.5%	71.5%
Global / International Equity	11.9%	16.0%	8.0%	7.9%
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%	1.4%
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 Equities [1]	59.9%	67.0%	70.0%	27.1%
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 6/30/2010

Data taken from Council of Institutional Investors Asset Allocation Survey 2009; page 6

Asset Allocation in Real Estate
Asset Mix by Fund Size

Asset Class	Less Than $3 Billion	$3 Billion to $20 Billion	More Than $20 Billion	BWC [2]
Domestic Equity	33.7%	28.4%	27.8%	19.2%
Domestic Fixed Income	28.7%	27.9%	25.8%	71.5%
Global / International Equity	10.3%	16.6%	15.4%	7.9%
Real Estate	8.0%	6.3%	9.4%	N/A
Private Equity	5.1%	5.9%	9.3%	N/A
Hedge Funds	4.9%	2.6%	1.9%	N/A
Global / International Fixed Income	1.0%	4.4%	2.3%	N/A
Cash Equivalents	2.3%	2.7%	2.4%	1.4%
Other	3.9%	1.4%	1.2%	N/A
Emerging Markets Equity	1.0%	1.4%	1.7%	N/A
Commodities / Real Assets	0.6%	1.3%	1.5%	N/A
Venture Capital	0.4%	1.0%	1.4%	N/A
Total In Equities [1]	67.4%	63.7%	68.1%	27.1%
Number of Funds	20	19	20	N/A

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

[2] BWC Allocations as of 6/30/2010

Data taken from Council of Institutional Investors Asset Allocation Survey 2009; page 7

Asset Allocation in Real Estate

Example - Teacher Retirement System of Texas

Teacher Retirement System of Texas (TRS)

- The Teacher Retirement System of Texas (TRS) includes real estate in its real assets (RA) Portfolio.
- TRS' Investment Policy Statement (IPS) notes that the RE Portfolio will focus on private or public real estate equity, private or public real estate debt, infrastructure, timber, agricultural real estate, oil and gas, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, real estate investment trusts ("REITs"), master limited partnerships ("MLPs"), non-fixed assets and other opportunistic investments in real estate. Real estate investments are often classified by strategy, including: core; core-plus; value-added; and opportunistic.
- **Teacher's IPS has assigned the following weights to real assets:**
  - Minimum: 5%
  - Maximum: 20%
  - Long Term Target: 15%
- During the second quarter of 2010, the Retirement System made more than $800m in real estate investments – a mixture of core, value-added and infrastructure strategies. (Source: IPE Real Estate)

Asset Allocation in Real Estate

Example - Teacher Retirement System of Texas

Teacher Retirement System of Texas (TRS)

- The largest of the commitments was a $300m allocation to Zachary Hastings Infrastructure Partners. The second investment was a $250m commitment to Stratford Land Fund IV. The remaining $250m allocation was allocated to Lionstone Cash Flow Partners.
- According to HousingWire.com (August 2010), TRS will reportedly invest an additional $1.1bn in real estate between three different firms via a $400m commitment to the JP Morgan Strategic Property fund, a $200m allocation to the Forum Asian Realty Income III and a $500m pledge to General Growth Properties.

Asset Allocation in Real Estate

Example - Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS)

- The Ohio Public Employees Retirement System (OPERS) includes real estate in its alternatives Portfolio.
- OPERS will allocate $1.6bn to real estate in 2010, targeting stable assets as well as motivated sellers. (Source: IPE Real Estate)
- OPERS will be investing through three main structures: separate accounts; open-ended and closed-end commingled funds .The fund is expected to allocate an estimated $683m to its existing separate account managers.
- Up to $600m could also be invested in the open-ended commingled fund sector, although it will depend on market fundamentals and portfolio valuations.
- A further $225m-$275m is likely to be invested in the closed-end commingled funds, delivering three to five non-US investment partnerships over the year.
- **OPERS IPS has assigned the following weights to real estate:**
  - Minimum: 0%
  - Maximum: 14%
  - Long Term Target: 10%

Asset Allocation in Real Estate

Example - California State Teachers' Retirement System

California State Teachers' Retirement System (CalSTRS)

- The California State Teachers' Retirement System (CalSTRS) includes real estate as a stand alone portfolio.
- CalSTRS allocation within the real estate portfolio as of 6/30/10 was 67% tactical, 32% core, and 1% public.
- The tactical portfolio is comprised of international, opportunistic, land, specialty, and urban investments.
- **CalSTRS IPS has assigned the following weights to real estate:**
  - Minimum: 9%
  - Maximum: 15%
  - Long Term Target: 11%
- During the second quarter of 2010, the Retirement System made two real estate investments totaling $570m – both were tactical.

Asset Allocation in Real Estate
Example - California Public Employees' Retirement System

California Public Employees' Retirement System (CalPERS)

- The California Public Employees' Retirement System (CalPERS) includes real estate as a stand alone portfolio.
- The CalPERS portfolio is comprised of both core and specialized investments. The specialized investments include national housing, single family housing, senior housing, urban, natural resources (timber and agriculture), technology, opportunistic, and international.
- CalPERS real estate investments are acquired and managed through REITs, separate accounts, partnerships, and limited liability companies.
- **CalPERS IPS has assigned the following weights to real estate:**
  - Minimum: 5%
  - Maximum: 15%
  - Long Term Target: 10%

Asset Allocation in Real Estate

Example - New York State Common Retirement Fund

New York State Common Retirement Fund (CRF)

- The New York State Common Retirement Fund (CRF) includes real estate in its alternatives portfolio.
- CRF invests through directly owned real estate, joint ventures, commingled funds, co-investment funds, fund of funds, captive funds and mortgage loans.
- CRF focuses a portion of the real estate portfolio on investments in affordable housing in New York.
- **CRF's IPS has assigned the following weight to real estate:**
  - Long Term Target: 6%

Asset Allocation in Real Estate

Example - Colorado Public Employees' Retirement Association

Colorado Public Employees' Retirement Association (PERA)

- The Colorado Public Employees' Retirement Association (PERA) includes real estate as a stand alone portfolio.
- **PERA's IPS has assigned the following weights to real estate:**
  - Minimum: 4%
  - Maximum: 10%
  - Long Term Target: 7%

Asset Allocation in Real Estate
Recent Allocations to Real Estate

Plan	Allocation to Real Estate	Date
TRS	5.8%	August 2009
OPERS	8.4%	June 2009
CalSTRS	9.9%	July 2010
CalPRS	7.5%	June 2010
CRF	6.5%	March 2009
PERA	6.0%	December 2009

Asset Allocation in Real Estate
Mercer Mean-Variance Assumptions

		Geometric Return	Arithmetic Return	Standard Deviation	Beta	Duration	Liquidity
2009	Real Estate Combination[1]	7.3%	8.2%	13.7%	0.75	0.0	4.5
2010	Real Estate Combination[1]	7.4%	8.5%	15.5%	0.75	0.0	4.5

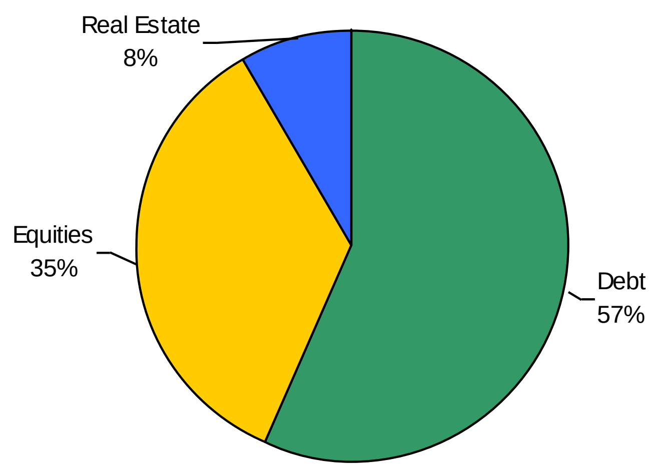
[1] Comprised of 50% Real Estate - Core and 50% Real Estate - REITS

Asset Allocation in Real Estate

Total Market Capitalization by Asset Class

- The size of the worldwide bond market (total debt outstanding) is an estimated $82.2 trillion. Outstanding US bond market debt is approximately $31.2 - $34.3 trillion (BIS /SIFMA).
- The size of the world stock market is estimated at about $40 - 50 trillion (Reuters / SIFMA). The US represents approximately 40% of the world stock market.
- It is estimated that the global Commercial Real Estate (CRE) debt market accounts for approximately 58% of the $12 trillion investable real estate universe (RREEF).
- It is estimated that globally, there are approximately $230 billion of distressed real estate assets; $168 billion of these troubled assets are located in the US while large concentrations also exist in the United Kingdom ($15 billion), Spain ($5.2 billion) Japan ($2.8 billion) and Australia ($2.5 billion).

Estimated Size of Global Fixed Income, Equity, and Real Estate Universes



MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

DATE: September 14, 2010

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **CIO Recommendations**
BWC New Investment Strategy Considerations
State Insurance Fund

BACKGROUND

Over the course of calendar year 2010 to date, much time has been devoted in BWC Investment Committee meetings to introducing and discussing new investment-related topics for consideration. These topics have included active versus passive investment management, emerging and minority-or-woman-owned investment managers (MWBE) and institutional commercial real estate investments. The BWC investment consulting team of Mercer has led these Committee meeting discussions. In the opinion of the CIO, Mercer provided outstanding background and market information on these topics as well as their perspectives based on experiences. This process has been very useful towards formulating judgments regarding potential applicability of these topics to BWC investment strategy.

The CIO has been asked by the Investment Committee to provide his recommendations addressing these and any other relevant investment topics/strategies as well as their prioritization for implementation. This memorandum of recommendation will specifically address and prioritize four new Phase I investment strategies to be considered as well as address three new proposed Phase II investment strategies for the State Insurance Fund (SIF).

Timeline charts for suggested strategy implementations for each recommended Phase I and Phase II strategy are provided as attachments to this memorandum. More specificity on these suggested timelines is provided at the end of each strategy commentary. The RFP creation and evaluation process requires much attention and time commitment of the BWC investment staff with support of other divisions of the Bureau such as Legal and Fiscal & Planning. It is expected that the BWC investment consultant firm will assist the BWC investment staff in providing appropriate RFP questions for submission as well as being actively involved in the manager selection processes. Appropriate changes to BWC investment policy will need to be addressed for each strategy recommendation. In addition, appropriate internal control policy and procedures must also be formulated and in place prior to contracting and funding of additional investment managers selected to execute new investment strategies. The timelines offered by the CIO for potential Phase I and Phase II investment strategy implementation reflects the sensitivity of staff time to both the RFP process and the subsequent increased need to monitor additional investment managers selected from a thorough evaluation process.

PRIORITY ONE – PHASE I
Long Duration Credit Fixed Income Active Management

In an active investment management presentation made to the Investment Committee at its May 27, 2010 meeting, the CIO recommended four asset classes of the State Insurance Fund for active management consideration. Of these four asset classes, long duration credit fixed income was given the only first priority recommendation by the CIO for active management consideration and implementation. This first priority consideration for this asset class was based on a combination of (a) its size and consequent opportunity, (b) the results of the Mercer manager database and (c) the ability of an active credit fixed income manager to control/reduce credit risk.

Long Duration Credit Fixed Income is the largest SIF portfolio asset class at a 28% target investment policy asset allocation. This asset class has a current approximate market value of $5.5 billion in the SIF portfolio representing approximately 30.2% of total SIF assets. The Mercer manager database for the U.S. Long Duration fixed income asset class shows performance for the median active manager and Mercer "A/A-" rated active manager exceeded the benchmark index return by a significant 0.8% and 1.4% per annum, respectively, over the most recent ten-year period offered by Mercer. There was also a high 1.0 average information ratio per annum for this asset class as represented in the Mercer database for its "A/A-" rated active managers.

As pointed out in the referenced May, 2010 CIO presentation, strong opportunities exist for a skillful active long duration credit manager to add incremental returns above the benchmark. This can be achieved through in-depth fundamental credit research and understanding of key industry sector trends, consequently over/underweighting many credits and controlling/reducing risk by eliminating/avoiding prominent deteriorating credits having major negative impacts on the benchmark return. In contrast to an active manager, a passive index manager must hold/retain all important credits in the benchmark index at an approximate index weighting even though those holdings will include declining credits. As a result, the passive manager cannot defensively reduce credit risk like active managers. The passive index manager must retain and ride down declining credits experiencing significant market value declines until such credits are removed from the benchmark index due to downgrades to junk quality status.

The CIO confirms his recommendation presented in May, 2010 that **20%** of the targeted 28% SIF asset allocation towards the long duration credit fixed income asset class be targeted towards active management. Based on a recent market value of $18.4 billion of SIF invested assets, a 20% target represents approximately $3.7 billion. Based on the recent ten-year performance period results from the Mercer database that was presented to the Investment Committee in March-April 2010 for median active manager performance as well as for Mercer "A/A-" rated managers, active management "value added" net excess investment income returns over the benchmark index (after represented estimated management fees) ranges from $20 million (for median managers) to $40 million (for "A/A-" Mercer rated managers) per annum at this 20% active management target recommendation.

It is the present expectation of the CIO that no more than four or five active long credit fixed income managers would be chosen and presented for Board approval as a result of the RFP selection process. Some diversification of managers by style of management and philosophy is desirable in the opinion of the CIO.

Timeline Estimate: RFP issuance in January 2011; finalist manager recommendations in May-June 2011; manager fundings in August-September 2011.

PRIORITY TWO – PHASE I
MWBE Investment Managers Strategy

As represented at the August, 2010 Investment Committee meeting, the CIO supports the Manager-of-Manager (MoM) structure for the selection of MWBE managers. There are experienced MoM firms who specialize in the continuous monitoring of a broad list of MWBE managers who manage assets in one or more of the asset classes of the current SIF portfolio. Any MoM firm recommended for engagement to the BWC Investment Committee/Board will result from a RFP selection process focusing on the specific strengths of the firm towards MWBE managers concentrating in SIF asset classes. It is anticipated that at most two MoM firms will be selected from the RFP process. The focus will be on the selection of the best MoM firm(s) who will in turn select top-tier MWBE managers that have delivered performance returns to clients that exceed benchmark targets in their chosen asset class. It is the opinion of the CIO that the MoM firm should select the best MWBE managers for BWC that can provide "alpha" or excess returns above a SIF benchmark index approved for MWBE management in the BWC Investment Policy Statement. For example, a determination may be made by a MoM firm that the best estimated excess return available to BWC from MWBE managers are in the large-cap equity asset class, despite the fact that the large-cap equity class overall is not an asset class that was previously recommended for active management consideration by the CIO.

Much will be learned by the RFP Selection Committee in closely evaluating the responses of MoM candidate firms. The CIO does believe that an initial MWBE funding level via MoM firms representing a targeted **1%** of SIF investment assets (currently around $180 million) is a realistic initial objective for this recommended new strategy.

Timeline Estimate: RFP issuance in April 2011; MoM finalist manager recommendation(s) in August-September 2011; MoM manager fundings in November-December 2011.

PRIORITY THREE – PHASE I
<u>Cash Management Overlay Strategy</u>

The CIO believes that employment of an effective cash overlay strategy will make more efficient use of operational cash balances for the SIF portfolio and earn higher investment income over time while also reducing asset class market value variances to portfolio allocation targets. Cash overlay strategies are commonly utilized by many institutional investors to capture the higher expected risk premium returns above cash returns that exist for bond and stock target asset classes.

For example, the SIF portfolio has a 1% cash allocation target reserved for operational liquidity needs but during most periods of the year, operational cash balances (excluding outside manager cash held) exceeds this 1% target and in certain months may even exceed 2%. A skilled cash overlay manager could utilize an appropriate portion of cash above a minimum cash maintenance target (such as 1%) to obtain representation via liquid exchange-traded futures contracts that closely match the returns of stock or bond benchmark indexes of SIF. The cash overlay manager would target the purchase of futures contracts to increase representation of asset classes that are under targeted asset allocation and, likewise, sell futures contracts of asset classes that are above targeted asset allocation due to market trends. The goal of a cash overlay strategy is to strive to always maintain an equivalent cash target portion not much higher than 1% and redirect excess cash towards approved investment policy asset classes that are expected to earn <u>long-term</u> expected returns (say 4-6% for bonds and 8-9% for stocks) well above cash returns.

An effective managed cash overlay strategy reduces the likelihood that asset allocation rebalancing via physical securities may need to occur. This is advantageous to the SIF portfolio in that appropriate ongoing rebalancing via futures contracts through a cash overlay strategy is significantly less costly in terms of incurred transaction costs compared to the trading of physical securities to achieve rebalancing.

The BWC CIO and Director of Investments have performed research and due diligence on the merits of a cash management overlay strategy periodically over the past several years. The elimination of the "cash drag" of cash balances above, for example, the 1% cash target for SIF during this environment of minimal cash equivalent returns could result in an estimated 8-12 basis points ($15-20 million) of additional total return for the SIF portfolio per annum, according to a very experienced leading cash overlay manager highly respected by the BWC senior investment officers who extensively analyzed BWC cash drag over a recent two-year period.

The CIO recognizes that the topic of cash management overlay strategy has not yet been presented and discussed in detail with the Investment Committee. When appropriate, the CIO will provide a report focused on cash management detailing the cash management overlay strategy recommendation to the Investment Committee and Board for consideration and possible approval before proceeding with the issuance of a RFP for the services of an outside cash management overlay manager. It is the expectation of the CIO that only one outside cash overlay manager would be recommended from the RFP to be issued.

<u>Timeline Estimate</u>: RFP issuance in July 2011; single finalist manager recommendation in November 2011; approved manager implementation in January 2012.

PRIORITY FOUR – PHASE I
Real Estate Investment Strategy

The CIO supports a 2.5% to 3.0% initial target allocation to real estate investments. Mercer provided an excellent presentation on real estate as an attractive asset class for investment consideration by BWC at the Investment Committee meeting of August, 2010. Real estate as an asset class provides further diversification to the SIF investment portfolio with a relatively low correlation to the returns of the other bond and stock asset classes for SIF. A well-managed core fund real estate strategy should be the initial focus for SIF, in the opinion of the CIO. As described by Mercer, private core real estate funds are large commingled funds organized as limited liability corporations (LLC) that are professionally managed by experienced professional real estate management firms with proven track records. These core real estate funds are typically open-ended in structure with investors typically being institutional investors, including many public funds. These core real estate fund portfolios consist of high quality, well-leased commercial real estate that are diversified by property type and geographic location. These core real estate funds typically provide a higher level of income to investors than investment grade bonds and also provide some capital appreciation potential from property sales. These real estate funds provide attractive inflation hedging benefits to SIF with property values and leasing income being positively correlated to inflation rates.

As in the case with private equity partnerships, the RFP process is not an efficient method for the selection of private core real estate funds by larger institutions such as BWC. For institutions such as BWC considering real estate investments via the selection of operating funds with existing property portfolios, the direct involvement of their investment consulting firm or a specialty real estate advisor in the selection process is the norm for building exposure to the real estate asset class. This would especially apply to BWC which has had no prior experience in investing in diversified real estate pools. The selection process of real estate funds and private equity funds requires prospective investor patience for the opportunity to participate as either a new investor or add-on investor. The capital raising period is largely dictated by the sponsoring real estate investment manager. In discussions with Mercer, it is the expectation of the CIO that Mercer will introduce BWC to a group of highly rated and recommended successful core real estate funds offering the investment attributes desired by BWC.

Timeline Estimate: Mercer indicated in its presentation of August, 2010 that a new real estate allocation could take 3-5 years to fully execute. It would be the intention of the CIO to seriously explore core real estate fund opportunities beginning early in fiscal year 2011 with recommendations for approval of several core real estate funds occurring over the second half of calendar year 2011 and first quarter of 2012. Once more conservative core real estate fund investments totaling approximately 2% of total SIF assets (currently $350-375 million) are completed sometime in 2012, additional investments totaling perhaps 1% of SIF assets can be explored in higher risk value-added real estate funds as well as public global REITS as suggested by Mercer in its recommended total real estate investment strategy presented last month. Value-added real estate funds are closed-end funds with funding characteristics similar to new private equity funds, whereby capital commitments are funded as needed by the manager typically over a 3-4 year time frame. One important issue that must be addressed by the Investment Committee and Board, with the advice of Mercer and the CIO, is what current SIF asset class targets are to be reduced to accommodate a 2.5% or 3% real estate target asset allocation.

PHASE II PRIORITIES
Active Management Investment Asset Classes

The CIO recommends that Phase II of investment strategy implementation be focused on the selection of a group of active investment managers for each of three additional asset class mandates of the SIF portfolio. As previously recommended by the CIO in his active investment management presentation made to the Investment Committee in May, 2010, these three asset class mandates are (1) U.S. Small/Mid Cap Equity, (2) Non-U.S. Equity and (3) U.S. Aggregate Fixed Income.

As the attached Phase II timelines display, the CIO anticipates that the investment manager selection process for these three mandates will be staggered and staged over an estimated 1½ year timeframe from 4Q2011 through 1Q2013. Each of the three active management mandates for Phase II consideration will require an estimated nine months to complete a thorough RFP process from RFP issuance to evaluation and selection to Board approval to contracting/funding the new investment managers. It is the expectation of the CIO that between three and five top-tier skilled active managers would be chosen and recommended for Board approval for each of these recommended mandates. Specific comments and recommendations for active management of each of these three mandates follows.

PRIORITY ONE – PHASE II
U.S. Small/Mid Cap Equity Active Management

Similar to the long duration credit asset class, the CIO believes that U.S. Small/Mid Cap Equity is a compelling asset class for active investment management. The SIF target portfolio allocation for this asset class is currently effectively at 4% as the SIF U.S. equity benchmark All Cap Russell 3000 index with a SIF allocation target of 20%. The Russell 3000 index is comprised of 80% large cap stocks and 20% small-mid cap stocks (as represented by the Russell 2500 index comprising the bottom 5/6 of stocks of the Russell 3000 benchmark index by market cap). The Mercer investment manager database previously presented to the Investment Committee/Board indicated the median active manager gross performance in this asset class space exceeded the Russell 2500 benchmark index return by 1.8% per annum over the past ten years ended September 2009 or more than double the median management fee of 0.77%. The Mercer "A/A-" rated manager database showed U.S. small/mid cap core active managers returned an average 5.4% per annum above the benchmark return before management fees over the period 2000-2009 which was easily the highest value added U.S. bond or stock asset class in the Mercer database.

The U.S. small/mid cap equity sector offers many opportunities for skillful managers to add impressive incremental returns above the benchmark index. Among these opportunities are that U.S. small and mid-cap equity markets are: (i) less efficient markets with less common knowledge and information allowing for fundamental due diligence and detailed understanding of specific companies to be rewarded; (ii) many stocks to select from in constructing and managing a portfolio allows for excellent research to be rewarded; and (iii) value versus growth weightings and sector weightings above or below index weightings can result in significant value added to performance.

The CIO recommends that the entire SIF portfolio allocation towards U.S. Small/Mid Cap Equity, estimated at an effective **4%** current asset allocation, be directed to active management. A 4% allocation represents approximately $725 million based on the current SIF portfolio market value. A gross excess return of 2% to 3% above the benchmark reduced by estimated management fees of 75 bp per annum (as represented in Mercer database) on $725 million would provide net excess or value add returns of $8-16 million per year. An excess return of 5.4% per annum provided by the Mercer "A/A-" rated universe of managers over 2000-2009 would provide a value added investment income (after deducting 75 bp of management fees) of almost $34 million per annum.

Timeline Estimate: RFP issuance in November 2011; finalist manager recommendations in March-April 2012; manager fundings in June-July 2012.

PRIORITY TWO – PHASE II
Non-U.S. Equity Active Management

The SIF target asset allocation for this asset class is 10% of total invested assets. The MSCI ACWI ex-U.S. benchmark index for this asset class is presently comprised of approximately 77% developed country markets and 23% emerging markets by market value weighting. The benchmark index is currently comprised of the MSCI EAFE index (21 developed countries), Canada and 22 emerging market countries comprising the MSCI Emerging Markets index. The ACWI ex-U.S. benchmark index currently comprises over 1,800 companies. The Mercer investment manager database results for the developed country equity EAFE benchmark index shows solid gross excess return of 1.11% per annum for active managers since 1986, compared to a median management fee of 0.63% per annum. Over the recent ten years to September 2009, the median active manager gross performance exceeded the EAFE index by an impressive 2.3% per annum with only a slightly higher standard deviation than exhibited by the benchmark index.

Opportunities allowing skillful active managers to add incremental returns above respective benchmark indexes include: (1) ability to overweight/underweight individual country exposure; (ii) ability to overweight/underweight many companies and industries within specific countries base on growth prospects and relative value; (iii) most developed country stock markets and all emerging market country stock markets are less efficient than U.S. stock markets, therefore creating significant value added opportunities rewarding good research; and (iv) manager opinions and positioning on foreign exchange rates of key currencies can also provide additional returns versus the benchmark return which is always expressed in U.S. dollars.

The CIO recommends that one-half or **5%** of the 10% target for the SIF asset class mandate towards Non-U.S. Equity be allocated for active management, with the remaining 5% targeted for this asset class to continue to be passively managed. A 5% allocation towards active management for this asset class for SIF currently is approximately $900 million. For this 5% recommended allocation, the median gross excess return performance of 2.3% represented in the Mercer investment manager database over the recent ten-year period would equate to a net excess return of approximately $15 million per annum after average management fees of 63 basis points as represented by Mercer.

Timeline Estimate: RFP issuance in March 2012; manager recommendations in July-August 2012; manager fundings in October-November 2012.

PRIORITY THREE – PHASE II
<u>U.S. Aggregate Fixed Income Active Management</u>

The SIF target asset allocation for this asset class is 15% of total invested assets. The BarCap U.S. Aggregate index is the broadest and most popular U.S. fixed income benchmark index (over 8,000 issues) with many active fixed income managers focused on outperforming this benchmark. These fixed income managers are considered "core" fixed income managers who benchmark to this broad U.S. Aggregate index. The Mercer investment manager database shows an average gross excess return of 0.54% per annum for active managers over this broad benchmark index since 1987 or more than double the median management fee of 0.25% per annum. Over a ten-year period ending September 2009, the Mercer database showed upper quartile manager returns were 0.80% per annum above the benchmark index before management fees.

Given the breadth of the composition of the U.S. Aggregate fixed income index, opportunities for skillful active managers to add incremental returns above this benchmark index include: (i) overweight/underweight important benchmark sectors (U.S. Treasuries, U.S. Agencies, MBS, CMBS, corporates, taxable municipals, sovereigns, supranationals) depending on manager relative value perception and other market/economic considerations; (ii) overweight/underweight segments within important benchmark sectors such as corporate credits and residential MBS coupon rate brackets; and (iii) adjust duration of portfolio (within prescribed limits) to take advantage of shape of yield curve and yield curve changes.

Similar to active long duration credit managers, astute active core fixed income managers can sell declining credit holdings before being downgraded significantly by rating agencies. Passive index managers must retain such holdings until those holdings are downgraded to junk bond status after much price erosion has occurred and are then forced to sell such holdings in unison with many other institutional investors also prohibited from owning junk bonds, further aggravating loss of value.

The CIO recommends that **9%** of the 15% targeted towards SIF U.S. Aggregate fixed income asset class allocation be considered for active management, with the remaining 6% asset class allocation remaining passively managed. A 9% allocation to active management of this asset class for SIF currently amounts to approximately $1.65 billion. For this recommended allocation, an upper quartile active management return of 0.80% above the benchmark would amount to approximately $9.0 million in incremental annual income, after estimated management fees of 25 basis points per annum.

<u>Timeline Estimate</u>: RFP issuance in July 2012; finalist manager recommendations in November-December 2012; manager fundings in February-March 2013.

SUMMARY

The CIO believes strongly that each of the investment strategies listed as recommended Phase I or Phase II implementations will improve long-term expected returns of BWC invested assets and provide more diversification of asset classes, investment managers and investment management styles.

The CIO is recommending that a targeted 39% of SIF asset allocation be actively managed. Active management fixed income and equity strategies recommended are 20% long duration credit fixed income, 9% U.S. Aggregate core fixed income, 5% non-U.S. equity, 4% small/mid cap equity and 1% MWBE. In addition, a recommended 2.5% to 3.0% initial allocation to institutional quality commercial real estate investments, via well-managed commingled real estate funds, will provide further portfolio diversification and some inflation hedging benefits. The SIF portfolio would have the potential opportunity to achieve higher expected long-term incremental net investment income with a diversified group of experienced, highly regarded top-tier active style investment managers.

With the recent completion of all required asset allocation transition activities for each of the State Insurance Fund, Disabled Workers Fund and Coal Workers Fund, the CIO and Investment Staff is committed to carrying out and executing these proposed State Insurance Fund investment strategies in whatever priority and timeframe is determined by the Investment Committee and the Board. Regarding Investment Division staffing requirements, the CIO is of the opinion that at least two and likely three investment professionals will need to be added to the current BWC Investment staff to help carry out the proposed new strategies and subsequently closely monitor the additional BWC investment managers associated with these strategies. The first two staff additions would be targeted over fiscal year 2012 as proposed Phase I strategies are being implemented and the proposed Phase II strategies come into focus beginning late in calendar year 2011. A third investment staff professional would likely be added in fiscal year 2013 as the Phase II strategies progress to implementation completion.

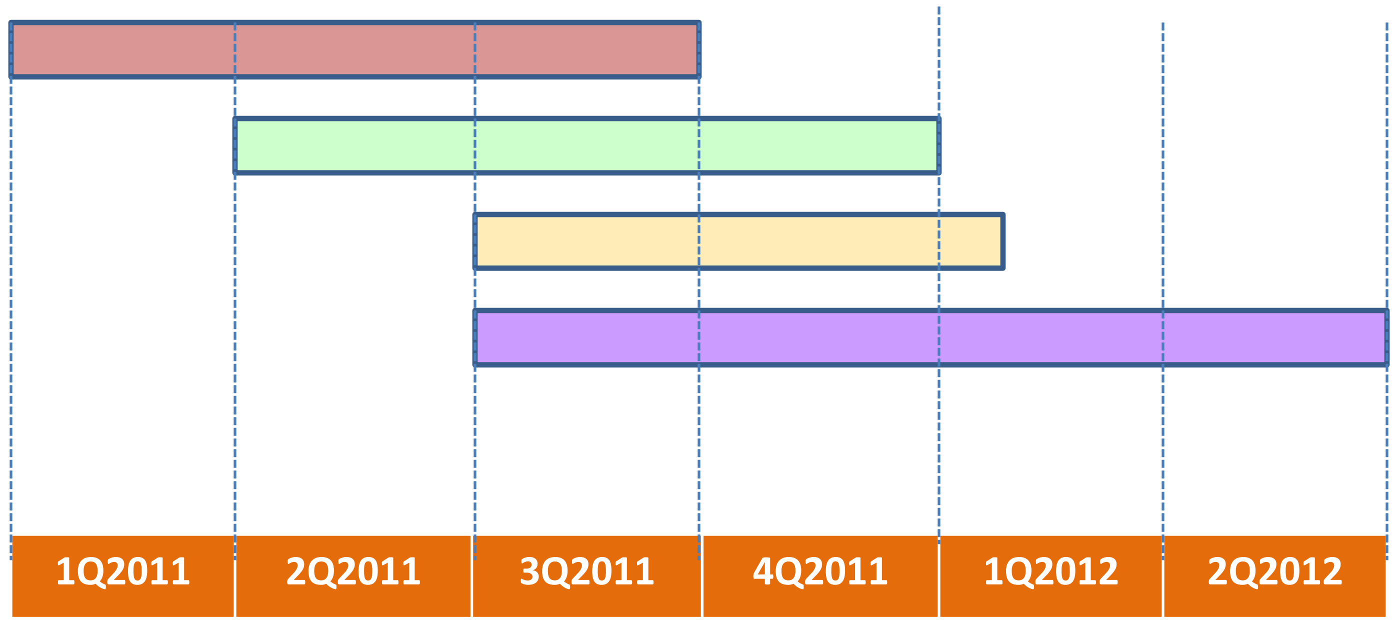
Ohio Bureau of Workers' Compensation

Recommended Phase I Priorities
Implementation Timelines
State Insurance Fund

Investment Strategy

1. Active Long Credit FI
2. MWBE
3. Cash Overlay
4. Real Estate

Calendar Quarter



Investment Strategy Timeline reflects period from RFP issuance to expected funding of directed assets

(Real Estate Strategy excepted)

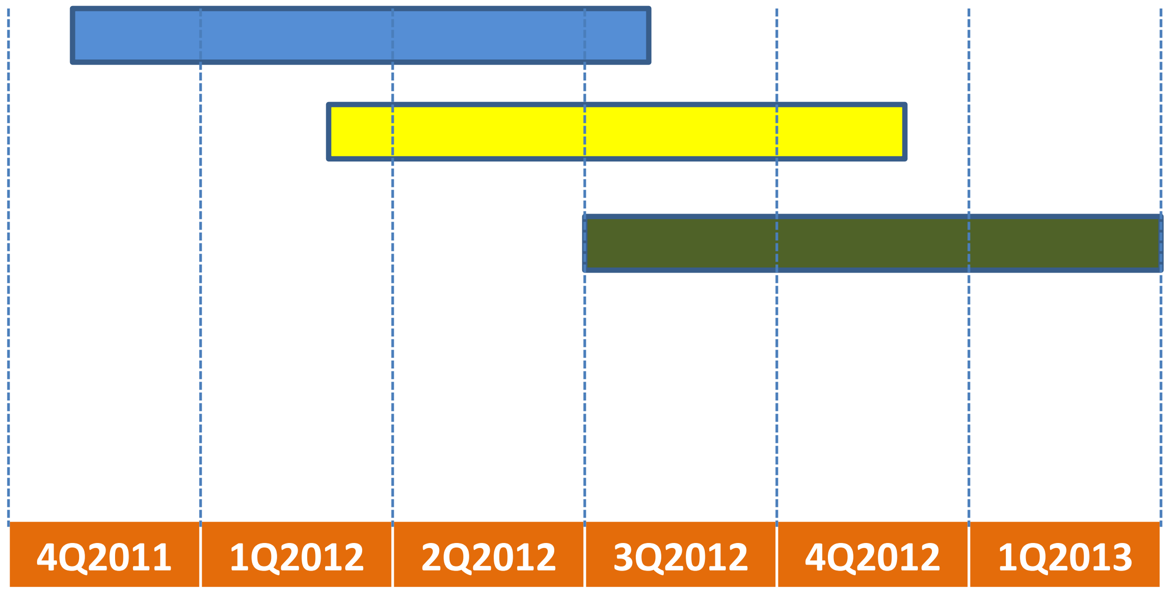
Prepared by Investment Division
September 14, 2010

Ohio Bureau of Workers' Compensation

Recommended Phase II Priorities
Implementation Timelines
State Insurance Fund

Investment Strategy

1. Active U.S. Small/Mid Cap Equity
2. Active Non–U.S. Equity
3. Active U.S. Aggregate FI



Calendar Quarter

Investment Strategy Timeline reflects period from RFP issuance to expected funding of directed assets

Prepared by Investment Division
September 14, 2010

Recommended Phase I & II Priorities
Implementation Timelines
State Insurance Fund

Investment Strategy

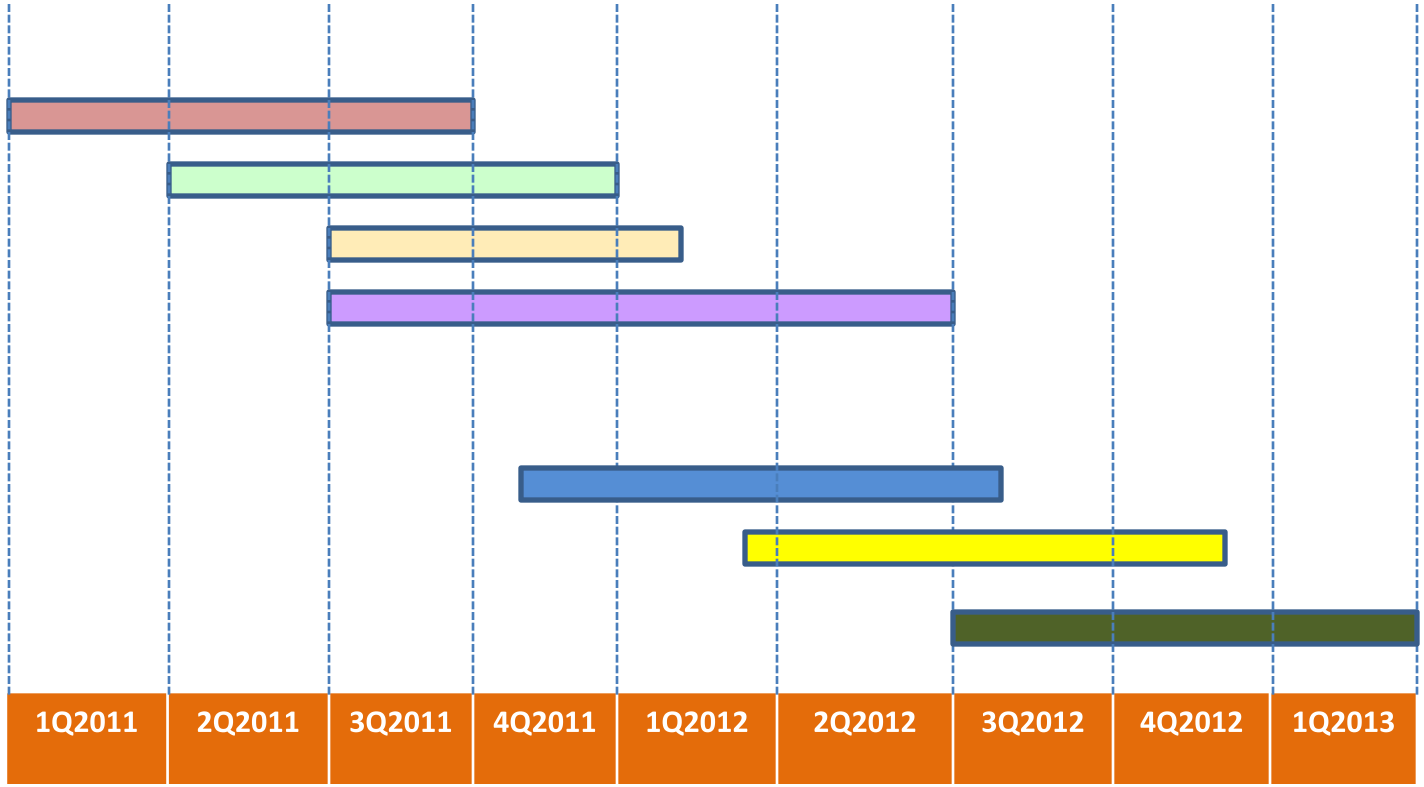
Phase I

1. Active Long Credit FI
2. MWBE
3. Cash Overlay
4. Real Estate

Phase II

1. Active U.S. Small/Mid Cap Equity
2. Active Non–U.S. Equity
3. Active U.S. Aggregate FI

Calendar Quarter



Investment Strategy Timeline reflects period from RFP issuance to expected funding of directed assets

(Real Estate Strategy excepted)

Prepared by Investment Division
September 22, 2010

BWC Invested Assets
Estimated and Unaudited
As of October 20, 2010

Oct2010 MTD MV Increase Bonds………… +$ 26 million (+0.2% return)
Oct2010 MTD MV Increase Equities……….. +$ 204 million (+3.4% return)

Oct2010 MTD MV Increase Bonds+Equities.... + $ 230 million
(+1.1% Oct10 MTD portfolio return including Cash)

BWC Asset Allocation MV 10/20/10

Bonds*…………	$14,083 million	68.7%
Equities*……….	6,153 million	30.0%
Cash……………	263 million	1.3%
TOTAL………...	$20,499 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)

Fiscal Year 2011 YTD

Portfolio Return July10-Sept10 …….. + 6.6% (+$1,262 million net inv. income)

Prepared by: Bruce Dunn, CFA
BWC Chief Investment Officer

12-month Investment Committee Calendar

Date	October	Notes
10/21/2010	1. Investment Consultant services RFP issuance approval 2. Investment class performance/value annual report (ORC4121.12(F)(12)] 3. Annual Review Committee Charter (1st read) 4. Mercer education session, real estate asset class, second discussion 5. Consideration of CIO investment priorities for CY2011 and 2012, second review	
Date	**November**	
11/18/2010	1. Annual Review Committee Charter (2nd read), possible vote 2. Investment Consultant Performance Report 3Q10 3. Brokerage Activity Fiscal Year 2010 summary report	
Date	**December**	
12/15/2010	1. Custodial Fiscal Year 2010 annual review (in CIO Report)	
Date	**January**	
1/20/2011	1. Self Insured Employers Guarantee Fund (SIEGF) Asset Allocation Analysis report and recommendation, first review, possible vote on asset allocation strategy	
Date	**February**	
2/23/2011	1. Investment Consultant Performance Report 4Q10 2. Economist Presentation	
Date	**March**	
3/24/2011		

12-month Investment Committee Calendar

Date	April	Notes
4/28/2011	1. Investment Consultant services RFP finalist recommendation, possible vote	

Date	May
5/26/2011	1. Investment Consultant Performance Report 1Q11

Date	June
6/15/2011	

Date	July
7/28/2011	

Date	August
8/25/2011	1. Investment Consultant Performance Report 2Q11

Date	September
9/29/2011	