BWC Board of Directors

INVESTMENT COMMITTEE

Thursday, June 17, 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,
Members Absent:	None
Counsel Present:	John Williams, Assistant Attorney General
Scribe:	Linda Byron, Staff Attorney, Legal Division, BWC

CALL TO ORDER
Mr. Smith called the meeting to order at 9:28 a.m.

ROLL CALL
Roll call was taken. All members were present.

APPROVE MINUTES OF THE MAY 27, 2010 MEETING
In the second page of the May 27, 2010 meeting minutes, the portion of the second sentence that states "(if actual say increased)" was removed. Upon motion of Mr. Haffey, seconded by Mr. Lhota, the minutes of the May 27, 2010 meeting were approved as amended. Roll call was taken and the motion passed 6-0.

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

DISCUSSION ITEMS:

MONTHLY AND FISCAL YEAR TO DATE PORTFOLIO VALUE COMPARISONS

Bruce Dunn, Chief Investment Officer, referred to the Invested Assets Market Value Comparison-Total Funds chart dated June 14, 2010. The chart is incorporated into the minutes by reference and was provided to the Committee in advance of the meeting. Mr. Dunn indicated that May 2010 had been a difficult month for equities due to investor concerns about sovereign debt in Greece and other European countries. He noted that there was a flight to quality. Net investment income in May 2010 was a negative $468 million, representing a monthly net portfolio return of negative 2.4%. Led by Treasury Bonds, there was a net positive return of 0.3% in May 2010 for bonds. This was offset by equities which had a negative monthly return of 8.7%, representing a $513.7 million decrease in the equity market value in the same period. The equity portfolio had a net realized gain of $112.1 million due to completion of the final State Insurance Fund (SIF) transition. This transition moved equity assets from the transition account to Northern Trust and Mellon as the target managers. The SIF U.S. equity portfolio had an estimated market value of $3.8 billion in October 2009 when the transition of this portfolio commenced. This amount became the cost basis of the shares. Mr. Smith asked if the return would have been better if the transition had been completed earlier. Mr. Dunn replied that the cost basis of the SIF target portfolio now being managed by Northern Trust and Mellon would have been higher, but costs were saved while the portfolio remained in the transition account and there were no transition costs in the transfer. Mr. Dunn indicated that the ACWI ex-U.S. index returned a negative 10.5% and the Russell 3000 and S&P 500 indices returned a negative 7.9% and a negative 8.0% in May 2010, respectively. Operating cash increased $104.2 million in the month of May 2010. In the fiscal year to date 2010, net investment income was $1.924 million. In the 2010 fiscal year to date, the total portfolio returned a positive 11.2%. The equities portfolio returned a positive 17.5% in the same period.

MONTH-END PORTFOLIO ASSET ALLOCATION VALUES

Mr. Dunn referred to the Investment Asset Allocation-Combining Schedules as of April 30, 2010, dated May 17, 2010 and as of May 31, 2010, dated June 14, 2010. The schedules are incorporated into the minutes by reference and were provided to the Committee in advance of the meeting. The bond allocation increased in the SIF portfolio from 66.8% to 68.6% from the end of April 2010 to the end of May 2010. Cash allocations in the SIF increased from 1.9% to 2.2% in the same period. At the end of May 2010, stocks constituted 29.2% of the total SIF portfolio. Mr. Dunn indicated that all asset classes were reasonably close to their target allocations, so no rebalancing is anticipated in the coming months. Mr. Haffey pointed out that net investment income was $1.9 billion in fiscal year 2010 to date. Mr. Haffey commended Mr. Dunn and Lee Damsel, Director of Investments, for their work on creating portfolio allocation targets and ranges and remaining disciplined in reaching their goals. Mr. Dunn pointed out that the stock portfolio accounted for $588 million in net realized/unrealized gains in fiscal year 2010 through May 31. He also pointed out that the ACWI ex-U.S. portfolio underperformed the S&P 500 and the Russell 3000 portfolios in the month of May 2010. Mr. Dunn indicated that traditionally the large cap funds would have outperformed the small and mid cap funds in the current weak market conditions with the fear about sovereign debt, but the Russell 3000 index actually outperformed the S&P 500 index in the month of May 2010. Credit bonds have outperformed government bonds in the last 11 months, but long duration government bonds had an increased return of 4.11%, while long duration credit bond portfolio had a negative return of 0.87%, in the month of May 2010.

Mr. Dunn referred to the BWC Invested Assets chart as of June 16, 2010. The chart is incorporated into the minutes by reference and was provided to the Investment Committee at the June 17, 2010 meeting. In June 2010 to date, equities had a positive return of 2.4%. The overall portfolio market value increased by $151 million. Mr. Dunn added that he would address concerns about BP (British Petroleum). BP had been in the news due to concerns about a recent oil spill. He assured the Committee that the Bureau did not have any investment exposure to BP in the Russell 3000 or the S&P 500 portfolios since the company was incorporated in the UK. The Bureau did have some BP exposure in equities in its non-U.S. Equity commingled fund passively managed to the ACWI ex-U.S. benchmark index. The fund is being managed by BlackRock and holds a proportional weighted value of BP common stock consistent with the benchmark index. The Bureau's pro-rata fund market value represented by BP stock has dropped from $22 million in April 2010 to $18 million in May 2010 to $12 million as of June 16, 2010. Mr. Dunn indicated that BP just announced the funding of a $20 billion restitution fund after discussions with President Obama, but noted that the funded payments would be staged over a number of years in the future which caused the shares of BP stock to rise in price in recent days.

CIO Report- May 2010

Mr. Dunn referred to the CIO Report- May 2010, dated June 11, 2010. The report is incorporated into the minutes by reference and was provided to the Committee in advance of the meeting. He indicated that the last SIF transition was completed at the end of May 2010. Approximately $3.5 billion was moved from BlackRock as Transition Manager to Mellon and Northern Trust as Target Managers for the U.S. equity portfolio. Northern Trust was targeted to manage 70% of the total U.S. equity funds, or approximately $2.4 billion and Mellon will manage the remaining 30% or approximately $1.05 billion. Mr. Dunn indicated that the investments will be tracked together since Mellon performs full replication while Northern Trust performs sample replication.

Mr. Dunn gave a BlackRock organizational update. Mr. Dunn and Ms. Damsel along with Marsha Ryan, Administrator of the Ohio Bureau of Workers' Compensation, Bob Smith, Chair of the Bureau of Workers' Compensation Investment Committee and Guy Cooper, Partner of Mercer Consulting, the

Bureau's investment consulting firm, (hereinafter referred to as Mercer or Mercer Consulting), previously met with senior executives of BlackRock in New York City on May 7, 2010. Mr. Smith indicated that during the meeting, the BlackRock executives discussed the sudden and significant drop in the stock market that occurred on May 6 and that a client call-in conference call was arranged for later that morning to discuss the event. He noticed that when the conference call was made, the representatives from the Bureau had already been told privately BlackRock's views of the specifics about the market drop. The BWC meeting with BlackRock included at various times Laurence Fink, CEO/Chairman of BlackRock, Robert Kapito, President of BlackRock, Robert Capaldi, Head of the U.S. & Canada Institutional Client Group and Robert Goldstein, Head of BlackRock Solutions, a robust bond analytical system created by BlackRock and offered to sophisticated institutional clients. Mr. Dunn provided some highlights of the meeting. The assimilation with BlackRock and Barclays Global Investors (Barclays) is completed. One former Barclays senior executive is now a member of the BlackRock senior executive team. Most senior officers and managers of the former Barclays organization retained or assumed new positions within BlackRock. BlackRock has a strong incentive compensation culture, so the compensation packages have generally increased for ex-Barclays employees who were retained with the merger. After the merger with Barclays, BlackRock is the largest investment manager in the world with over $3.3 trillion under management. Approximately 73% of its invested assets are institutional, 12% retail and 15% are iShares exchange traded funds. Approximately 40% of the firm's assets under management (AUM) are with non-U.S. clients, but is anticipated to increase to over 50%. The firm has a good balance of passive and active management of approximately 50% to each. Since the merger, there have been some clients that have removed assets away from BlackRock management due to manager concentration limits within their investment policies.

Barclays has had prior issues with quantitative equity management by underperforming the benchmarks for the last five years. There are currently $145 billion of active quantitative equity AUM managed by BlackRock. BlackRock has not and will not engage in any proprietary trading and will continue to focus on upholding their fiduciary duty and providing good stewardship to their clients. Mr. Haffey asked for a definition of proprietary trading. Mr. Dunn explained that BlackRock only manages their client's money rather than managing money for their own firm. Mr. Smith added that the BlackRock firm agrees with the Bureau's focus on fiduciary duty. Mr. Dunn noted that he was impressed with BlackRock's vision and focus on responsibility and fiduciary duty. Ms. Falls asked how long the meeting lasted. Mr. Dunn responded that the meeting lasted three hours including two individual meetings with Mr. Fink and Mr. Kapito that lasted at least one hour apiece. Ms. Falls asked if State Street engaged in proprietary trading. Mr. Dunn responded that State Street is a bank and that the firm will not engage in proprietary trading, but will manage the bank's portfolio. Mr. Haffey asked how the Bureau's portfolio compared in size to other client's portfolios. Mr. Dunn replied that the Bureau would be in the top 100, but not in the top 50 of BlackRock clients in terms of client assets under management by the firm. Mr. Dunn added that he and Ms. Damsel have had direct access to the senior BlackRock executives and have been involved in a prior lengthy private phone call with BlackRock's Chairman/CEO Larry Fink.

INTRODUCTION OF INVESTMENT DIVISION STAFF

Mr. Smith indicated that introduction of the entire Investment Division Staff is long overdue. In the investment world, asset reallocations and transitions are expected, but are also complicated, time consuming and ripe for mistakes. Between April 2005 and August 2007, the Bureau's portfolio underwent a number of transitions that were not necessarily entirely related to market forces. In August 2007, the current Investment Committee met for the first time. The Committee's foremost goal was to meet the statutory requirement to maintain a solvent fund with the lowest possible premiums. After careful research, analysis of the Bureau's long term liabilities and implementation of both investment and governance best practices, the Committee adopted a new Investment Policy Statement and began a thoughtful planned transition to new asset allocations of the Bureau's $15 billion portfolio. That transition is almost complete. Mr. Smith indicated that in his long experience in the investment business, he had never seen such a large transition occur as smoothly and cost-effectively. Mr. Smith indicated that it was appropriate to take some time to introduce the Investment Division staff and thank them for all that they do in their daily jobs and their work during the transition process.

Mr. Dunn noted that the Bureau's Investment Division staff has had a total of 11 members since 2009. Ms. Damsel has been with the Investment Division since 2005. Mr. Dunn joined the staff in 2006. Each of the seven new investment managers has over seven years of prior investment experience. Seven members of the Investment Division staff have CFA charterholder designations. Two other Investment Division staff members are working toward that designation. Mr. Dunn noted that he was grateful to Ms. Ryan for her support to build the team by providing them with the tools and resources to be good stewards of BWC assets.

Mr. Dunn distributed the biographies of the Investment Staff entitled Ohio BWC Investment Division Staff June 2010 and dated June 9, 2010. The report is incorporated into the minutes by reference and was provided to the Investment Committee at the June 17, 2010 meeting. Mr. Dunn pointed out that Ms. Damsel joined the Investment Division in April 2005 and has been engaged in team building and transitioning funds since she first started. As a manager, she believes in rotating duties and cross training. Ms. Damsel indicated that she emphasizes four areas: reports, performance, analytics and best standards. She also focuses on monthly and quarterly compliance using monthly reports and quarterly meetings. Operational reporting is also a priority. Ms. Damsel thanked Ms. Ryan for understanding the division's budgetary needs. She also thanked

Monica DeJarnett who joined the staff in 2005 and Roy Charles who joined in 2006.

The team overseeing portfolio performance and reporting consists of Dan Blevins and Michael Berger. Mr. Blevins has been with the Bureau for the last year and a half. His responsibilities include performance reporting, performance compliance, reviewing reports and assisting in contract negotiations. Mr. Berger focuses on portfolio performance and reconciliation. He reviews the investments and investment income, oversees transferring documents into UDS, the Bureau's Universal Document Storage Service storage system, and compiles reports. Mr. Berger has earned a Certificate in Investment Performance Measurement (CIPM) designation.

Greg Stought, Darnee Jalil and Fraser Nega make up the compliance team. Mr. Stought has been with the agency for almost four years. He is responsible for assisting in the SIF asset transitions and has been involved in grading and reviewing manager score cards. He was very involved in the large sale of the 68 private equity partnerships. Ms. Jalil has been an Assistant Investment Manager with the Bureau for the last three years. She compiles RFP documentation, monitors compliance, oversees the quarterly manager score card reports and reviews the monthly manager reports. Mr. Nega has been with the agency for over four years and joined the Investment Division two years ago. He provides a breadth of administrative support and has assisted with compiling RFP data and grading results for two RFPs. He also processes background checks for new managers.

Doug Walouke and Roy Charles are members of the operational reports team. Mr. Walouke has been with the Bureau for almost four years. He has been involved in writing and evaluating RFPs. He assisted in the hiring of BNY Mellon as the accounting record keeper. He been involved in drafting initial policies and procedures and has trained several other colleagues. Roy Charles was among the first of the Bureau's new hires in early 2006. He has involvement in producing regular and as requested specialized internal portfolio reports. He also forecasts income, drafts policies, reviews reports and handles fee verification.

Vytautas (Vyts) Kulpa and Monica DeJarnett are involved in budgets and administration. Mr. Kulpa tracks invoices and funds. He also assisted in projecting the long term budget, assisting in drafting a RFP for the Bureau's current investment consultant, Mercer and liquidating coins. Ms. DeJarnett is responsible for completing investment charts and reports, assisting with PowerPoint presentations for the Investment Committee meetings, overseeing operational files, and compiling Board materials each month and scanning documents into UDS. Mr. Dunn complimented Ms. DeJarnett on her many versatile skills and quality service provided to both him and the Investment staff.

Mr. Haffey pointed out that the Investment Division staff was a very impressive group. Mr. Smith added that Columbus, Ohio has a very active CFA society. He stated that Ms. Damsel is very active in the group and Mr. Walouke served as a prior President. Mr. Smith commended the Investment Division staff on their hard work and proposed a resolution to recognize them. The Ohio Bureau of Workers' Compensation Investment Committee's Proposed Resolution to Recognize the Investment Division Staff of the Ohio Bureau of Workers' Compensation was made by Mr. Smith and seconded by Ms. Falls as follows: The Investment Committee proposes a resolution in recognition of the Ohio Bureau of Workers' Compensation Investment Division staff for their extraordinary work during the transition created by reallocation of assets during the last two years and to thank them for restoring integrity to the Investment Division of the Ohio Bureau of Workers' Compensation. Roll call was taken and the proposed resolution passed 6-0. Ms. Falls indicated that the Investment Division staff's hard work was truly notable. Mr. Harris commended the staff members who joined the Bureau during a volatile time in 2006.

MERCER PRESENTATION ON MINORITY AND WOMEN BUSINESS ENTERPRISE (MWBE) INVESTMENT MANAGERS AND MANAGER SELECTION APPROACHES

Mr. Kweku Obed, Senior Associate with Mercer Consulting referred the Committee to the MWBEs and Institutional Investors-Trends and Approaches presentation, dated June 17, 2010. The presentation is incorporated into the minutes by reference and was provided to the Committee in advance of the meeting. Mr. Obed opened his presentation by noting that any decision to invest with MWBEs has to be in accord with the BWC Investment Policy Statement, and BWC investment goals and objectives.

Using public information, Mercer compiled the report to show case studies of how other public funds utilize MWBE and emerging managers. The definition of a MWBE is a company where a minority or woman is a majority stakeholder. Emerging managers are generally companies that have $2.0 billion or less in assets under management (AUM). This definition is standard in the industry, but can be changed by state. Since 70% of MWBE have less than $2.0 billion in AUM, the majority of MWBE companies are also considered to be emerging managers. Mr. Smith asked what percentage of emerging managers are MWBE firms. Mr. Obed replied less than 50%.

Mr. Obed indicated that Mercer has seen strong or growing emerging manager representation in the areas of domestic equity, core U.S. fixed income, non-U.S. fixed income, private equity and private real estate. In the last 12-36 months, several public plans have expanded their emerging manager programs or have pledged to do so, most notably in the areas of fixed income, international equity and private equity. In comparing the Bureau's completely passive investing strategy with other institutional investors, a study in 2009 found that corporate entities and public entities invest 14% of their total portfolio in passive management respectively while unions invest 9.2% of their total portfolios passively. Corporate institutions invest 34.2% of their portfolios in domestic fixed income. Public institutions invest 25.7% and unions invest 28.5% in domestic fixed income. The Bureau invested 67.2% of its portfolio in domestic fixed income as of March 31, 2010. Mr. Smith pointed out that the Bureau's investing strategy would be more similar to other insurance company strategies. Mr. Price pointed out that the Mercer database showed that 70% of MWBE managers are emerging managers. Mr. Price asked what percentage of MWBE firms are emerging managers in the entire market. Mr. Obed answered that Mercer would try to find out that information.

Mr. Obed pointed out the list of institutional investors that have publicly committed to investing with emerging managers and the reasons for investing with emerging managers. Mr. Smith asked if firms such as Mercer inadvertently screen out emerging managers. Mr. Obed answered that companies will traditionally focus on big, well known management firms. Mr. Smith responded that Mercer will need to challenge its criteria for choosing managers. Mr. Obed replied that Mercer does not solely look at the minimum assets, but instead focuses on the four factor model. Mr. Cooper added that some institutional investors use small firms because the larger management firms do not want to be limited by the restrictions of an investment consultant. Mr. Harris said that as a state agency, the Bureau has a strong, valid social argument to support adding MWBE firms. He also indicated that the Bureau needed to look at alpha. Mr. Price asked if the other institutional investors were creating policies to invest with emerging managers. Mr. Obed replied that there was no standard procedure. Mr. Smith added that some are investing with emerging managers due to statutes drafted by their general assembly and others are using a "best practices" argument. Mr. Price added that he felt the Bureau should utilize MWBE managers even without a mandate.

Mr. Obed indicated that some public plans invest with emerging managers using a fund of funds (FoF) or manager of managers (MoM) program. Some investors will invest directly with a manager using the RFP process, interviews and direct hiring. Internal capabilities and risk tolerance can limit a firm's plans on whether to use a FoF or MoM. Mr. Smith noted that the Bureau monitors four investment managers while the other institutional firms probably have a larger internal staff or pay higher fees for monitoring. Ms. Falls asked how Mercer would apply the four factor model with larger firms that were looking at using MWBE or emerging managers. Mr. Obed responded that Mercer looked at the size of the investment firm.

Mr. Obed told the Committee that once an asset class is chosen for management by a MWBE, a RFP may be issued and the responses reviewed. For a MoM, Mercer Consulting will look at the manager who chooses the managers. With a FoF, Mercer will review the operational diligence of the FoF manager. For both

MoM and FoF, Mercer will look at the transitions of the portfolio, the longevity of clients, the monthly monitoring and the turnover of clients. Mr. Dunn explained that a FoF had ownership in the underlying investment. In a MoM, the investment manager invests their client's money in other managers, but does not own underlying investments. With a FoF, the investor's money can be combined with other clients who want to invest with MWBE firms. Mr. Obed added that after 2002, an investor can have separate funds in a FoF, but the funds are commingled. Firms may determine whether to invest with a FoF or MoM based on legal restrictions where they are limited by their investment policy.

Mr. Price asked what the differences in FoF or MoM are when it comes to due diligence and monitoring issues. Mr. Obed indicated that there is more protection with a MoM since the manager takes on the due diligence risk and the liabilities. With a FoF, the manager is hired directly, so the investment staff is responsible for monitoring. Mr. Obed indicated that since the Bureau is completely passively managed now, the best choice is a MoM in order to add a MWBE manager. Mr. Cooper added that a MoM can have upwards of forty managers. Mr. Haffey pointed out that public investors are now being tested to ensure that they are following their investment policy statement and performing their due diligence. He added that there is more oversight. Mr. Matesich pointed out that there was the possibility of the Bureau's Internal Audit Department expanding its role. Mr. Obed added that having a MoM may not be mutually exclusive from having a direct manager. A MoM can be used to promote the hiring of a direct manager from that MoM. This is done after several years of monitoring the funds. Mr. Smith asked how firms react to the hiring by clients of their manager directly from a MoM. Mr. Obed responded that reaction is mixed since the action creates good publicity for the MoM, but the firm is losing a good manager.

Mr. Obed pointed out the investment plans of The Fireman's Annuity & Benefit Fund of Chicago (CFIRE) and the New York City Retirement System (NYCRS). Mr. Obed emphasized that the returns of the emerging manager as compared to the benchmark should not be the only consideration. Mr. Haffey added that some level of oversight is needed and various options need to be considered such as the expansion of Internal Audit or monitoring by the Investment Division or by an outside management firm. Additionally, the added cost needs to be considered.

The Pennsylvania School Employees plan was mentioned as a model. The system gives preference to MWBE, and firms from Pennsylvania, but the school employee plan will not limit itself to those types of firms. Mr. Smith indicated that when he was involved with the Ohio Public Employees Retirement System (OPERS), the system had chosen to give a specific mandate to MWBE and to businesses from the Midwest. He added that the asset allocation was reviewed first and then OPERS looked at all of the managers. Mr. Obed emphasized that the key goals were preserving assets and getting the best manager. Mr. Obed replied that clear criteria is needed and that the Bureau cannot justify not hiring the best manager, whether MWBE, emerging manager or not. Mr. Smith pointed out that the Bureau would need to look at Mercer Consulting or the Bureau Investment Division staff to determine whether to invest more with a good performing emerging manager or MWBE. He emphasized that OPERS looked at all managers while following its overriding goal to satisfy its fiduciary duties and protect the funds. Mr. Caldwell indicated that he had originally been opposed to investing in international funds and he emphasized caution with movement into new areas. He added that he supports the social obligation and good intentions to add MWBE and emerging firms, but emphasized that the Bureau must focus on its fiduciary duties foremost. In commenting on the sample policy statements in the appendix of the Mercer report, Mr. Haffey mentioned that he preferred language directing a "strong preference" rather than a mandate. Mr. Price responded that the addition of MWBE and emerging firms will not conflict with the goal of the Board or jeopardize the Bureau's fiduciary duty.

COMMITTEE CALENDAR
Mr. Smith directed the Committee to the 12-month Investment Committee Calendar, dated June 4, 2010. The calendar is incorporated into the minutes by reference and was given to the Committee prior to the meeting. Mr. Smith indicated that Mercer Consulting would continue the discussion of MWBE investment management and the management selection process at the July meeting.

Mr. Caldwell indicated that he supports looking at the wording of the OPERS policy that encourages contracting with MWBE, emerging firms and managers from Ohio at the appropriate time. Mr. Smith added that he believes that the OPERS policy has good intentions and he supports that, but emphasized that the Bureau's foremost focus must be on fiduciary duty if the quality managers are not available. Mr. Price responded that there are other programs that started with good intentions to add MWBE, but failed to follow-through. He added that the Bureau can follow its fiduciary duty while still adding MWBE and emerging managers and that these concepts are not mutually exclusive. He indicated that standards do not have to be lowered to add MWBE or emerging managers and that there are available quality managers from those types of firms. Mr. Caldwell replied that he supported creating a written policy that followed the wording of the OPERS. Mr. Smith added that the Investment Committee was not discussing compromising or lowering standards.

ADJOURN
A motion was made by Mr. Haffey, seconded by Mr. Caldwell to adjourn the meeting at 11:33 a.m. Roll call was taken and the motion passed 6-0.