BWC Board of Directors

INVESTMENT COMMITTEE

Thursday, January 21, 2010 9:30 a.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Robert Smith, Chair Alison Falls, Vice Chair David Caldwell Kenneth Haffey Larry Price William Lhota, ex officio
Other Members Present:	Charles Bryan, Jim Harris, James Hummel, Jim Matesich, Thomas Pitts
Members Absent:	None
Counsel Present:	John Williams, Assistant Attorney General

CALL TO ORDER
Mr. Smith called the meeting to order at 9:42 a.m.

ROLL CALL
Roll call was taken. Mr. Price arrived at 10:20 a.m.

APPROVE MINUTES OF THE DECEMBER 16, 2009 MEETING
Upon motion of Mr. Caldwell, seconded by Mr. Haffey, the minutes of the December 16, 2009 meeting were approved as written. Roll call was taken and the motion passed 5-0.

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

NEW BUSINESS/ACTION ITEMS:

PASSIVE INDEX MANAGER RFP FINALIST RECOMMENDATION- STATE INSURANCE FUND
Mr. Bruce Dunn, Chief Investment Officer directed the Committee to the Passive Index Management RFP Process presentation dated January 21, 2010. The presentation is incorporated into the minutes by reference. The RFP Evaluation Committee consists of four members (the BWC's Chief Investment Officer, Director of Investments, one Senior

Investment manager, and the Mercer Senior Consultant). Mr. Matesich joined the meeting at this point. Mellon Capital Management (MCM) is being presented and recommended by the RFP Evaluation Committee as a finalist manager for the Russell 3000 index U.S. equities mandate of the State Insurance Fund (SIF). MCM is a large passive index manager with over $100 billion in equity assets under passive management (AUM) including $85 billion in passive managed U.S. equities. MCM has over 25 years of experience in passive management of client assets to U.S. equities benchmark indices. Mellon Capital has been passively managing client assets to the Russell 1000 and the Russell 2000 benchmark indexes since 1986, and the Russell 3000 benchmark index since 1993.
Mellon's senior investment professionals have an average of 22 years of investment experience and an average tenure of 12 years at MCM, creating a stable and experienced team. The Bureau Administrator, Marsha Ryan accompanied three members of the Evaluation Committee, Bruce Dunn, the Bureau's Chief Investment Officer, Lee Damsel, the Bureau's Director of Investments and Guy Cooper, Principal of Mercer Consulting, to an on-site visit with Mellon Capital. She explicitly noted the longevity of the senior investment staff. One benefit to Mellon is their team approach to investing. Mr. Dunn indicated the RFP Evaluation Committee also relied on MCM's positive results from their index management process and their efficient sampling approach which will be heavily relied upon to provide low tracking error with the Russell 3000 index. In deciding whether or not to purchase certain smaller capitalization value stocks comprising the index, Mellon will first evaluate the costs and the trading spread to determine if these are higher than the potential benefit of adding such stocks. Traditionally, Mellon has kept the tracking error extremely low for their Russell 3000 clients, limiting it to one or two basis points (bps). Mr. Dunn emphasized that Mellon has a strong fiduciary responsibility and practices strict compliance. Additionally, MCM imposes strict restrictions on personal trading. Mr. Dunn announced the Evaluation Committee recommends Mellon.

Mr. Dunn noted that MCM would manage a targeted 6% of the total SIF assets under this mandate. He indicated that the Bureau would have an added benefit of being able to introduce a fourth manager by providing approximately $1.05 billion with Mellon. The management fee is a flat rate of 1.0 bps of the market value per annum up to an AUM level of $2 billion with a minimum annual fee of $75,000. In comparison, NT has a flat rate of 1.25 bps per annum, but a lower minimum annual fee of $50,000. Mr. Smith verified that the minimum fee for MCM would be irrelevant with a $1.0 billion investment. Mr. Dunn agreed, adding that this fee could become relevant if the specialty funds were added. Jordan Nault, Senior Associate of Mercer Consulting, added that Mercer supports the appointment of Mellon for a portion of the Russell 3000 index. She noted that Mercer supports the added manager diversification and the competitive fee.

At this point, Michael Terzich, Director of Business Development and Karen Wong, Managing Director of Equity Portfolio Management for MCM, entered the room. Mr. Dunn introduced these two Mellon representatives and indicated that Mr. Terzich is based in the Pittsburgh office and Ms. Wong is located in the San Francisco office of MCM. Mr. Terzich referred the Committee to the Mellon presentation dated January 21, 2010. The report is incorporated into the minutes by reference. Mr. Terzich began by describing Mellon Capital's quantitative management. MCM has a total of over $169 billion AUM as of September 30, 2009. The majority of those assets consist of equity indexing at $102.8 billion. Mellon Capital's founders Bill Fouse and Tom Loeb are credited with being the first to pioneer and develop index fund management. They also are recognized as the originators of tactical asset allocation. Bill Fouse is considered to be the pioneer of the "buy and hold" concept. He began his career over 57 years ago and has been the Chief Financial Advisor for MCM for the last 27 years. He remains active in the firm, attending Board of Directors meetings and reviewing presentations in the office. Mr. Terzich assured the Committee that MCM is very focused on the client. He pointed out the broad set of products available including the numerous global equity choices. Karen Wong referred the Committee to page 6 of the presentation noting that index management is not truly passive. She added that to track a benchmark is easy, but to manage money and minimize transaction costs by being proactive is more difficult.

MCM has 26 portfolio managers who review the accounts every day. They evaluate all corporate actions to determine the impact on the portfolio. For the Russell 3000, only the top 1,000 securities are fully replicated while the remaining 2,000 are sampled to manage transaction costs. Ms. Wong noted that some securities are illiquid. If the risk can be managed by the individual security, by sector and by index, the index return can be delivered while saving costs. This strategy can save 1 or 2 bps per year in transaction costs. Returns are maximized by looking at the price and the liquidity, minimizing the number of holdings, optimizing trades and minimizing custody changes. On page 11 of the presentation, the trading process is documented. A team of portfolio managers will review the trade and analyze the impact of the trade since the index will not be fully replicated. This team works with the traders, evaluating the market dynamic, reviewing the deals offered, considering the aggressiveness of the deals and looking to minimize the risk. Mr. Smith noted that the earlier Audit Committee meeting had discussed disaster recovery and asked about this specific aspect of Mellon Capital. Ms. Wong responded that all of the portfolios are available to appropriate individuals in the MCM offices in San Francisco and Pittsburgh. All managers are cross-trained on the systems Additionally Mellon Capital has a formal disaster recovery relief site outside of San Francisco that is formally tested one time per year. Mr. Matesich asked if the computer systems contained the same information. Ms. Wong answered that all computers are backed up daily to the recovery site. The system has 24 hour backup power and is located off-site to allow for recovery.

Mr. Smith asked if there was compensation or incentive to outperform the benchmark. Ms. Wong replied that there is no compensation for outperforming the benchmark. The compensation is for tracking the benchmark. Outperformance is discouraged because it will encourage managers to take more risks. Portfolio managers also look at corporate actions in order to save transaction costs and custody charges. The team also looks at futures liquidity for funds under management permitting futures. Mr. Smith asked what happened if futures were not an option. Ms. Wong answered that they would keep cash balances low. The portfolio manager prepares trades based on liquidity using a thoughtful trade process. All documents that were reviewed before approving the trade will be reviewed again before going to the trading desk. Mr. Bryan asked about the Russell reconstitution. Ms. Wong explained that all stocks are ranked one time per year by capitalization. For the 3,000 largest companies, this is done on the last Friday in June. Due to corporate actions, they also adjust monthly by shares. Mr. Smith asked if a SAS 70 (Statement on Auditing Standard 70) was performed on the MCM organization. Mr. Terzich responded in the affirmative, adding that it was very helpful. Ms. Falls asked if the Russell 3000 was a good choice of index. Ms. Wong answered that coverage of the

U.S. Market using the Russell 3000 was a good choice, especially to minimize trading and transaction costs. The annual turnover of the Russell 1000 is 10% and the Russell 2000 is 20%. The annual turnover of the Russell 3000 is a lesser 7% on average. Mr. Smith asked about the transaction costs in the Russell 3000. Ms. Wong replied that if the change is tiny, like 1/10 or 2/10 bps then Mellon does not trade. They look at the individual security deviation and the sector deviation. Mr. Terzich added that this saves on the equity portfolio and custody transaction charges. Mr. Cooper asked if the S&P 500 is losing popularity. Ms. Wong responded that she has not seen a trend in the S&P 500 losing popularity. Mr. Price joined the meeting at this point. Ms. Wong summarized by saying that their company is really good at what they do. They do not just replicate the Russell 3000 just because they are hired to do that. They look at each trade individually. They consider everything to be critical since it does make a difference. They take pride in what they do and strive for cost savings every month. Mr. Smith agreed, noting that the term passive index is a misnomer. Mr. Cooper inquired if the managers were unhappy about working for 1.0 bps. Ms. Wong responded that the managers do not know the actual management fee. At this point the representatives from Mellon left the room. Mr. Cooper noted that both BGI and MCM claim to be the first to discover the index fund, but both have valid claims since the same person worked for both firms. Mr. Smith emphasized the recommendation from the Evaluation Team. Mr. Smith noted the support memo from Mercer dated January 6, 2010 titled State Insurance Fund-Appointment of MCM. The memo is incorporated into the minutes by reference.

A Motion of the Investment Committee to Approve Mellon Capital Management as a Manager for the Passively Managed U.S. Equities Mandate for the State Insurance Fund was made by Ms. Falls, seconded by Mr. Price as follows: I move that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it approve Mellon Capital Management as a U.S. Equities Passive Index Manager for the State Insurance Fund, representing a targeted six percent (6%) of the total State Insurance Fund invested assets, for the reasons set forth in the presentation of the Passive Index Manager RFP Evaluation Committee dated January 21, 2010 and the memorandum prepared by Mercer Investment Consultants dated January 6, 2010 and upon such terms as are outlined in the Mellon Capital Management's response to the Request For Proposals issued July 2, 2009, and such other terms as are favorable to the Bureau. Roll call was taken and the motion passed 6-0.

MERCER ASSET-LIABILITY MODELING REPORT

Mr. Cooper referred the Committee to the Strategic Asset Allocation Analysis for Disabled Workers' Relief Fund, dated January 21, 2010. The report is incorporated into the minutes by reference. The presentation provides the description of the Disabled Workers' Relief Fund (DWRF). Mr. Cooper pointed out that the fund is currently operating as a "Pay as You Go" fund with a prefunded balance of $1.2 billion that will eventually erode. For the charts in the presentation, Mix A represents the current allocation of 20% stocks and 80% bonds. Mix B represents the new SIF allocation. Mr. Cooper noted that Mix F and Mix G were strategies that they had looked at in the past, but had ruled out due to the aggressiveness of the concentration in equities. They remain on the chart only for comparison purposes. Mix C, D and E remain viable candidates since they have a significantly shorter duration of bond portfolio and include the retention of TIPS. Mr. Cooper pointed out the chart on page 3 where the last line represents the standard deviation of returns. Mix A with the current allocation has an 8.8% deviation with Mix B for the new SIF asset allocation at an 8.2% deviation. Mixes C, D and E have lower standard deviations. Mr. Cooper indicated that Mercer had settled on Mix D as the recommended option. He noted that Mix C was too conservative with 20% equities and that Mix E did not match any of our current strategies with 40% equities. Mix C splits Aggregate Fixed Income and TIPS almost equally. He added that Mercer Consulting was not focused on the funding ratio since the system is currently "Pay as You Go." The goal of the recommended allocation is to reduce volatility with an understanding that the prefunding balance would also be reduced over time.

Market value projections were then discussed. The report shows the estimated market value three years from now under five different economic scenarios. The base case is the most likely result. Mix C with 20% equity has a tight range and is considered to have the narrowest projected asset value range . Mix E still does not have a large range. Mercer recommends Mix D. Mix D shows a $1.29 billion result for the base case versus $1.5 billion with ideal growth. Page 6 shows the mixes' market values ten years from now under the same set of allocations and economic scenarios. Although the likelihood is that the funds will no longer be invested in the same mix ten years from now, the Mix D range is still found to be reasonable. Mr. Cooper noted the reasons for support of Mix D represents an improvement over the current investment strategy and offers the most sensible balance of diversification, risk and return of all the options examined. Mr. Price apologized for his late arrival and then asked about the timeline for the combination of the DWRF with the SIF. Mr. Cooper answered that the response depends on the priority given, but that the combination would likely take three years since statutory action would be required. Ms. Ryan added that Deloitte will help sort out the issues of combination with the best case being extremely quick progress. Realistically, she added that the change will likely occur during the consideration of the 2012-2013 biennium budget. The planning will begin in March 2010. Ms. Ryan noted that it would likely be too aggressive to expect to finish by the next biennium budget bill, but assured the Committee that no one is deterred from moving forward. Mr. Smith noted the recommendation reflecting Mix D as shown on page 7 of the presentation. He also directed the Committee's attention to the recommendation memo from the Chief Investment Officer dated January 13, 2010 titled Chief Investment Officer Recommendation- Asset Allocation Strategy-Disabled Workers' Relief Fund. The memo is incorporated into the minutes by reference.

A Motion of the Investment Committee to Revise the Asset Mix for the Disabled Workers' Relief Fund and to make Revisions to Relevant Provisions of the Investment Policy Statement was made by Ms. Falls and seconded by Mr. Haffey as follows: I move that the Investment Committee of the Workers' Compensation Board of Directors recommend to the Board that it approve revision of the asset allocation mix for the Disabled Workers' Relief Fund to conform with "Mix D" as discussed in the Mercer Strategic Asset Allocation Analysis Report dated January 21, 2010 and the memorandum of the Chief Investment Officer dated January 13, 2010, and also that the Investment Committee recommend to the Board that it adopt relevant revisions to BWC's Statement of Investment Policy and Guidelines as they are set forth in the attachments to the Chief Investment Officer's memorandum of January 13, 2010. Roll call was taken and the motion passed 6-0.

Mr. Smith thanked everyone for their hard work. Ms. Falls commended the Investment staff on drafting an Investment Policy Statement that allowed for easy understanding of the revisions as reflected.

DISCUSSION ITEMS:

SIF PORTFOLIO TRANSITION UPDATE SUMMARY

Mr. Dunn referred the Committee to the State Insurance Fund Portfolio Transition Summary dated January 21, 2010. The summary is incorporated into the minutes by reference. There are three major transitions for the SIF portfolio. Priority #1 is the U.S. Aggregate FI mandate. Priority #2 is a four phase increase in the International Equity mandate. The 2.5% staged increments were completed at the end of December 2009. The Priority #3 transition from the S&P 500 to the Russell 3000 was managed by BlackRock and occurred during one day in October 2009. The presentation shows the FI portfolio where both transitions and transfers of assets are illustrated. In January 2010, State Street managed $515 million in the Long Government FI account while BlackRock managed $730 million to the same benchmark. The benchmark goal is to make BlackRock the exclusive manager of the 9% benchmark. The largest mandate is the U.S. Long Credit mandate. These assets are being managed by both State Street and BlackRock. Currently, State Street manages more money in the account than was approved, necessitating a shift of an estimated $485 million from State Street to BlackRock. In the TIPS mandate, a significant amount of assets will be moved from State Street to BlackRock, making BlackRock the largest single manager of SIF TIPS assets. Mr. Dunn assured the Committee that all heavy trading associated with these transitions has been completed. The U.S. Aggregate fixed income asset transfer from transition manager to State Street as target manager was completed in December 2009 and the transition account was closed. Mr. Smith commended Ms. Falls for requesting graphics in the transition presentations. Mr. Dunn noted that the goal is to minimize transaction costs and minimize slippage in performance during the transition phases. In February 2010, it is the goal that the non-U.S. equities portfolio will be moved from BlackRock as a Transition Manager to BlackRock as a Target Manager. Currently the Investment Division is closely monitoring the progress of BlackRock creating and launching new commingled funds that accommodate the Bureau's non-ERISA and non-securities lending requirements. All of the Russell 3000 index assets are now being managed by BlackRock as the Transition Manager. Background checks are now being made on Mellon in anticipation of MCM becoming a new Bureau investment manager.

The asset allocation market values as of 12/31/2009 were discussed in Mr. Dunn's presentation material. The first of two pages of pie chart exhibits in the presentation shows four diagrams noting the asset class changes in the SIF from 6/30/2009 to 12/31/2009. The asset allocation is moving from 20% to 30% equities with a corresponding decrease in bonds. Cash had decreased by the end of 2009 and has moved lower since that date. The target allocation for cash is 1.0%. The bottom pie charts show all the specific asset class mandates. Mr. Dunn added that the Russell 3000 transition was completed in the middle of October 2009. The final SIF Funds by mandate as of 12/31/2009 shows a well diversified portfolio. The second page of pie charts shows the SIF allocations by manager. The SIF assets held by State Street are being reduced. State Street previously managed 2/3 of the total assets as of June 30, 2009. The target goal is to have State Street manage 40% of the SIF funds by the end of the first quarter of

2010. BlackRock has been moving forward in importance. At the end of the first quarter 2010, it is anticipated that BlackRock will manage almost 38% of the SIF funds compared to only 10% of the SIF funds on June 30, 2009. Ms. Falls commended the Investment Division on their creation of the pie charts, describing them as masterpieces. She added that the Investment Committee's recommendation to diversify the funds has resulted in a higher return than expected. It has also materially reduced the level of risk based on the standard deviation and materially lowered the level of risk based on the duration of the bonds. Mr. Cooper added that the use of a Transition Manager to begin the process earlier has added to the profitability of the fund.

MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO VALUE COMPARISONS

Mr. Dunn referred the Committee to the Invested Assets Market Value Comparison-Total Funds chart. The chart is incorporated into the minutes by reference. The chart compares the portfolio value at the end of December 2009 and November 2009. Mr. Dunn noted that the net investment income in December 2009 was a negative $166 million. The loss is attributed to a significant rise in interest rates and a corresponding drop in the market value of SIF fixed income investments. The December 2009 monthly net portfolio return was negative 0.9%. For December 2009, the bond market value decreased by $320 million with a negative return of 2.4%. Mr. Dunn indicated that there are increased positive economic indicators that might affect the Federal Reserve's timing on instituting interest rate changes. Mr. Dunn mentioned to the Committee that he was glad that the Committee agreed to reduce the duration of the DWRF FI portfolio since the large percentage of long bonds in the portfolio could potentially show significant erosion of value if bond yields increase. The Bureau's equity portfolio is showing a good improvement. In December 2009, equities had a positive net return of 2.6% with an equity market value increase of $83.0 million, despite a $50.0 million withdrawal from the Russell 3000 transition portfolio and $8.0 million in withdrawals from the S&P 500 commingled account of two specialty funds to be used for future operations. Mr. Dunn explained to the Committee that the funds had been withdrawn for the payment of fiscal 2010 operating expenses as follows: $50.0 million was withdrawn for the SIF, $7.0 million was withdrawn for DWRF and $1.0 million was withdrawn for the Coal Workers' Fund.

Mr. Haffey asked when operational withdrawals are projected. Mr. Dunn replied that the calculations look three months in the future based on the estimates received from the Fiscal and Planning Division when considering redemptions. He noted current projections are on track. He also added that in past years, the Bureau has had to withdraw over $100 million for the SIF, while this year, the withdrawal was limited to $50.0 million. Mr. Haffey indicated that advance planning of withdrawals are preferable since the Bureau can decide on an appropriate and sensible asset disposal strategy. In the fiscal year to date through December 2009, net investment income has increased by $1.55 billion for a positive total portfolio return of 9.1%. In the fiscal year to date, bonds had a positive return of 5.3% and stocks had a positive return of 21.6%.

MONTH-END PORTFOLIO ASSET ALLOCATION VALUES

Mr. Dunn referred the Committee to the Investment Asset Allocation-Combining Schedules as of December 31, 2009 and as of November 30, 2009. Both schedules are incorporated into the minutes by reference. He pointed out that at the end of November 2009, bonds accounted for 67.9% of the SIF. As of the end of December 2009, they have been reduced and were 67.3% of the SIF. The percentage of stocks in the SIF increased by 1.0% from November 30, 2009 to December 31, 2009, despite a withdrawal of $50.0 million for the SIF operational budget. At the end of December 2009, the ACWI ex-U.S. indexed assets were 10.1% of the SIF portfolio allocation, reaching its target asset allocation. Cash has decreased from November 2009 to December 2009. The $294 million in cash shown on the December 2009 chart includes the amounts held by outside investment managers. Mr. Dunn indicated that the U.S. dollar strengthened towards the end of 2009 and has continued to strengthen in January 2010 which negatively impacts the performance of the international equities portfolio. In December 2009, the long term government index had returns of negative 5.32%. The intermediate index had more modest declines in December 2009, as well. Mr. Harris asked for more information on the increased value of the U.S. dollar. Mr. Dunn explained that one Euro used to buy $1.46 U.S. dollars. That exchange rate has decreased to $1.40 U.S. dollars. He added that the Euro and the Yen are the two most prominent currencies represented in the SIF international equities portfolio. He added that the Euro was very strong until recently, but economic challenges in Greece, which uses the Euro, have impacted the market. Mr. Smith commented that the Committee should continue to have discussions on foreign currency, adding that the movement in currency supports portfolio diversification.

Mr. Matesich indicated that he is impressed when comparing the current portfolio with the portfolio from 12-14 months ago. He expressed hope that the public will realize and give credit for the amount of time, work and effort from the staff that has gone into identifying the issues and working to diversify the portfolio. He added that he hopes that the Committee, and the Board, will be given the continued flexibility to make meaningful decisions at a reasonable pace. He pointed out the inherent difficulties in decisions being made from a distance, and as such commended the staff for their efforts to closely monitor and grow the portfolio.

Mr. Dunn referred the Committee to the BWC Invested Assets Chart as of January 20, 2010. The chart is incorporated into the minutes by reference. In the month to date through January 20, 2010, bonds had a positive return of 1.7%. Equities had a positive 2.4% return to date in the same period. The total month to date portfolio return was a positive 1.9%. Mr. Dunn pointed out that the portfolio achieved a positive 8.6% in total return for calendar year 2009 while the total return for the period from July 2009 through December 2009 showed a positive return of 9.1%. He noted that the Bureau is better balanced in bonds and equities with the current asset allocation for equities being 30.4%. Mr. Smith asked if the equity gains can be partially attributable to the weakening of the U.S. dollar until recently. Mr. Dunn acknowledged this change in currency has had some beneficial effect on the portfolio.

CUSTODIAN ANNUAL REPORT

Lee Damsel, the Bureau's Director of Investments, Doug Walouke, and Dan Blevins, Bureau Senior Investment Managers directed the Committee's attention to the BWC Annual Custodial Services Review for Fiscal Year 2009, dated January 21, 2010. The presentation is incorporated into the minutes by reference. Ms. Damsel introduced Stewart Smith, Assistant Director of Securities Trust from the Ohio Treasurer of State's Office, as well as Richard Hartzell, Vice President and Senior Relationship Manager of J.P. Morgan and Alex Caravetta, Vice President and Senior Coverage Officer of J.P. Morgan. These guests had been invited to attend as representatives for the custodian. Ms. Damsel reiterated that passive management is not a passive activity. She indicated that it was a very complex process where money needs to be moved to match the benchmarks. Ms. Damsel started by explaining the Bureau's Investment Division and the four outside areas that work with the division: Investment, Accounting, Compliance and Custodial. Ms. Damsel explained why an outside custodian is needed, noting that Bernie Madoff, an investment manager who was recently prosecuted for securities fraud was able to defraud investors using his firm by providing seemingly valid performance reports, internal and external auditors and a seemingly knowledgeable investment staff, but failed to employ an outside custodian to show direct custody of the assets. Mr. Smith asked if the Treasurer of State (TOS) selects the sub-custodian in order to keep that function separate from the Bureau. Ms. Damsel responded in the affirmative. The TOS designates a sub-custodian for the Bureau using an RFP process every two years. The custodian is responsible for the safekeeping of funds and asset reconciliation, as well as other duties. There is an active RFP for custodial services recently issued by the TOS. The TOS outsources its custodial function to outside custodians. J.P. Morgan is the current sub-custodian, chosen because they have strong and broad custodial operations. In fiscal year 2009, the Bureau paid $662,000 for custodial services which equates to 0.36 bps of the BWC portfolio market value plus custodial transactional fees. These service fees will increase in FY 2010 due to the portfolio transitions. For example, the shift from the S&P 500 index to the Russell 3000 index by creating a separate account will increase the service needs. The account was previously limited to 500 stocks, but will now have 2,700-2,800 stocks. There were 4,099 total securities holdings with a market value of $17.0 billion as of June 30, 2009.

Ms. Damsel further explained that the Depository Trust Corporation (DTC) was created in the early 1970s as a clearinghouse for securities once the physical securities were no longer being moved. The purpose was to create efficiencies. The presentation shows that from July 2008 through June 2009, the Bureau had 8,661 total purchases and sales. Dan Blevins noted that 8,448 (97.5%) of the trades settled on the scheduled settlement date and only 213 (2.5%) failed to settle on the scheduled settlement dates. The majority of these 213 trades settled one or two days after the scheduled date. Mr. Blevins pointed out that the overall STeP (Straight Thru Electronic Processing) rate was almost 95%. The other trades took longer, usually due to the entering of inaccurate broker codes. The grand total of annual income receipts received on the pay date was 9,425, meaning 99.6% of dividends and interest receipts were received on the pay date. The majority of the remainder was delayed only one day. Mr. Lhota verified that those delays were based on human data entry errors as well.

Mr. Walouke discussed the mandatory and voluntary corporate actions. There were a total of 515 corporate actions in fiscal year 2009. The majority were voluntary, meaning they were initiated by the company. With respect to class actions, J.P. Morgan, as sub-custodian, makes class action filings in the Bureau's name after determining the Bureau's eligibility for the suits and then collects the money once the suit is settled. For certain actions, the Ohio Attorney General's office determines that it is not in the Bureau's best interest to participate in the class action. In those lawsuits, a separate action is filed and J.P. Morgan is not involved. In 2009, there were 44 separate class action lawsuits filed. The amount awarded to the Bureau was $7.6 million including $5.3 million from the Enron lawsuit. Ms. Damsel indicated that there is very effective communication between the TOS and the sub-custodian. She assured the Committee that the Bureau was very satisfied with the custodial services. Mr. Smith commended the staff for the presentation, indicating this presentation satisfied the statutory requirement and also contained educational components. Stewart Smith stated that there was good communication among all of the parties. Mr. Haffey indicated that each custodian is audited by two sets of independent auditors for additional safeguards.

CIO REPORT- DECEMBER 2009

Mr. Dunn referred the Committee to the CIO Report-December 2009, dated January 13, 2010. The report is incorporated into the minutes by reference. Mr. Dunn noted the report discusses the progress of the RFP and the transition activity.

COMMITTEE CALENDAR

Mr. Smith directed the Committee to the Investment Committee Calendar. The calendar is incorporated into the minutes by reference. He noted that the February 2010 meeting would contain an Economist Presentation by Professor Sam Thomas from Case Western Reserve University.

ADJOURN

A motion was made by Ms. Falls, seconded by Mr. Haffey to adjourn the meeting at 11:37 a.m. Roll call was taken and the motion passed 6-0.

Prepared by: Linda Byron, Staff Attorney, Legal Division, January 28, 2010