BWC Board of Directors

# Investment Committee Agenda

**William Green Building**
**Wednesday, February 23, 2011**
Level 2, Room 3
10:30 a.m. – 12:00 p.m.

**Call to Order**
Bob Smith, Committee Chair

**Roll Call**
Linda Byron, Scribe

**Approve Minutes of the December 15, 2010 Meeting**
Bob Smith, Committee Chair

**Review and Approve Agenda***
Bob Smith, Committee Chair

**New Business/ Action Items**

1. BWC MWBE Manager of Managers Search
   Request for Proposals Issuance Recommendation
   Bob Smith, Committee Chair
   Bruce Dunn, Chief Investment Officer
   Vote to recommend approval to the Board of Directors

**Discussion Items**

1. Portfolio Performance
   - Mercer Quarterly Report – Fourth Quarter 2010
     Mercer Team

2. Monthly and Fiscal Year to date Portfolio Value Comparisons
   - December 2010/November 2010
   - January 2011/ December 2010
   - December 2010/June 2010
   - January 2011/June 2010
     Bruce Dunn, Chief Investment Officer

3. Month-End Portfolio Asset Allocation Values
    - December 2010/November 2010
    - January 2011/ December 2010

      Lee Damsel, Director of Investments

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

      Lee Damsel, Director of Investments

5. CIO Report – December 2010/January 2011

   Bruce Dunn, Chief Investment Officer

6. Long Duration Credit Active Management
   Investment Policy Recommendation, first review

   Bob Smith, Committee Chair
   Bruce Dunn, Chief Investment Officer
   Mercer Team

7. Committee Calendar

   Bob Smith, Committee Chair
   Bruce Dunn, Chief Investment Officer

**Adjourn**

Bob Smith, Committee Chair

**Next Meeting: Thursday, March 24, 2011**

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

DATE: February 16, 2011

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **BWC Minority-Owned and/or Women-Owned Business Enterprises Manager-of-Managers Program Request for Proposals Issuance Recommendation**

## BACKGROUND

At its September 24, 2010 meeting, the BWC Board of Directors approved a recommendation made by the BWC Investment Committee to revise Section VIII of the BWC Statement of Investment Policy and Guidelines (IPS) for the primary purpose of introducing a specific Minority-Owned and/or Women-Owned Business Enterprise (MWBE) Investment Managers investment strategy. This MWBE investment strategy is to be implemented through a Manager-of-Managers (MoM) program whereby all assets assigned by BWC towards this strategy will be placed directly with MoM firms. It will be the responsibility of each MoM firm approved by the Board to identify, select and monitor each MWBE investment manager chosen by such MoM firm consistent with its fiduciary responsibility for the assets it manages for BWC. The MoM firm is responsible for the management of BWC assigned assets within all guidelines established in the IPS.

Attached to this memorandum of recommendation is Section VIII of the IPS. Included in Section VIII is the listing of the five approved asset classes eligible to be managed under the MWBE MoM investment program. Assets of the State Insurance Fund (SIF) in an amount targeted at 1% of its total invested assets will be directed to this program. This targeted amount is currently approximately $185 million based on SIF invested assets of $18.5 billion at the end of 2010.

## RECOMMENDATION

It is the recommendation of the CIO that the BWC Investment Committee and Board of Directors approve the issuance by BWC staff of a Request for Proposals (RFP) for the services of qualified Manager-of-Managers of Minority-Owned and/or Women-Owned Business Enterprise investment management firms. A proposed timeline of important milestone dates for the proposed RFP process to select MWBE MoM firms is provided with this memorandum in both tabular and graphic form.

If approved by the Board at its February 24, 2011 meeting, the RFP is scheduled to be issued on March 17, 2011 with the deadline for RFP bid response submissions being April 21, 2011. An RFP Evaluation Committee will evaluate and grade all qualified responses received over the period from April 21, 2011 to May 9, 2011 with finalist candidates identified on May 11, 2011. Interviews with finalist candidates are anticipated to be conducted at the William Green Building between the time period May 24 to June 2, 2011. After the interviews are completed, the Evaluation Committee will determine which firms warrant on-site due diligence meetings and further interviews at the home office location of the MoM finalist candidate firm(s). The finalist MoM firm recommended for consideration by the Investment Committee and Board would then be presented by the RFP Evaluation Committee at the July 28, 2011 scheduled Investment Committee meeting if there is only one MoM finalist recommendation. If there is a second and/or third finalist recommendation, those recommendations would be presented by the RFP Evaluation Committee for consideration of approval by the Investment Committee at the August 25, 2011 scheduled meeting.

Appropriate representatives of each MWBE firm selected as finalist(s) by the RFP Evaluation Committee would appear before the Investment Committee at its scheduled meeting to provide an overview presentation and answer questions before any votes are taken by the Investment Committee and Board. If this described timetable is met and approval of recommended MoM firm(s) is provided by the Board at the scheduled meetings of July and August, 2011, the funding of such approved MoM firms by the SIF portfolio is estimated to occur in the October-November, 2011 time period after all legal contracting and required Ohio Revised Code criminal background checks are completed on identified individual investment managers.

In order to maintain the integrity of the RFP process, it is important that both the BWC Board and BWC staff enter into a “Blackout Period” as it relates to the MWBE MoM RFP for investment services. BWC Board members and BWC 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 MWBE MoM investment manager(s) are under contract with BWC.

The RFP to be issued by the Bureau is seeking one or more MWBE MoM investment manager firms experienced in implementing and overseeing the management of institutional assets for institutional investors, especially public funds, through the selection and close monitoring of a number of MWBE investment management firms. These MWBE firms must have the capability to deliver risk adjusted returns that exceed defined benchmark returns, net-of-management fees, in one or more of the five asset classes of the Bureau identified as a permitted investment asset class for this MoM program. Among the important minimum qualifications to be stated in the RFP are that both the MoM firm and its assigned portfolio manager providing services to BWC must have a minimum of three years experience in managing manager-of-manager programs against the index benchmark(s) for which the firm is proposing to manage for BWC.

The BWC investment staff has received guidance and assistance from Mercer in preparing certain questions for the MWBE MoM investment manager RFP, some of which would be unique to this type of engagement search. In addition, the BWC investment staff has researched several other similar MoM RFPs issued by public pension funds that have been useful in formulating additional pertinent RFP questions.

The RFP proposals received will initially be evaluated and graded independently by each member of the RFP Evaluation Committee based on the following criteria and weightings to determine the selection of the finalist candidate firms for interviews by the RFP Evaluation Committee:

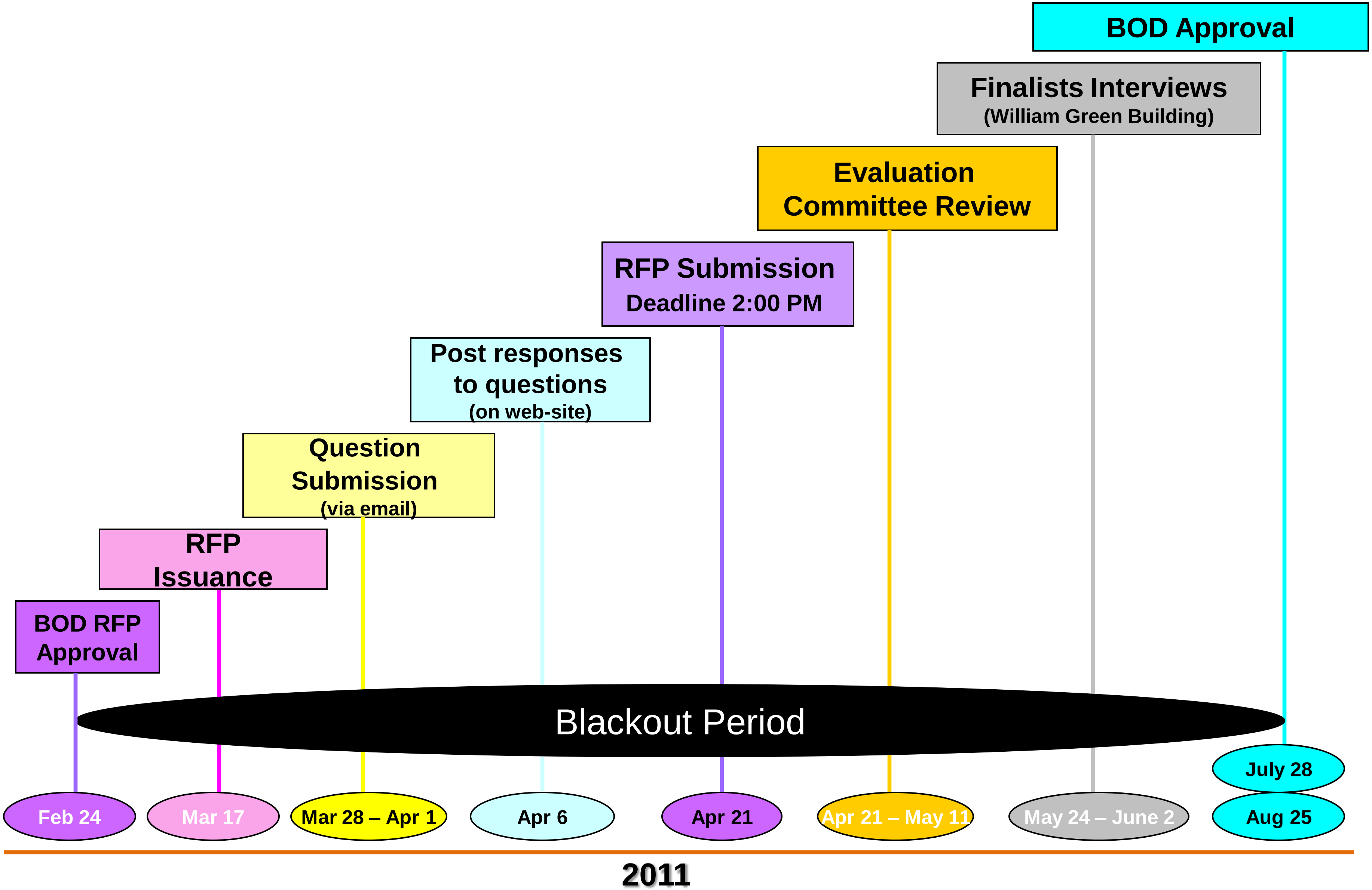
- 25% background, profile and organization
- 60% quality and depth of services, performance, experience and professional staff offered
- 15% proposed fees

It is the initial preference of the CIO to have two firms rather than a single firm serving the Bureau as a MWBE MoM investment manager. Two MoM firms with differing investment approaches, styles and expertise would presumably provide a wider breadth of choices and diversification for BWC invested assets. It would be the intention of the BWC Investment Division to develop close professional working relationships with each MoM firm hired for long-term mutual benefit.

# MWBE MoM Investment Services RFP Timeline

| RFP ACTION ITEM | TIMELINE |
| --- | --- |
| ***Investment Committee and BOD MEETING*** <br> *(BWC staff requests BOD approval to issue RFP)* | ***February 23-24, 2011*** |
| **Issue RFP** | ***March 17, 2011*** |
| RFP Advertisement in Pensions & Investments <br> (*Bi-weekly publication*) | March 16/March 30, 2011 editions |
| Open Period for respondents' question submission via email <br> Post responses to questions on BWC website on or before | March 28 – April 1, 2011 <br> April 6, 2011 |
| **Deadline for submissions of Proposals 2:00 PM** | ***April 21, 2011*** |
| Evaluation Committee review/grading of proposals | April 21 – May 9, 2011 |
| Evaluation Committee finalist candidates identified | May 11, 2011 |
| Interviews of Finalists at William Green Building | May 24 – June 2, 2011 |
| On-site visit of Finalist(s) | June 20 – July 8, 2011 |
| ***Investment Committee and BOD MEETING*** <br> *(Finalist(s) recommendation for approval)* | ***July 28-29, 2011*** (if one finalist) <br> ***August 25-26, 2011*** (if 2nd/3rd finalist) |

# MWBE MoM Investment Services RFP Timeline



# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: September 24, 2010

Amends Adoption of: March 26, 2010

## VII. INVESTMENT POLICY STATEMENT REVIEW

The Board in conjunction with the Administrator, Chief Investment Officer and Investment Consultant will review this policy statement at least once a year, to determine if revisions are warranted and will publish the policy statement and any changes it adopts and make copies available to all interested parties.

It is not expected that this Investment Policy will change frequently; in particular short-term changes in the financial markets should generally not require an adjustment in this Investment Policy.

## VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

The Board desires that the BWC Investment Staff and the Investment Consultant identify, research and evaluate qualified Ohio investment managers, minority-owned investment managers and women-owned investment managers. It is the Board's intention to give such investment management firms fair consideration to fulfill the Funds' investment objective; however, the Board is not obligated to hire any qualified Ohio firm, minority-owned or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders or in asset classes that have not been approved by the Board.

### A. Qualified Minority-Owned and/or Women-Owned Investment Managers – Criteria

As used in this Investment Policy, a minority-owned investment manager shall be defined as an investment manager that is U.S. domiciled and is majority-owned by one, or any combination, of the following groups: African American, Native American, Hispanic American and Asian American. Additionally, Investment Managers who are majority-owned by women are included in this Policy and defined as women-owned investment managers.

As used in this Investment Policy, minority-owned and/or women-owned investment managers are collectively defined as Minority-or-Women Business Enterprise (MWBE) Investment Managers. Any MWBE Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940.

i. **Process**

With regards to MWBE Investment Manager strategy, it is the Board's desire to have Fund assets managed by such qualified firms through a Manager-of-Manager (MoM) program. BWC will not place Fund assets directly with MWBE firms but will instead place Fund assets directly with MoM firms. BWC Investment Staff and the Investment Consultant will identify qualified MoM firms through a selection process approved by the Board. Any MoM firm approved by the Board will be defined as a BWC Investment Manager with all of the duties and responsibilities of Section III.C of this Investment Policy. Any MoM firm must be a registered investment advisor under the Investment Advisors Act of 1940.

ii. **Monitoring and Responsibilities**

Any MoM approved by the Board will be responsible for identifying and monitoring the selected MWBE investment managers in the MoM portfolio managed for BWC. While the Board is responsible for reviewing and approving this MoM Policy, the Board delegates authority to the MoM to implement this MoM Policy and the MoM acknowledges its fiduciary responsibility for the assets it manages for BWC.

The MoM is responsible for the management of BWC assigned assets within the guidelines and restrictions of this Investment Policy adopted by the Board. The MoM is responsible for identifying and monitoring MWBE compliance to the approved investment guidelines. MWBE managers are hired into or removed from the MoM's portfolio of BWC assets based on information reviewed by the BWC Investment Staff and the Investment Consultant.

iii. **Eligible Asset Classes**

The Board may consider MoM programs that focus on one or more of the following approved asset classes:

1. Large Capitalization U.S. Equities
2. Small Capitalization U.S. Equities
3. Mid Capitalization U.S. Equities
4. Core U.S. Fixed Income
5. Non-U.S. Equities

iv. **Target Asset Allocation**

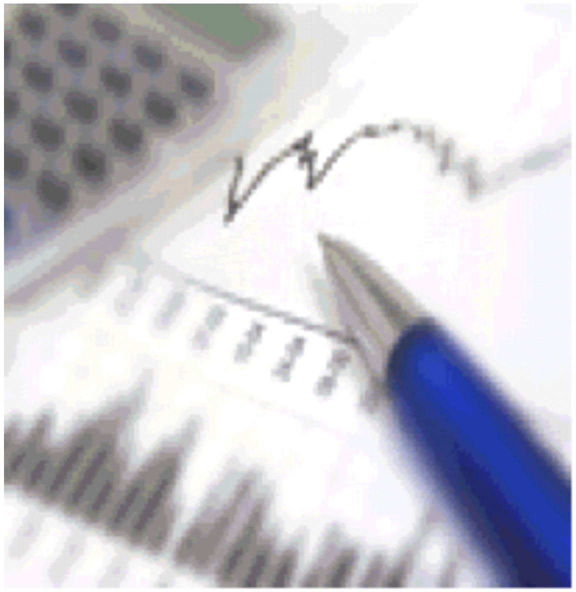
The MoM investment manager program for MWBE asset allocation will have a 1% target for invested assets of the State Insurance Fund.

## B. <u>Qualified Ohio Investment Managers - Criteria</u>

As used in this Investment Policy, a qualified Ohio investment manager is one that meets at least one of the following requirements:

- Maintains its corporate headquarters or principal place of business in Ohio, or
- Employs at least 500 individuals in Ohio, or
- Maintains a principal place of business in Ohio and employs at least 20 Ohio residents

Any qualified Ohio investment manager must be a registered investment advisor under the Investment Advisors Act of 1940.



# Ohio Bureau of Workers Compensation (Ohio BWC)

## Investment Performance – Summary

## Fourth Quarter 2010

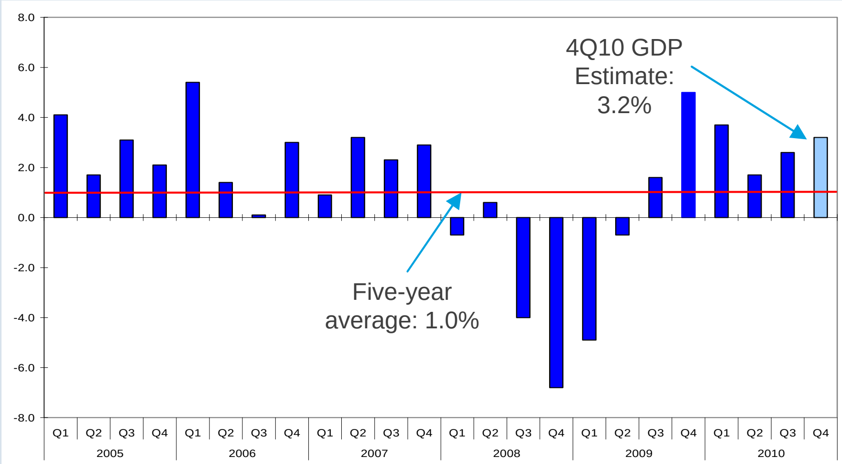
Services provided by Mercer Investment Consulting, Inc.

## Table of Contents

# Market Environment

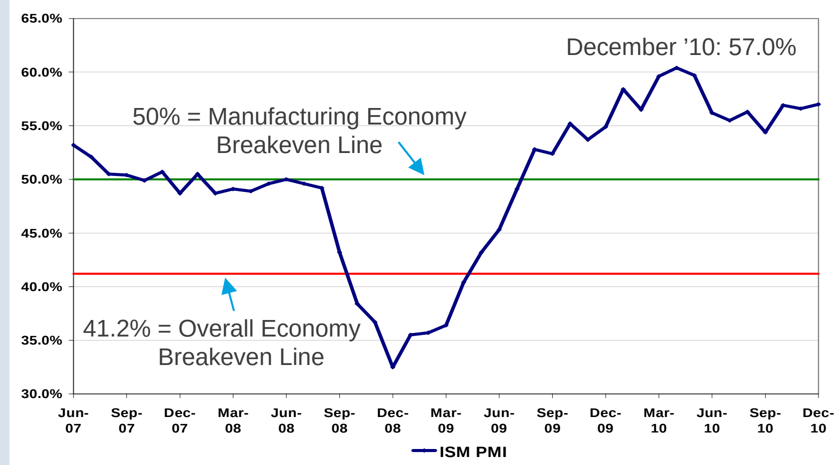
## Economy

### Quarterly GDP Growth (Annualized)



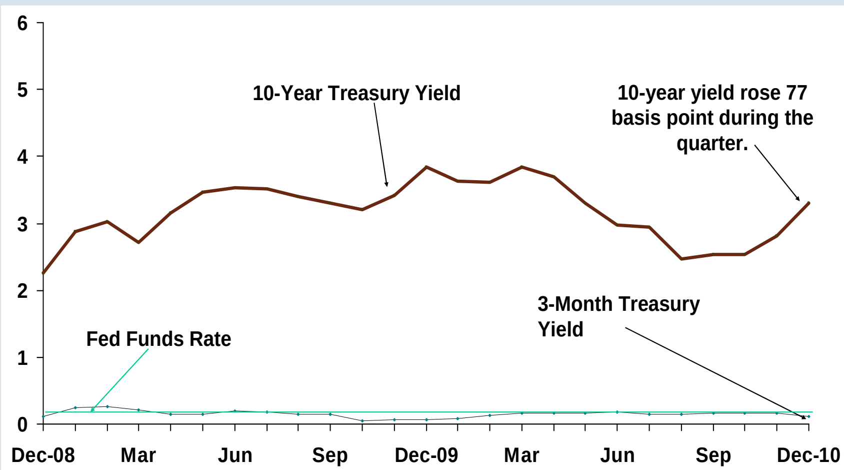

*Source: Bureau of Economic Analysis and Federal Reserve Philadelphia*

### ISM's Purchasing Managers Index



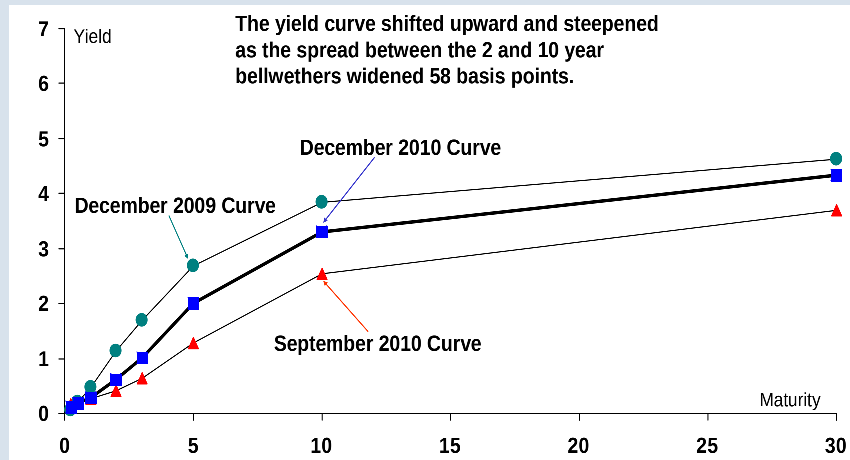

*Source: Institute for Supply Management*

### Interest Rates




*Source: Federal Reserve Bank of New York and the Treasury Department*

### Yield Curve



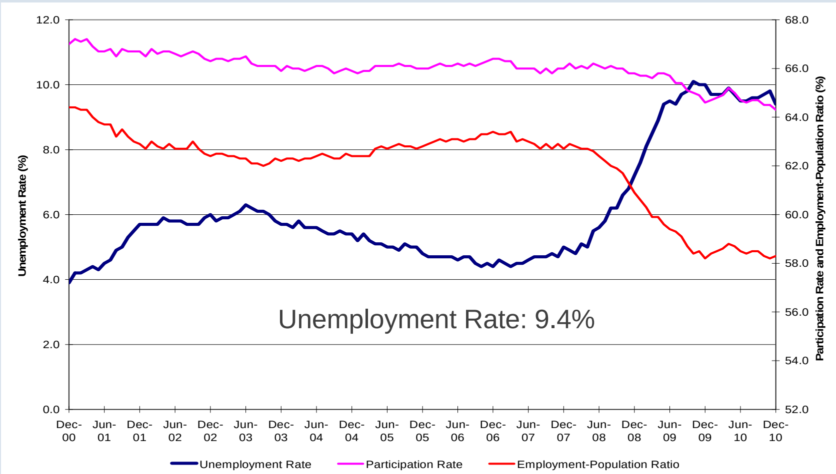

*Source: US Department of Treasury*

Mercer Investment Consulting, Inc.

# U.S. Capital Markets and Macroeconomic Conditions

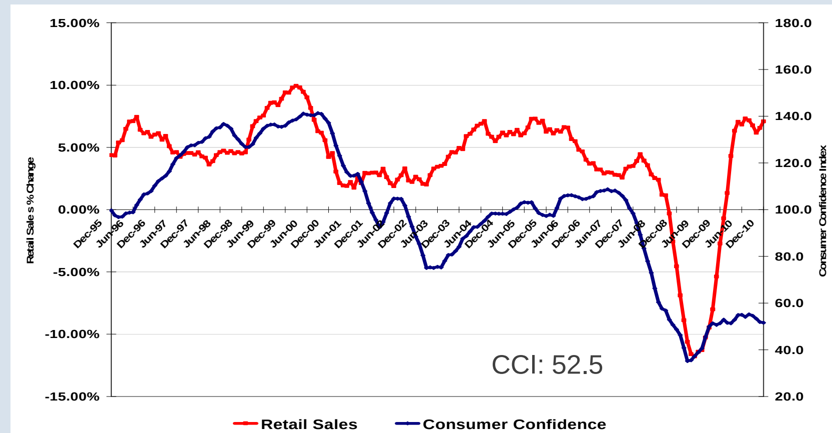
## Economy

### Civilian Unemployment Rate



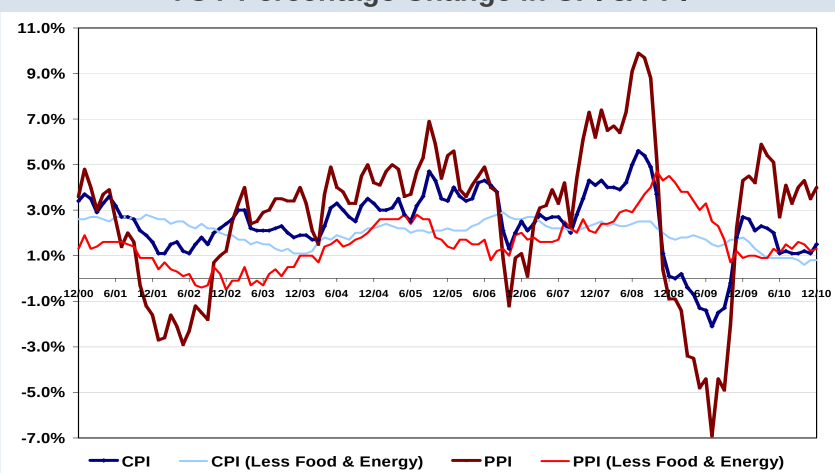

*Source: Bureau of Labor Statistics, NBER*

### Consumer Confidence Index vs YOY % Change in Retail Sales (Smoothed)



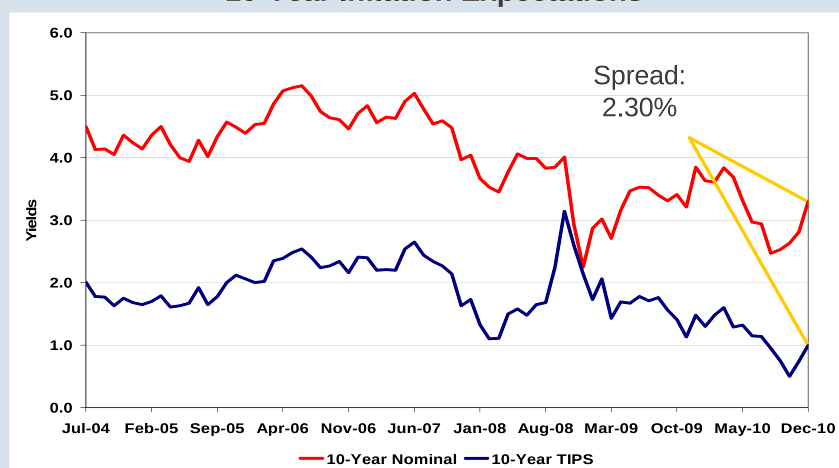

*Source: The Conference Board and U.S. Census Bureau*

### YOY Percentage Change in CPI & PPI




*Source: Bureau of Labor Statistics. CPI-All Consumers. PPI-Finished Goods*

### 10-Year Inflation Expectations




*Source: Federal Reserve*

# Domestic Equity

## Style and Market Capitalization Comparison

### 4Q2010

| | Growth | Core | Value |
|---|---|---|---|
| Large | 11.8% | 11.2% | 10.5% |
| Mid | 14.0% | 13.1% | 12.2% |
| Small | 17.1% | 16.3% | 15.4% |

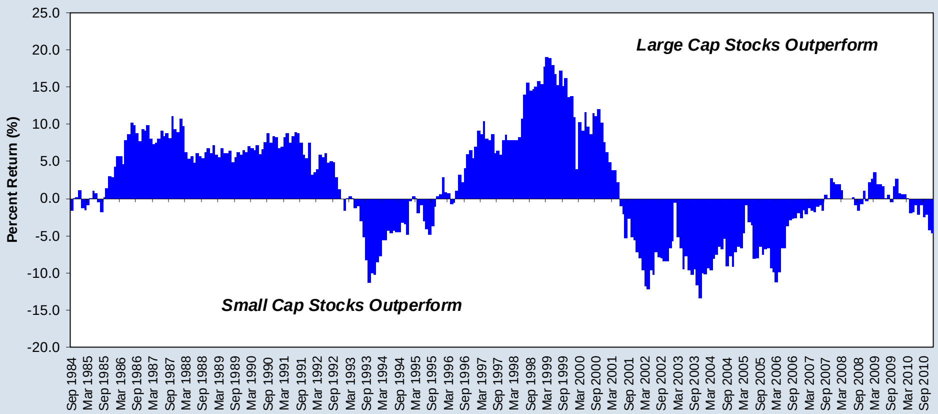
### 1 Year Returns

| | Growth | Core | Value |
|---|---|---|---|
| Large | 16.7% | 16.1% | 15.5% |
| Mid | 26.4% | 25.5% | 24.8% |
| Small | 29.1% | 26.9% | 24.5% |

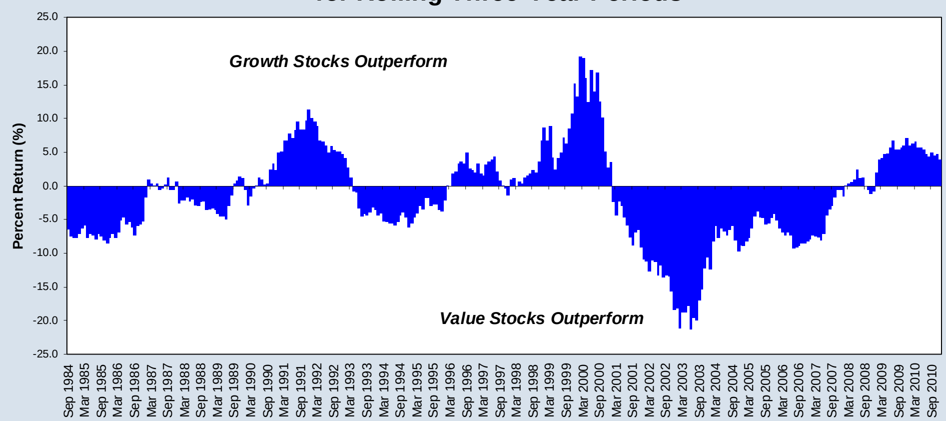
### 3 Year Returns

| | Growth | Core | Value |
|---|---|---|---|
| Large | -0.5% | -2.4% | -4.4% |
| Mid | 1.0% | 1.1% | 1.0% |
| Small | 2.2% | 2.2% | 2.2% |

**Russell 1000 Index Minus Russell 2000 Index for Rolling Three-Year Periods**



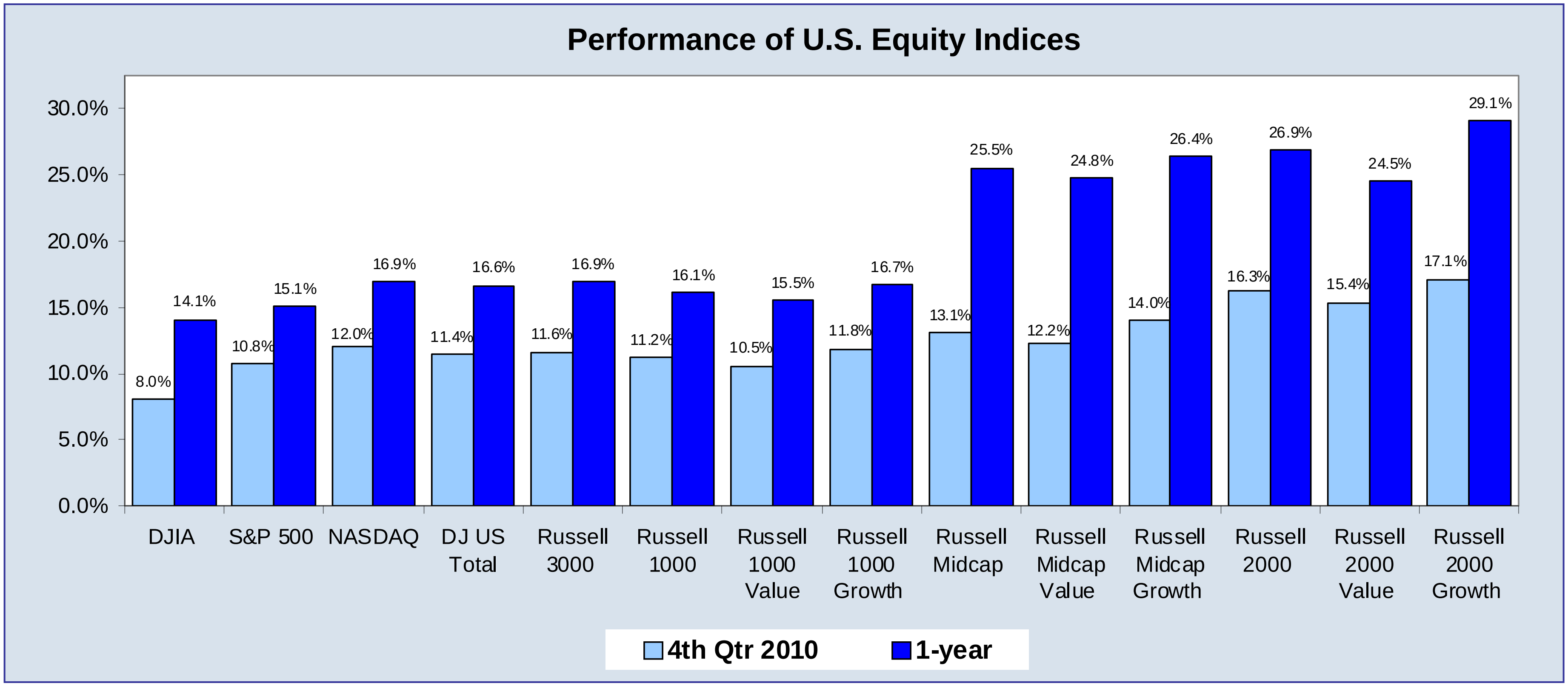

**Russell 1000 Growth Index Minus Russell 1000 Value Index for Rolling Three-Year Periods**



## Domestic Equity

### Small Cap outperforms Large Cap

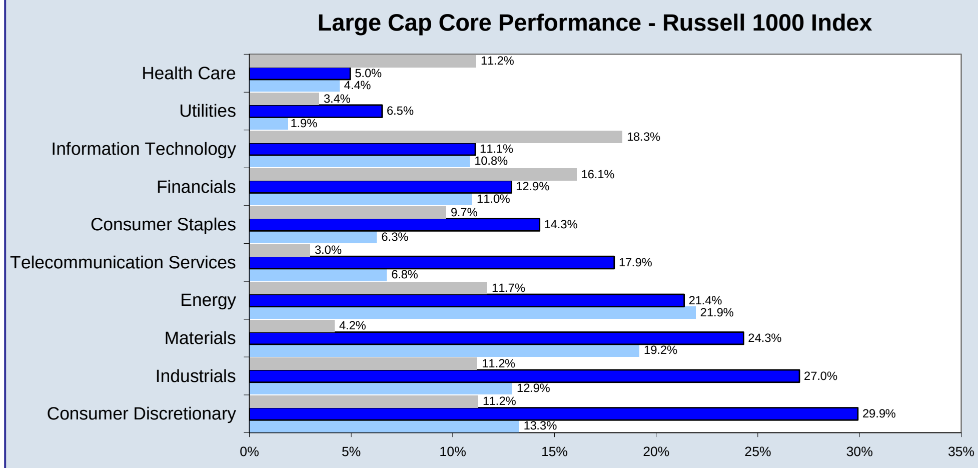
- During the fourth quarter the US capital markets continued to surge, fueled by strong corporate earnings. US stocks performed positively across all market caps (large, mid, small) and investment styles (value, core, growth)
- Similar to the third quarter, growth oriented stocks outpaced their value counterparts across all market caps
- In a reversal from the third quarter, small cap stocks outperformed larger capitalization stocks

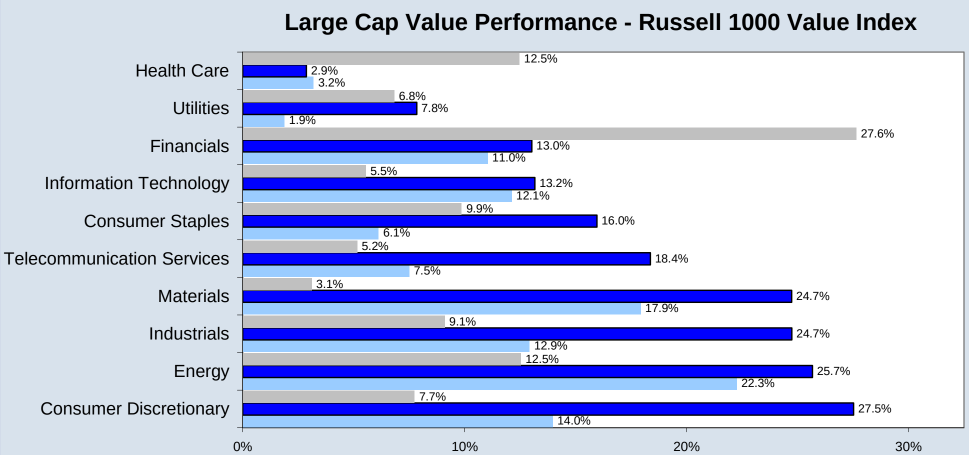


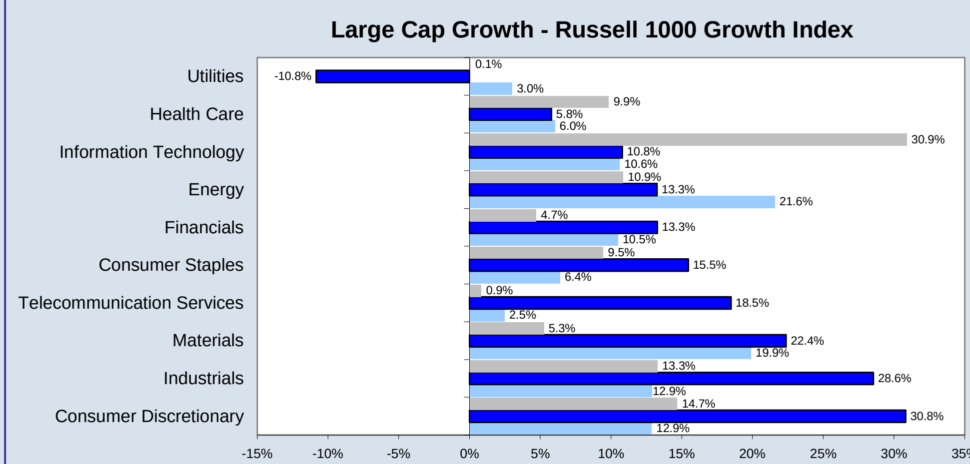
# Domestic Equity – Large Cap

## Growth Outperforms Value

- All of the ten sectors of the Russell 1000 indices reported positive returns for the quarter
- Materials and energy were the strongest performing sectors in the large cap space for the quarter
- Health care and utilities reported the weakest returns
- P/E ratio of the Russell 1000 is currently 20.8% below its 20-year average (13.3x vs. 16.8x, respectively)



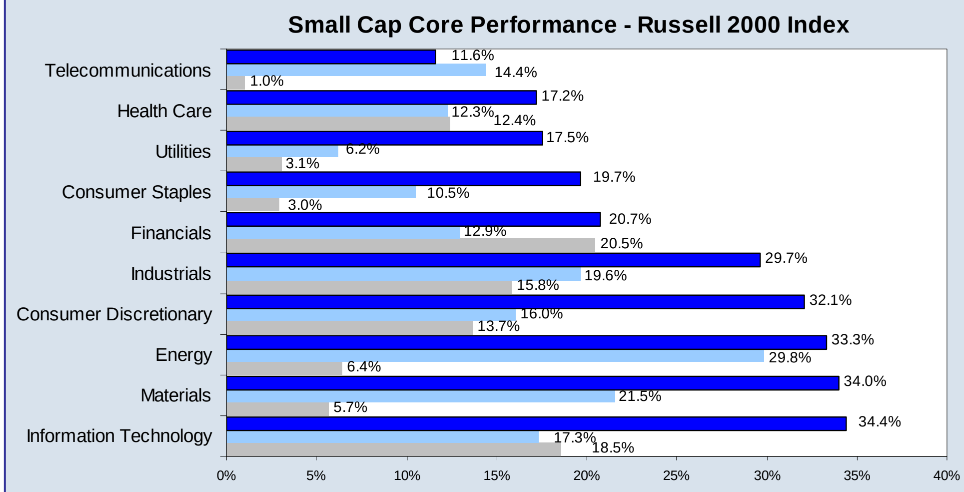

GICS Sector 1Yr Performance | GICS Sector QTR Performance | GICS Sector QTR Weighting

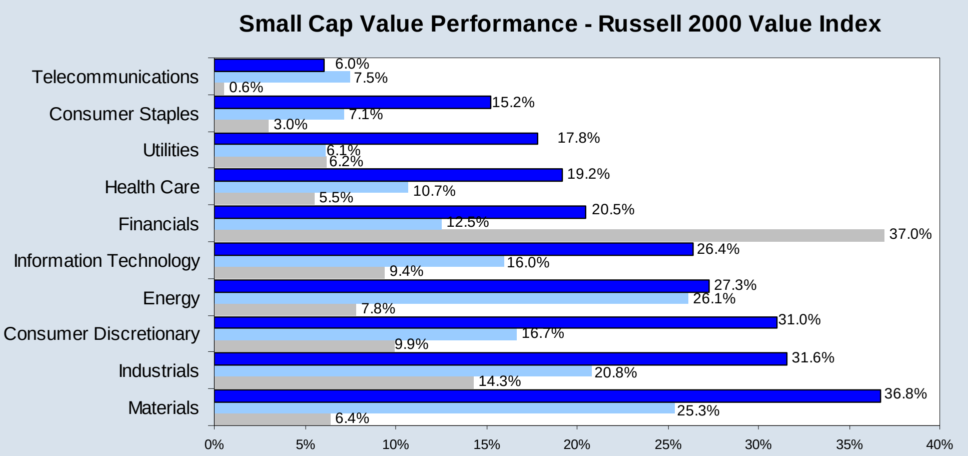
*Source: Russell and Bank of America Merrill Lynch*

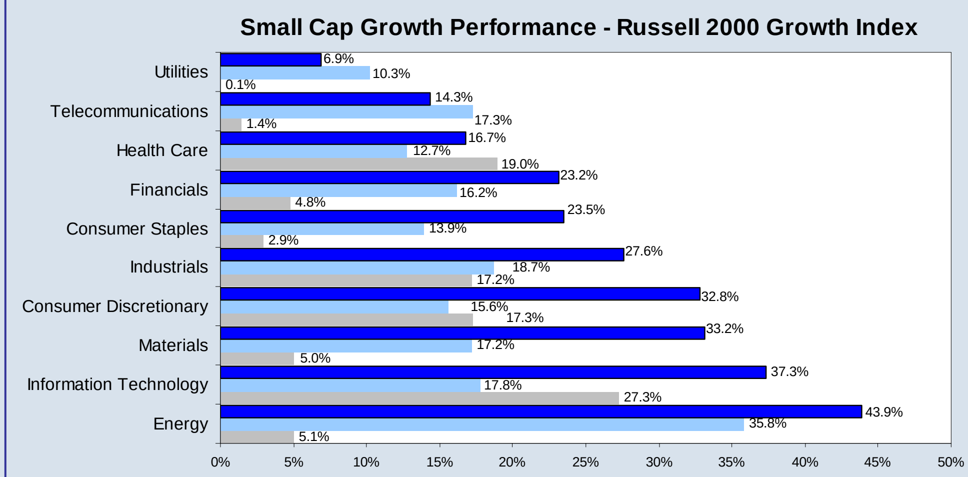
# Domestic Equity – Small Cap

## Small Cap Stocks Finish the Year Strong

- Nine of the ten sectors posted double digit returns for the quarter, as energy was the top performer while utilities lagged
- Growth outperformed Value stocks for the quarter
(17.1% vs. 15.4%, respectively)
- P/E ratio of small cap stocks is currently 6.1% cheaper than its 20-year average (16.0x vs. 17.0x, respectively)



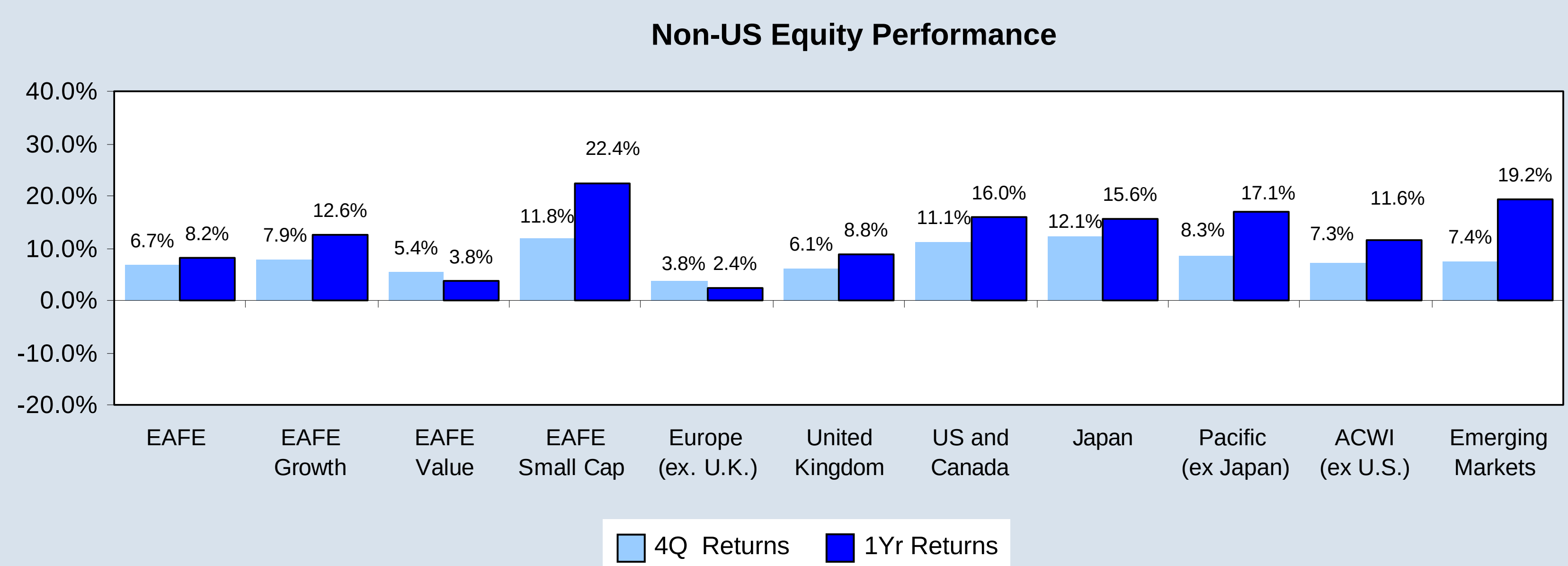




*Source: Russell and Bank of America Merrill Lynch*

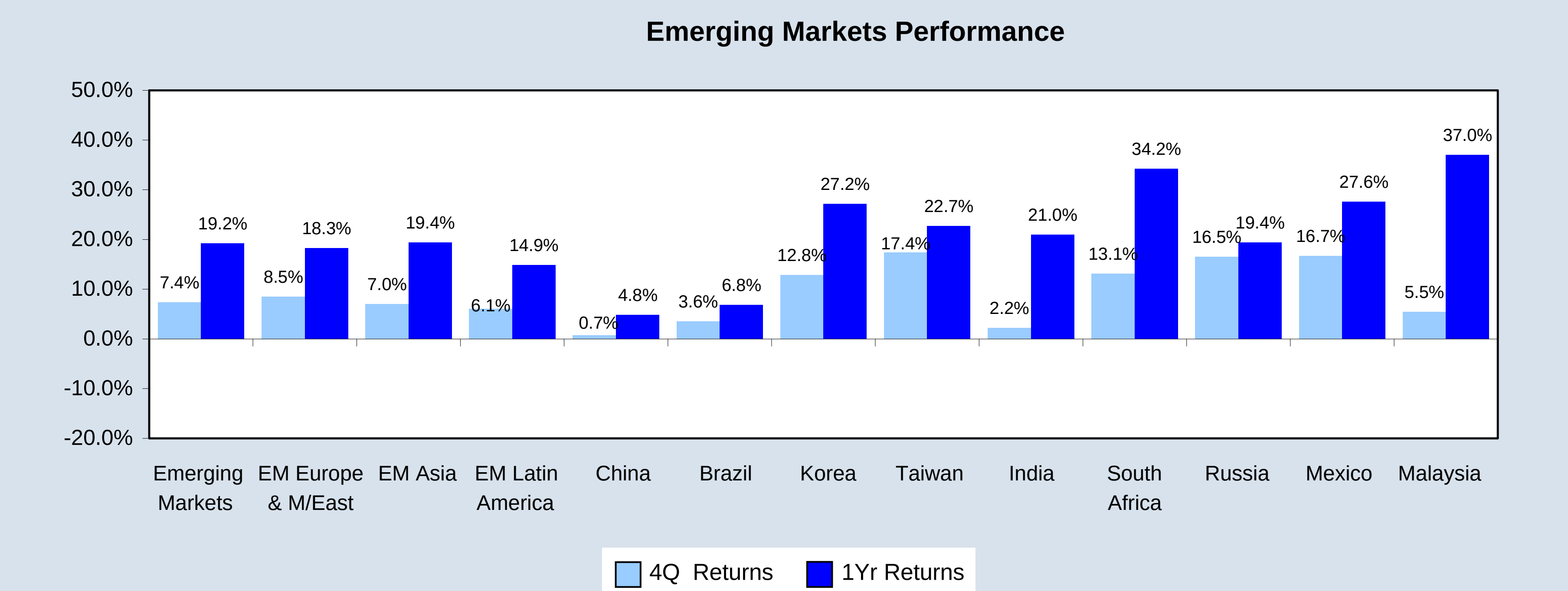
### Developed Markets: Non-U.S. Equities Performance

- MSCI EAFE gained 6.7% (gross) in the fourth quarter
  - In local currency terms, MSCI EAFE gained 5.7% for the quarter
- Japan, which represents 22.1% of the index, posted a 12.1% return. In local currency terms, Japan posted a 8.9% return
- The UK, which represents 21.3% of the index, posted a 6.1% return. In local currency terms, UK posted a 6.7% gain
- MSCI All Country World Index ex U.S. gained 7.3% (gross) in the fourth quarter
  - In local currency terms, MSCI All Country World Index ex U.S. gained 5.9% for the quarter




*Source: MSCI*

- MSCI Emerging Markets Index gained 7.4% in the fourth quarter
- Brazil, which represents 15.8% of the index, gained 3.6% for the quarter. China and Russia, which represent 17.3% and 6.4% of the index, posted quarterly returns of 0.7% and 16.5%, respectively

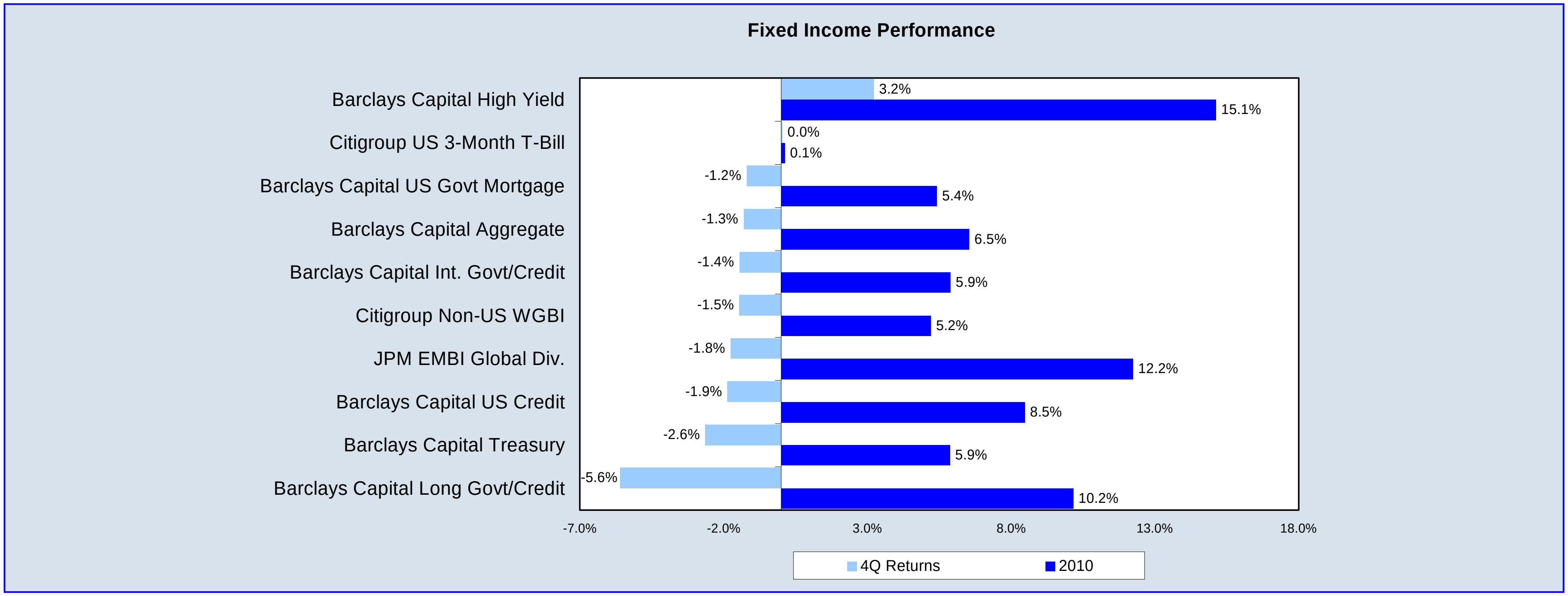



*Source: MSCI*

# Fixed Income – US

## Fixed Income Suffers as Investors Shift Toward Riskier Assets

- Strong returns in the equity markets coupled with fears of inflation drove up the yield curve in the fourth quarter, negatively affecting fixed income returns
  - Mutual fund flows into fixed income funds turned net negative in the fourth quarter for the first time since January 2009
  - The Federal Reserve announced in November a second round of Quantitative Easing totaling $600 million
- Barclays Aggregate Index fell in the fourth quarter, returning -1.3% and finished 2010 up 6.5%
  - Longer maturities suffered with the increased prospect of higher interest rates. General consensus expects the Fed to raise their target rates sometime in 2011
- Barclays US High Yield Index gained 3.2% in the fourth quarter, one of few positive fixed income sectors
  - Increased investor risk tolerance and signs of a healthier economy helped to drive demand




Mercer Investment Consulting, Inc.

# Market Returns

## For Periods Ending December 31, 2010

| | | QTR | YTD | 1 YR | 3 YRS* | 5 YRS* | 10 YRS* |
|---|---|---|---|---|---|---|---|
| **Equity** | S&P 500 | 10.8 | 15.1 | 15.1 | -2.9 | 2.3 | 1.4 |
| | Russell 1000 Value | 10.5 | 15.5 | 15.5 | -4.4 | 1.3 | 3.3 |
| | Russell 1000 Growth | 11.8 | 16.7 | 16.7 | -0.5 | 3.8 | 0.0 |
| | Russell MidCap | 13.1 | 25.5 | 25.5 | 1.1 | 4.7 | 6.5 |
| | Russell MidCap Value | 12.2 | 24.8 | 24.8 | 1.0 | 4.1 | 8.1 |
| | Russell MidCap Growth | 14.0 | 26.4 | 26.4 | 1.0 | 4.9 | 3.1 |
| | Russell 2000 | 16.3 | 26.9 | 26.9 | 2.2 | 4.5 | 6.3 |
| | Russell 2000 Value | 15.4 | 24.5 | 24.5 | 2.2 | 3.5 | 8.4 |
| | Russell 2000 Growth | 17.1 | 29.1 | 29.1 | 2.2 | 5.3 | 3.8 |
| | Russell 3000 | 11.6 | 16.9 | 16.9 | -2.0 | 2.7 | 2.2 |
| | *Mercer Large Cap Value Equity Peer Group median*** | 10.6 | 14.3 | 14.3 | -2.7 | 2.6 | 4.5 |
| | *Mercer Large Cap Growth Equity Peer Group median*** | 12.0 | 16.2 | 16.2 | -1.2 | 3.8 | 1.4 |
| | *Mercer Small Cap Value Equity Peer Group median*** | 16.1 | 27.1 | 27.1 | 5.3 | 6.2 | 11.2 |
| | *Mercer Small Cap Growth Equity Peer Group median*** | 17.0 | 28.7 | 28.7 | 0.9 | 5.3 | 5.7 |
| **Fixed Income** | Citigroup 3-Month T-Bill | 0.0 | 0.1 | 0.1 | 0.7 | 2.3 | 2.3 |
| | Barclays Capital Int. Gov't/Credit | -1.4 | 5.9 | 5.9 | 5.4 | 5.5 | 5.5 |
| | Barclays Capital Gov't/Credit | -2.2 | 6.6 | 6.6 | 5.6 | 5.6 | 5.8 |
| | Barclays Capital Aggregate | -1.3 | 6.5 | 6.5 | 5.9 | 5.8 | 5.8 |
| | Barclays Capital Intermediate Government | -1.6 | 5.0 | 5.0 | 4.9 | 5.4 | 5.1 |
| | Barclays Capital Long Gov't/Credit | -5.6 | 10.2 | 10.2 | 6.8 | 5.9 | 7.1 |
| | Barclays Capital MBS | 0.2 | 5.4 | 5.4 | 6.5 | 6.3 | 5.9 |
| | Barclays Capital TIPS | -0.6 | 6.3 | 6.3 | 5.0 | 5.3 | 7.0 |
| | Barclays Capital High Yield | 3.2 | 15.1 | 15.1 | 10.4 | 8.9 | 8.9 |
| | *Mercer Core Fixed Income Peer Group median*** | -0.9 | 7.9 | 7.9 | 6.9 | 6.4 | 6.3 |
| **International** | MSCI EAFE | 6.7 | 8.2 | 8.2 | -6.5 | 2.9 | 3.9 |
| | MSCI Emerging Markets | 7.4 | 19.2 | 19.2 | 0.0 | 13.1 | 16.2 |
| | Citigroup Non-US Gov't Bond | -1.5 | 5.2 | 5.2 | 6.5 | 7.6 | 7.4 |
| | Citigroup Non-US Gov't Bond - Hedged | -2.1 | 2.5 | 2.5 | 4.3 | 4.1 | 4.6 |
| | *Mercer International Equity Universe median*** | 7.7 | 11.7 | 11.7 | -5.0 | 4.3 | 5.8 |
| **Miscellaneous** | NCREIF Property Index*** | 3.9 | 5.8 | 5.8 | -4.6 | 3.7 | 7.2 |
| | FTSE NAREIT (Equity REITS) | 7.4 | 27.9 | 27.9 | 0.7 | 3.0 | 10.8 |
| | BofA Merrill Lynch Inv. Grade Convertible | 4.4 | 7.4 | 7.4 | 5.4 | 6.3 | 4.3 |
| | Goldman Sachs Commodity Index | 13.4 | 9.0 | 9.0 | -12.8 | -5.7 | 1.8 |
| **Inflation** | CPI | 0.3 | 1.5 | 1.5 | 1.4 | 2.2 | 2.3 |

| | Dow Jones | NASDAQ | S&P 500 | Russell 2000 | Wilshire 5000 |
|---|---|---|---|---|---|
| **Index at 9/30/10** | 10,788.05 | 2,368.62 | 1,141.20 | 676.14 | 12,020.91 |
| **Index at 12/31/10** | 11,577.51 | 2,652.87 | 1,257.64 | 783.65 | 13,360.12 |

* Annualized
** Preliminary
*** The NCREIF Property returns are one quarter in arrears.

# Executive Summary

## *Market Environment*

The fourth quarter of 2010 began with uncertainty about the general direction of the U.S. economy but ended with improving sentiment and a moderately upbeat tone. Fixed income markets declined while equity markets rallied to finish the year strongly. During the fourth quarter, the Commerce Department reported that the U.S. economy grew at an annualized GDP rate of 3.2% and the unemployment rate fell from 9.6% to 9.4%. The three-month Treasury yield declined from 0.16% at the end of September 2010 to 0.12% at the end of December 2010. Ten-year treasury yields increased from 2.53% at the end of September to 3.30% at the end of December. During the fourth quarter, the Russell 3000 Index gained 11.6% while the MSCI ACWI ex US Index gained 7.2%.

## *Fund Changes*

No transitions occurred during the fourth quarter.

## *All Funds Composite*

At the end of the fourth quarter, the Total Fund held a balance of $20.19 billion, representing a decrease of $0.19 billion from the September 2010 balance of $20.38 billion. The decrease in assets was due to negative net cash flows, which were partially offset by positive investment performance.

During the fourth quarter, the Total Fund returned 1.0% net-of-fees. Over the trailing one- and three-year periods the Total Fund has returned 10.6% and 5.4%, respectively. The Total Fund Composite has returned 6.1% since inception.

## *State Insurance Fund*

The State Insurance Fund (SIF) held approximately $18.49 billion at the end of the fourth quarter, representing a decrease of $0.21 billion over the previous quarter’s balance.

Over the fourth quarter, the SIF returned 0.9% and tracked the policy benchmark. The SIF has returned 6.1% since inception.

## *Performance*

During the **fourth quarter**, all of the investment managers tracked their respective benchmarks closely (i.e. by approximately 10 basis points) with the exception of the following strategies:

### BlackRock TIPS Index

The BlackRock TIPS portfolio is solely held by the SIF. Over the quarter, the portfolio returned -0.9% and underperformed the benchmark by 0.3%. This tracking error dispersion is primarily due to pricing differences between the custodian (JPMorgan) and BlackRock.

### State Street TIPS Index

The State Street TIPS Portfolio is held by the State Insurance Fund, the Disabled Workers' Relief Fund, and the Black Lung Fund. Over the quarter, the portfolio returned -0.9% in the State Insurance Fund and outperformed the benchmark by 0.3%. Historic tracking error dispersion in the State Insurance Fund portfolio is due to pricing differences between the custodian (JPMorgan) and State Street. The State Street TIPS portfolios held by the Disabled Workers' Relief Fund and the Black Lung Fund did not exhibit tracking error.

Over the **one-year period**, all of the investment managers tracked their respective benchmarks reasonably with the exception of the following strategies:

### BlackRock Long Duration Government Index

The BlackRock Long Duration Government Portfolio is solely held by the SIF. Over the one-year period, the portfolio returned 9.9% and outperformed the benchmark by 0.5%. This tracking error dispersion was due to pricing differences between the custodian (JPMorgan) and BlackRock. Additionally, a large cash flow during January contributed to the tracking error.

### BlackRock Long Duration Credit Index

The BlackRock Long Duration Credit Portfolio is solely held by the SIF. Over the one-year period, the portfolio returned 11.1% and outperformed the benchmark by 0.4%. This tracking error dispersion was primarily due to pricing differences between the custodian (JPMorgan) and BlackRock.

### State Street TIPS Index

The State Street TIPS Portfolio is held by the State Insurance Fund, the Disabled Workers' Relief Fund, and the Black Lung Fund. Over the one-year period, the portfolio returned 5.9% in the State Insurance Fund and underperformed the benchmark by 0.4%. Historic tracking error dispersion in the State Insurance Fund portfolio is due to pricing differences between the custodian (JPMorgan) and State Street. The State Street TIPS portfolios held by the Disabled Workers' Relief Fund and the Black Lung Fund do not yet have one-year of performance.

## *Manager Research Updates*

### State Street

In November, Mercer met with State Street to discuss their passive equity strategies. In lieu of assigning formal ratings to passive strategies, Mercer maintains a list of preferred providers which display top-tier capabilities and performance. Mercer views State Street as a preferred provider of passive equity strategies and details of the meeting are shown below:

*Overall, we believe State Street has the capability to closely track market indices and has done so successfully for many years. The firm reaps considerable benefits from the scale of its operations which provides it with considerable resources and cost savings relative to its competitors. Its numerous product offerings and customizable solutions cater to clients' needs and are a huge advantage for the firm. Regional trading desks also provide round-the-clock trading opportunities, and its ability to heavily utilize internal crossing produces significant savings for State Street. While the team is large relative to its competitors, additional resources may be necessary to cover its expanding offerings. However, given the firm's apparent commitment to its passive business we are confident in its capabilities.*

### BlackRock

In November, Mercer met with BlackRock to discuss their passive equity strategies. Mercer views BlackRock as a preferred provider of passive equity strategies and details of the meeting are shown below:

*BlackRock, through its predecessor BGI, has a good historical track-record in passive investment. The investment team is large and experienced, and the size and scale of the firm allows for continuous development and refinement of the portfolio construction systems that provide minimal tracking error to the benchmark. In addition, the firm appears to be focused on managing portfolios efficiently, cost management, and areas where it can add value for clients. While the firm is still in the process of integrating the rest of the Index team in the San Francisco office, we do not believe the merger or relocations will impact the management of any passive equity offerings. We consider the business to be well managed and, due to its extensive crossing networks and the large size of many of the funds, transaction costs in many cases can be kept very low.*

### Mellon Capital Management

In November, Mercer met with Mellon Capital Management (MCM) to discuss their passive equity strategies. Mercer views MCM as a preferred provider of passive equity strategies and details of the meeting are shown below:

*MCM thoroughly covers many facets of equity indexing. The firm's products are well-supported and the team pays particularly close attention to transaction costs and tracking error versus the applicable benchmark. While we will continue to get a better sense of how Michael Ho has transitioned to CIO (assumed role in January 2008), we believe the team is well staffed, with several experienced professionals that are capable of carrying out the indexing strategies. MCM also has an adequate level of risk controls that incorporates a degree of checks and balances, which we find assuring with regard to the preservation of capital. Given the significant role passive equities play at MCM, the firm and its parent company appear to be committed to this business segment.*

## Northern Trust Global Investments

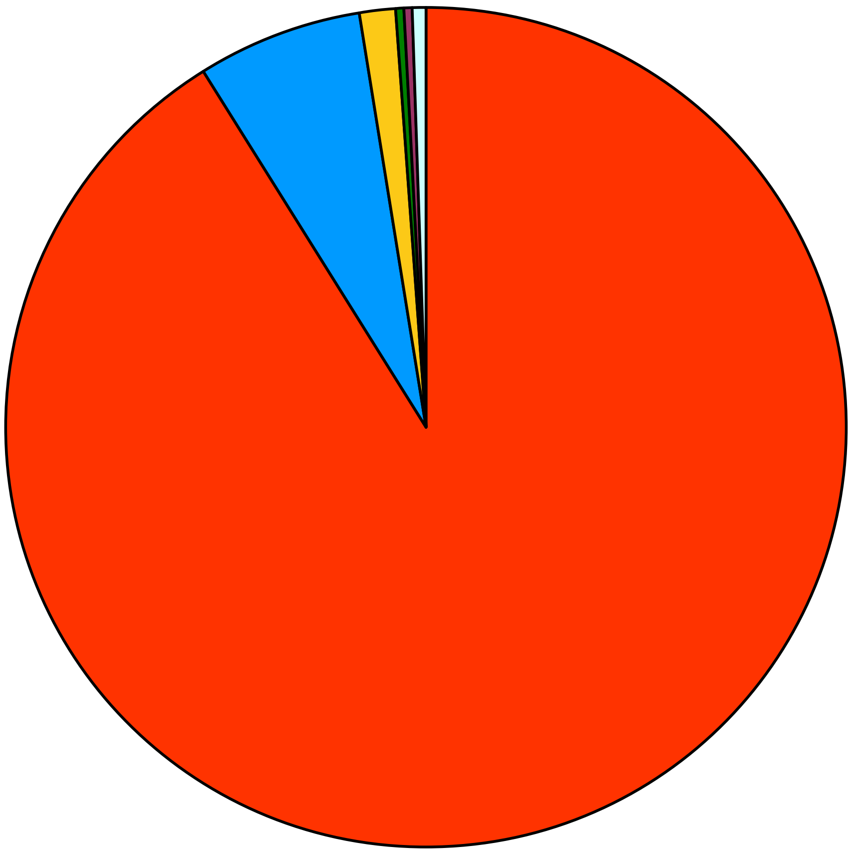
In November, Mercer met with Northern Trust Global Investments (NTGI) to discuss their passive equity strategies. Mercer views NTGI as a preferred provider of passive equity strategies and details of the meeting are shown below:

*We are impressed with NTGI's approach to passive equity index replication. The team's indexing process is well thought out and encompasses all of the necessary components of indexing. NTGI's robust analytic systems allow it to manage portfolios without compromise. The team's multi-dimensional risk management process ensures that portfolios are tightly constrained at the security level, sector level, and Barra risk factor level. This approach to risk management helps preserve wealth and in most cases avoid negative surprises. NTGI approaches events such as index reconstitutions on an individual basis. Although the firm has had issues with turnover in the past, the equity index team continues to be stable with long-time NTGI veterans managing the portfolios.*

# Asset Allocation and Performance

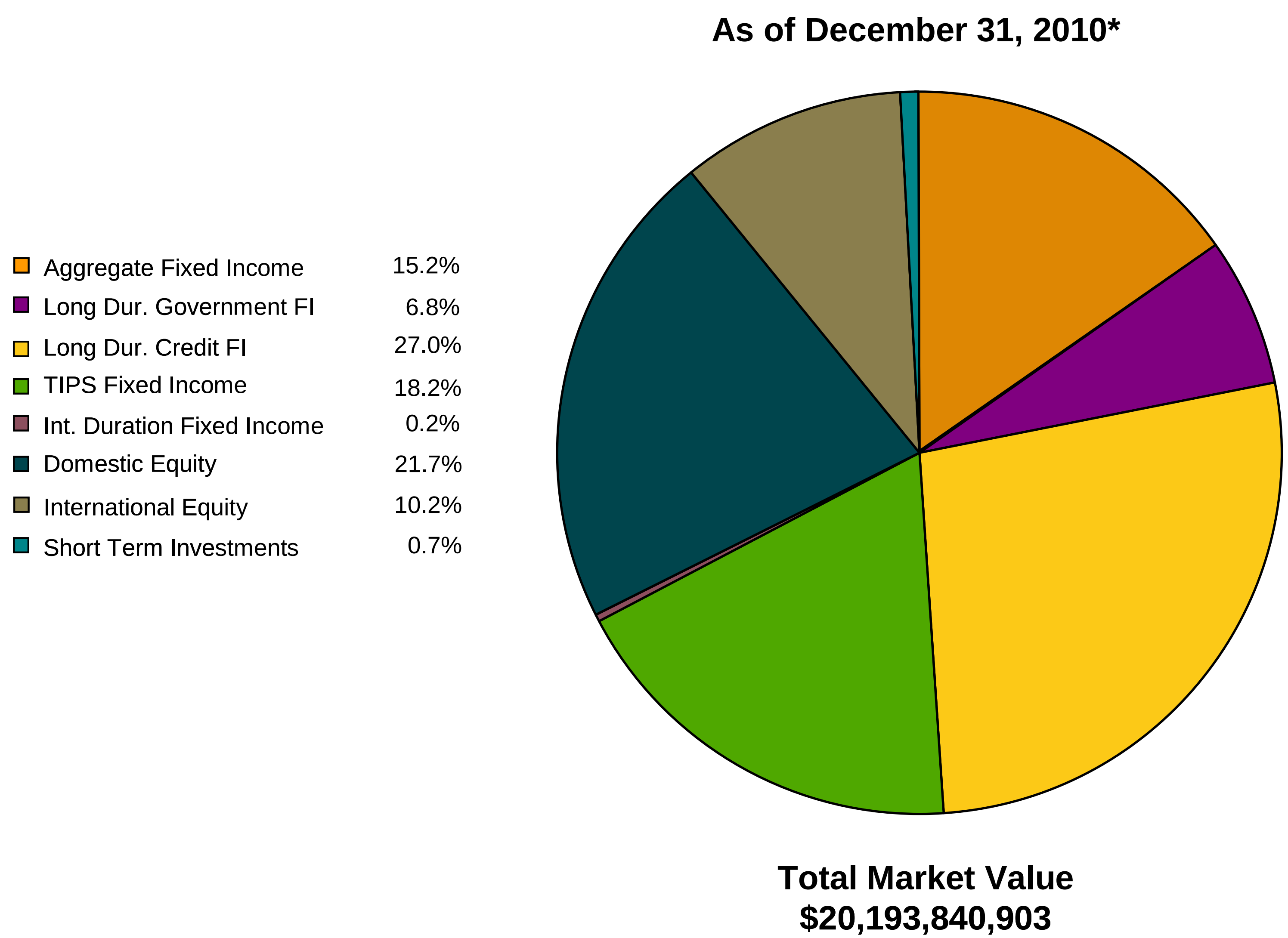
## As of December 31, 2010*

| | |
|---|---|
| SIF Accounts | 91.6% |
| DWRF Fund Composite | 6.6% |
| BLF Fund Composite | 1.4% |
| PWRF Fund Composite | 0.1% |
| MIF Fund Composite | 0.1% |
| SIEGF Fund Composite | 0.2% |



**Total Market Value**
**$20,193,840,903**

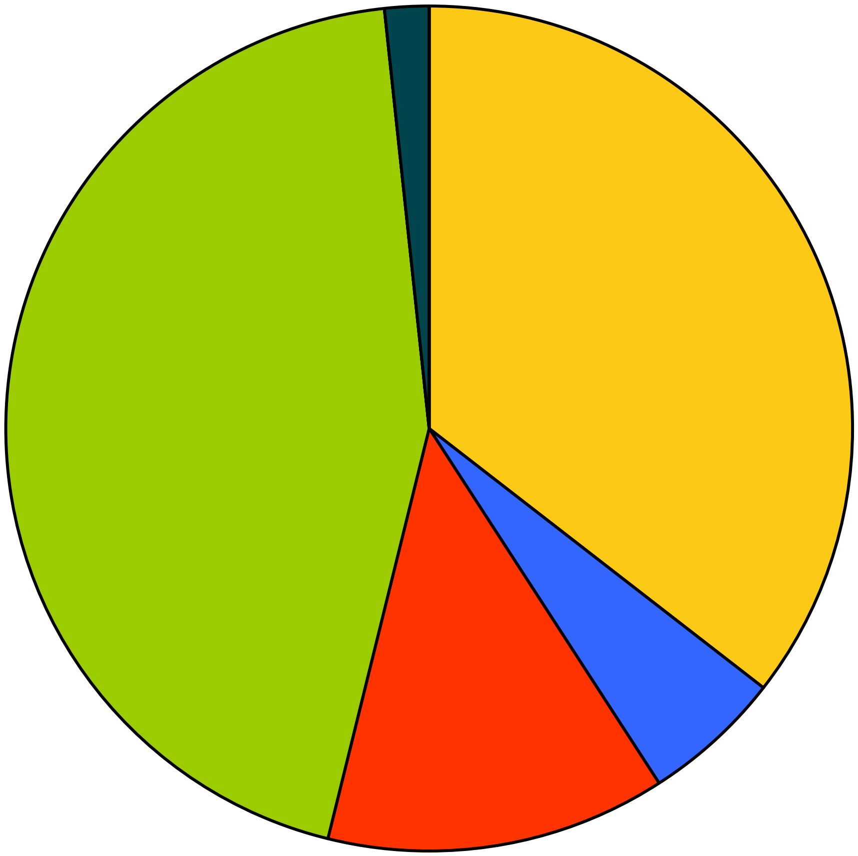
* Numbers may not add to 100% due to rounding.




* Numbers may not add to 100% due to rounding.

## As of December 31, 2010*

| | |
|---|---|
| BlackRock | 35.4% |
| Mellon | 6.2% |
| Northern Trust | 13.9% |
| State Street Global Advisors | 43.8% |
| SIF ACWI ex US TM #2 | 0.0% |
| Cash & Miscellaneous | 0.7% |



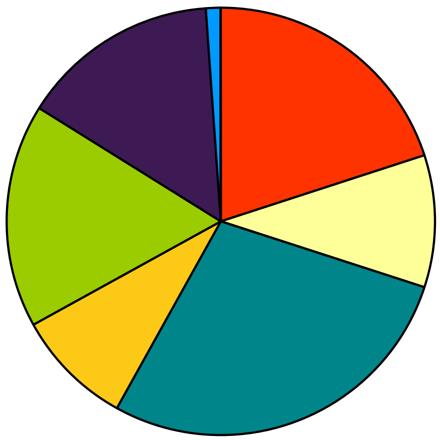
**Total Market Value**
**$20,193,840,903**

* Numbers may not add to 100% due to rounding.

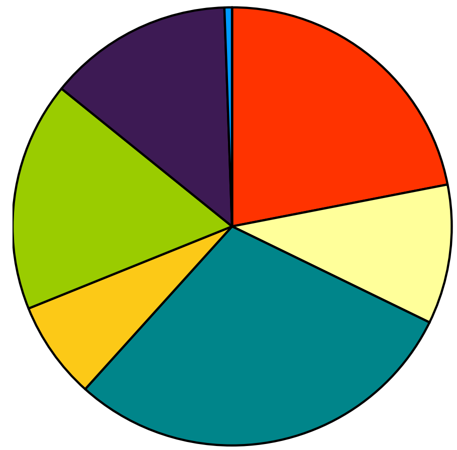
## Asset Allocation – State Insurance Fund

| | |
|---|---|
| Domestic Equity | 20.0% |
| Non US Equity | 10.0% |
| Long Dur. Credit FI | 28.0% |
| Long Dur. Government FI | 9.0% |
| TIPS | 17.0% |
| Aggregate Fixed Income | 15.0% |
| Cash Equivalents | 1.0% |

**Policy Benchmark**



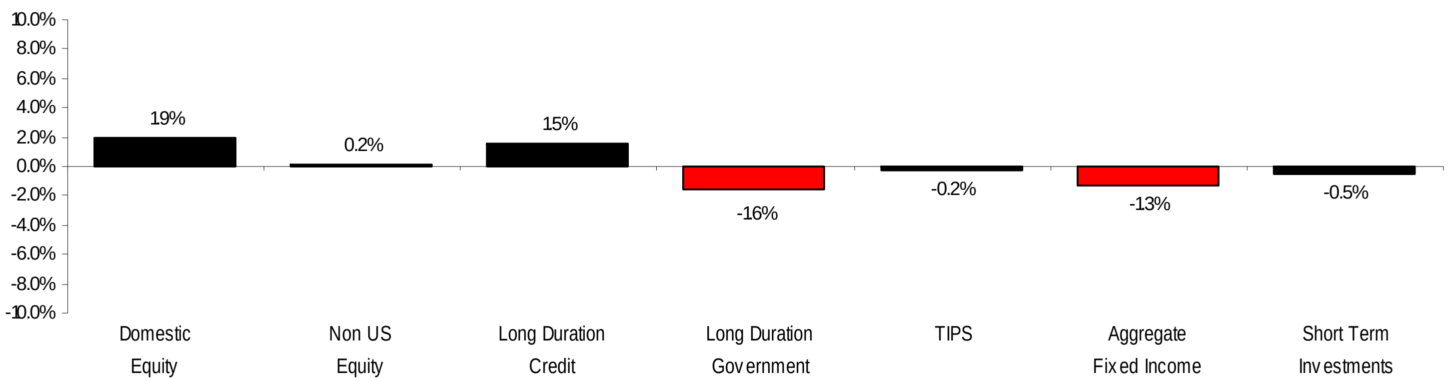
**As of December 31, 2010**



| | |
|---|---|
| Domestic Equity | 21.9% |
| Non US Equity | 10.2% |
| Long Dur. Credit FI | 29.5% |
| Long Dur. Government FI | 7.4% |
| TIPS | 16.8% |
| Aggregate Fixed Income | 13.7% |
| Cash Equivalents | 0.5% |

**Total Market Value**
**$18,492,113,693**

### Asset Allocation vs. Policy Benchmark



### Portfolio Reconciliation By Manager

Quarter Ending December 31, 2010

| | Beginning Market Value | Net Cash Flow | Net Investment Change | Ending Market Value |
|---|---|---|---|---|
| SIF SSGA U.S. Aggregate Index | $2,561,914,890 | -$181,756 | -$32,154,236 | $2,529,578,898 |
| SIF SSGA Government Long Duration Index | $24,703 | -$24,710 | $6 | $0 |
| SIF BlackRock Government Long Duration Index | $1,482,007,141 | -$222,827 | -$117,299,378 | $1,364,484,936 |
| SIF SSGA Credit Long Duration Index | $4,097,087,120 | -$40,700,485 | -$148,257,889 | $3,908,128,746 |
| SIF BlackRock Credit Long Duration Index | $1,620,173,648 | -$15,668,667 | -$58,134,502 | $1,546,370,479 |
| SIF BlackRock TIPS Index | $2,210,410,550 | -$176,724 | -$19,219,325 | $2,191,014,501 |
| SIF SSGA TIPS Index | $921,088,190 | -$58,476 | -$7,951,091 | $913,078,623 |
| SIF Russell 3000 Index TM #3 | $131,445 | -$131,470 | $25 | $0 |
| SIF MCM Russell 3000 Index | $1,121,750,903 | $11,372 | $129,740,733 | $1,251,503,009 |
| SIF NTGI Russell 3000 Index | $2,616,507,616 | -$109,867,673 | $300,337,457 | $2,806,977,400 |
| SIF ACWI ex US TM #2 | $68,432 | -$68,216 | -$24 | $191 |
| SIF BlackRock ACWI ex US Index | $1,758,483,000 | -$399,834 | $126,838,522 | $1,884,921,688 |
| SIF Miscellaneous Holding Account | $185,232 | -$26,699 | $284,752 | $443,285 |
| SIF Transition Account | $1,110,737 | -$76 | $11,045 | $1,121,706 |
| SIF Cash Account | $311,023,374 | -$216,563,350 | $30,206 | $94,490,230 |
| DWRF SSGA U.S. Aggregate Index | $440,755,427 | -$22,969 | -$5,501,283 | $435,231,175 |
| DWRF SSGA Government/Credit Long Duration Index | $15,855 | -$15,857 | $3 | $0 |
| DWRF SSGA TIPS Index | $1 | -$1 | $0 | $0 |
| DWRF SSGA TIPS Commingled Index | $461,820,597 | -$26,917 | -$2,995,149 | $458,798,532 |
| DWRF SSGA Russell 3000 Index | $261,972,739 | -$11,790 | $30,225,536 | $292,186,486 |
| DWRF BlackRock ACWI ex US Index | $134,844,707 | -$22,420 | $9,733,507 | $144,555,795 |
| DWRF TM #1 | $31,695 | -$31,412 | -$283 | $0 |
| DWRF Cash Account | $2,121,121 | -$1,919,867 | $247 | $201,501 |
| BLF SSGA U.S. Aggregate Index | $109,472,058 | -$5,705 | -$1,366,374 | $108,099,978 |
| BLF SSGA Government/Credit Long Duration Index | $7,286 | -$7,287 | $1 | $0 |
| BLF SSGA TIPS Commingled Index | $111,007,332 | -$1,006,445 | -$709,817 | $109,291,071 |
| BLF SSGA Russell 3000 Index | $35,951,079 | -$1,303,503 | $4,051,876 | $38,699,452 |
| BLF BlackRock ACWI ex US Index | $20,416,076 | -$3,692 | $1,473,993 | $21,886,377 |
| BLF TM #1 | $4 | -$4 | $0 | $0 |
| BLF Cash Account | $1,056,424 | -$957,972 | $160 | $98,612 |
| PWRF SSGA Government/Credit Intermediate Duration Index | $25,549,346 | -$4,919 | -$363,083 | $25,181,344 |
| PWRF Cash Account | $334,485 | $37,892 | $70 | $372,448 |
| MIF SSGA Government/Credit Intermediate Duration Index | $19,088,722 | -$3,675 | -$271,271 | $18,813,775 |
| MIF Cash Account | $422,809 | $8,811 | $80 | $431,700 |
| SIEGF Cash Account | $48,191,581 | -$321,994 | $9,378 | $47,878,965 |
| **Total** | **$20,375,026,324** | **-$389,699,316** | **$208,513,894** | **$20,193,840,903** |

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Net of Fee)*

| Total Plan Performance | | | Ending December 31, 2010 | | | | | | | | Inception | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Return | Since |
| **Total Fund** | **$20,193,840,903** | **100.0%** | **1.0%** | **--** | **10.6%** | **--** | **5.4%** | **--** | **5.8%** | **--** | **6.1%** | **Jun-05** |
| **SIF Fund Composite** | **$18,492,113,693** | **91.6%** | **0.9%** | **--** | **10.5%** | **--** | **5.4%** | **--** | **5.7%** | **--** | **6.1%** | **Jun-05** |
| *SIF Policy Benchmark*** | | | *0.9%* | *--* | *11.0%* | *--* | *5.4%* | *--* | *--* | *--* | *--* | *Jun-05* |
| **SIF Bond Composite** | **$12,452,656,183** | **61.7%** | **-3.0%** | **--** | **8.7%** | **--** | **6.3%** | **--** | **--** | **--** | **6.7%** | **Dec-06** |
| **SIF U.S. Aggregate Composite** | **$2,529,578,898** | **12.5%** | **-1.3%** | **--** | **6.5%** | **--** | **--** | **--** | **--** | **--** | **5.8%** | **Jul-09** |
| *Barclays Capital Aggregate* | | | *-1.3%* | *--* | *6.5%* | *--* | *5.9%* | *--* | *5.8%* | *--* | *6.3%* | *Jul-09* |
| SSGA U.S. Aggregate Index | $2,529,578,898 | 12.5% | -1.3% | 74 | 6.5% | 90 | -- | -- | -- | -- | 6.5% | Dec-09 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *6.5%* | *Dec-09* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | *7.9%* | *Dec-09* |
| **SIF U.S. Long Government Composite** | **$1,364,484,936** | **6.8%** | **-7.9%** | **93** | **9.5%** | **97** | **--** | **--** | **--** | **--** | **6.0%** | **Jul-09** |
| *Barclays Capital LT Govt.* | | | *-7.9%* | *93* | *9.4%* | *98* | *5.6%* | *97* | *5.7%* | *95* | *5.5%* | *Jul-09* |
| *Mercer Instl US Fixed Long Duration Median* | | | *-4.8%* | | *11.6%* | | *8.0%* | | *6.9%* | | *--* | *Jul-09* |
| BlackRock Government Long Duration Index | $1,364,484,936 | 6.8% | -7.9% | 93 | 9.9%*** | 96 | -- | -- | -- | -- | 4.7% | Aug-09 |
| *Barclays Capital LT Govt.* | | | *-7.9%* | *93* | *9.4%* | *98* | *5.6%* | *97* | *5.7%* | *95* | *4.5%* | *Aug-09* |
| *Mercer Instl US Fixed Long Duration Median* | | | *-4.8%* | | *11.6%* | | *8.0%* | | *6.9%* | | *--* | *Aug-09* |
| **SIF U.S. Long Credit** | **$5,454,499,225** | **27.0%** | **-3.6%** | **75** | **10.9%** | **87** | **--** | **--** | **--** | **--** | **11.0%** | **Jul-09** |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *10.8%* | *Jul-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Jul-09* |
| SSGA Credit Long Duration Index | $3,908,128,746 | 19.4% | -3.6% | 75 | 10.8% | 88 | -- | -- | -- | -- | 10.8% | Jul-09 |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *10.8%* | *Jul-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Jul-09* |
| BlackRock Credit Long Duration Index | $1,546,370,479 | 7.7% | -3.6% | 75 | 11.1%**** | 80 | -- | -- | -- | -- | 9.7% | Aug-09 |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *9.6%* | *Aug-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Aug-09* |

*See appendix for gross of fee performance

**See appendix for benchmark composition

***Tracking error due to pricing differences between custodian and manager and cash flows

****Tracking error due to pricing differences between custodian and manager

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Net of Fee)*

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Inception Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| **SIF TIPS Composite** | **$3,104,093,124** | **15.4%** | **-0.9%** | **--** | **6.3%** | **--** | **4.9%** | **--** | **--** | **--** | **6.6%** | **Jan-07** |
| *Barclays Capital US TIPS* | | | *-0.6%* | *--* | *6.3%* | *--* | *5.0%* | *--* | *5.3%* | *--* | *6.7%* | *Jan-07* |
| BlackRock TIPS Index | $2,191,014,501 | 10.8% | -0.9%** | 65 | -- | -- | -- | -- | -- | -- | 5.8% | Feb-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *5.9%* | *Feb-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | *--* | *Feb-10* |
| SSGA TIPS Index | $913,078,623 | 4.5% | -0.9%** | 65 | 5.9%** | 80 | 4.8% | 89 | -- | -- | 6.5% | Jan-07 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *6.7%* | *Jan-07* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | *--* | *Jan-07* |
| **SIF Equity Composite** | **$5,944,967,280** | **29.4%** | **10.2%** | **--** | **15.0%** | **--** | **-3.2%** | **--** | **--** | **--** | **-0.9%** | **Dec-06** |
| *SIF Equity Composite Benchmark* | | | *10.2%* | *--* | *15.2%* | *--* | *-2.8%* | *--* | *--* | *--* | *--* | *Dec-06* |
| **SIF U.S. Public Equity Composite** | **$4,058,480,409** | **20.1%** | **11.6%** | **51** | **16.9%** | **44** | **-2.4%** | **66** | **--** | **--** | **-0.8%** | **Jan-07** |
| *SIF US Public Equity Benchmark* | | | *11.6%* | *47* | *16.9%* | *43* | *-2.4%* | *65* | *--* | *--* | *-0.9%* | *Jan-07* |
| *Mercer Instl US Equity All Cap Core Median* | | | *11.6%* | | *16.6%* | | *-1.1%* | | *4.0%* | | *--* | *Jan-07* |
| MCM Russell 3000 Index | $1,251,503,009 | 6.2% | 11.6% | 64 | -- | -- | -- | -- | -- | -- | 17.3% | May-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *17.3%* | *May-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | *--* | *May-10* |
| NTGI Russell 3000 Index | $2,806,977,400 | 13.9% | 11.6% | 64 | -- | -- | -- | -- | -- | -- | 17.2% | May-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *17.3%* | *May-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | *--* | *May-10* |
| **SIF International Equity Composite** | **$1,884,921,879** | **9.3%** | **7.2%** | **--** | **10.9%** | **--** | **--** | **--** | **--** | **--** | **15.5%** | **Aug-09** |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *--* | *11.2%* | *--* | *-5.0%* | *--* | *4.8%* | *--* | *15.5%* | *Aug-09* |
| ACWI ex US TM #2 | $191 | 0.0% | 0.0% | -- | -6.4% | -- | -- | -- | -- | -- | 1.7% | Aug-09 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *--* | *11.2%* | *--* | *-5.0%* | *--* | *4.8%* | *--* | *15.5%* | *Aug-09* |
| BlackRock ACWI ex US Index | $1,884,921,688 | 9.3% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 9.3% | Mar-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *9.4%* | *Mar-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | *9.7%* | *Mar-10* |

*See appendix for gross of fee performance

**Tracking error due to pricing differences between custodian and manager

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Net of Fee)*

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Inception Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | | |
| Miscellaneous Holding Account | $443,285 | 0.0% | 175.5% | -- | 463.7% | -- | 174.8% | -- | -- | -- | 116.8% | Nov-06 |
| Transition Account | $1,121,706 | 0.0% | 1.0% | -- | 3.4% | -- | -2.2% | -- | -- | -- | -2.2% | Dec-07 |
| **SIF Cash Composite** | **$94,490,230** | **0.5%** | **0.0%** | **--** | **0.1%** | **--** | **1.0%** | **--** | **3.1%** | **--** | **3.2%** | **Jun-05** |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |
| SIF Cash Account | $94,490,230 | 0.5% | 0.0% | -- | 0.1% | -- | 1.0% | -- | 3.2% | -- | 3.2% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |
| **DWRF Composite** | **$1,330,973,488** | **6.6%** | **2.4%** | **--** | **12.7%** | **--** | **6.0%** | **--** | **--** | **--** | **6.2%** | **Dec-06** |
| *DWRF Policy Benchmark* | | | *2.3%* | -- | *16.8%* | -- | *6.7%* | -- | -- | -- | -- | *Dec-06* |
| SSGA U.S. Aggregate Index | $435,231,175 | 2.2% | -1.3% | 74 | -- | -- | -- | -- | -- | -- | -1.2% | Aug-10 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *-1.2%* | *Aug-10* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | -- | *Aug-10* |
| SSGA TIPS Commingled Index | $458,798,532 | 2.3% | -0.7% | 44 | -- | -- | -- | -- | -- | -- | -0.1% | Aug-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *0.0%* | *Aug-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | -- | *Aug-10* |
| SSGA Russell 3000 Index | $292,186,486 | 1.4% | 11.5% | 64 | -- | -- | -- | -- | -- | -- | 22.0% | Aug-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *22.1%* | *Aug-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | -- | *Aug-10* |
| BlackRock ACWI ex US Index | $144,555,795 | 0.7% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 17.8% | Aug-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *17.9%* | *Aug-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | -- | *Aug-10* |
| DWRF Cash Account | $201,501 | 0.0% | 0.0% | -- | 0.1% | -- | 1.1% | -- | 3.1% | -- | 3.0% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |

*See appendix for gross of fee performance

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Net of Fee)*

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Inception Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | | |
| **BLF Composite** | **$278,075,490** | **1.4%** | **1.2%** | **--** | **11.3%** | **--** | **5.4%** | **--** | **--** | **--** | **5.7%** | **Dec-06** |
| *BLF Policy Benchmark* | | | *1.2%* | -- | *14.5%* | -- | *6.0%* | -- | -- | -- | -- | *Dec-06* |
| SSGA U.S. Aggregate Index | $108,099,978 | 0.5% | -1.3% | 74 | -- | -- | -- | -- | -- | -- | -1.2% | Aug-10 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *-1.2%* | *Aug-10* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | -- | *Aug-10* |
| SSGA TIPS Commingled Index | $109,291,071 | 0.5% | -0.7% | 45 | -- | -- | -- | -- | -- | -- | -0.1% | Aug-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *0.0%* | *Aug-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | -- | *Aug-10* |
| SSGA Russell 3000 Index | $38,699,452 | 0.2% | 11.5% | 64 | -- | -- | -- | -- | -- | -- | 22.0% | Aug-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *22.1%* | *Aug-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | -- | *Aug-10* |
| BlackRock ACWI ex US Index | $21,886,377 | 0.1% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 17.8% | Aug-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *17.9%* | *Aug-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | -- | *Aug-10* |
| BLF Cash Account | $98,612 | 0.0% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.9% | -- | 3.0% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |
| **PWRF Composite** | **$25,553,792** | **0.1%** | **-1.4%** | **--** | **5.8%** | **--** | **4.3%** | **--** | **--** | **--** | **4.1%** | **Dec-06** |
| *PWRF Policy Benchmark* | | | *-1.4%* | -- | *5.8%* | -- | *5.4%* | -- | -- | -- | -- | *Dec-06* |
| SSGA Government/Credit Intermediate Duration Index | $25,181,344 | 0.1% | -1.4% | 85 | 5.8% | 88 | -- | -- | -- | -- | 6.5% | Feb-09 |
| *Barclays Capital Int Govt/Credit* | | | *-1.4%* | *85* | *5.9%* | *83* | *5.4%* | *86* | *5.5%* | *88* | *6.7%* | *Feb-09* |
| *Mercer Instl US Fixed Intermediate Median* | | | *-1.2%* | | *6.5%* | | *6.3%* | | *6.2%* | | -- | *Feb-09* |
| PWRF Cash Account | $372,448 | 0.0% | 0.0% | -- | 0.1% | -- | 1.0% | -- | 2.0% | -- | 2.1% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |

*See appendix for gross of fee performance

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Net of Fee)*

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Inception Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| **MIF Composite** | **$19,245,476** | **0.1%** | **-1.4%** | **--** | **5.7%** | **--** | **4.3%** | **--** | **--** | **--** | **4.1%** | **Dec-06** |
| *MIF Policy Benchmark* | | | *-1.4%* | *--* | *5.8%* | *--* | *5.4%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SSGA Government/Credit Intermediate Duration Index | $18,813,775 | 0.1% | -1.4% | 85 | 5.8% | 88 | -- | -- | -- | -- | 6.5% | Feb-09 |
| *Barclays Capital Int Govt/Credit* | | | *-1.4%* | *85* | *5.9%* | *83* | *5.4%* | *86* | *5.5%* | *88* | *6.7%* | *Feb-09* |
| *Mercer Instl US Fixed Intermediate Median* | | | *-1.2%* | | *6.5%* | | *6.3%* | | *6.2%* | | *--* | *Feb-09* |
| MIF Cash Account | $431,700 | 0.0% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.0% | -- | 2.3% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |
| **SIEGF Composite** | **$47,878,965** | **0.2%** | **0.0%** | **--** | **0.1%** | **--** | **0.9%** | **--** | **--** | **--** | **2.0%** | **Dec-06** |
| *SIEGF Policy Benchmark* | | | *0.0%* | *--* | *0.1%* | *--* | *0.6%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SIEGF Cash Account | $47,878,965 | 0.2% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.6% | -- | 2.7% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |

*See appendix for gross of fee performance

# What’s New at Mercer

**Mercer completed its acquisition of Hammond Associates, effective January 3, 2011.**

- Combines the global reach and extensive resources of Mercer with the market leading consulting resources of Hammond in endowments, foundations, healthcare, and wealth management
- Expands Mercer's capabilities in alternatives investment, an area of growing client demand – ability to provide strategic consulting in alternative investments such as private equity, hedge funds, and infrastructure
- Augments Hammond's US expertise with Mercer's international research capabilities

**Mercer's Global Investment Forums 2011 (Adjusting to new realities)**

- Melbourne: 28 February - 1 March
- Singapore: 4 March
- Dublin: 12-13 April
- Chicago: 8-9 June
- Stockholm: 15-16 September
- Montreal: 17-18 November

## Intellectual Capital – White Papers/Surveys

- Let's Stay Together? Points to Ponder Before Firing Your Fund Manager
- Perspectives on Equity Investment – Making the most of your equity investments
- ‘10’ for 2011’ New Year's resolutions that DC plan sponsors should make now
- Introduction to Gold Investing
- Global Fee Survey 2010
- Perspectives on Real Estate Investments

## Coming Soon…

- Table of Asset Returns – from 1991 to 2010
- Mercer videos on global vs. domestic equity, defined contribution and pension risk management
- Mercer’s 2010 Global Search Trends Report

# Appendix

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Gross of Fee)

### Total Plan Performance

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| **Total Fund** | **$20,193,840,903** | **100.0%** | **1.0%** | **--** | **10.6%** | **--** | **5.4%** | **--** | **5.8%** | **--** | **6.2%** | **Jun-05** |
| **SIF Fund Composite** | **$18,492,113,693** | **91.6%** | **0.9%** | **--** | **10.5%** | **--** | **5.4%** | **--** | **5.8%** | **--** | **6.2%** | **Jun-05** |
| *SIF Policy Benchmark* | | | *0.9%* | *--* | *11.0%* | *--* | *5.4%* | *--* | *--* | *--* | *--* | *Jun-05* |
| **SIF Bond Composite** | **$12,452,656,183** | **61.7%** | **-3.0%** | **--** | **8.7%** | **--** | **6.3%** | **--** | **--** | **--** | **6.7%** | **Dec-06** |
| **SIF U.S. Aggregate Composite** | **$2,529,578,898** | **12.5%** | **-1.3%** | **--** | **6.5%** | **--** | **--** | **--** | **--** | **--** | **5.8%** | **Jul-09** |
| *Barclays Capital Aggregate* | | | *-1.3%* | *--* | *6.5%* | *--* | *5.9%* | *--* | *5.8%* | *--* | *6.3%* | *Jul-09* |
| SSGA U.S. Aggregate Index | $2,529,578,898 | 12.5% | -1.3% | 74 | 6.5% | 90 | -- | -- | -- | -- | 6.5% | Dec-09 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *6.5%* | *Dec-09* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | *7.9%* | *Dec-09* |
| **SIF U.S. Long Government Composite** | **$1,364,484,936** | **6.8%** | **-7.9%** | **93** | **9.5%** | **97** | **--** | **--** | **--** | **--** | **6.1%** | **Jul-09** |
| *Barclays Capital LT Govt.* | | | *-7.9%* | *93* | *9.4%* | *98* | *5.6%* | *97* | *5.7%* | *95* | *5.5%* | *Jul-09* |
| *Mercer Instl US Fixed Long Duration Median* | | | *-4.8%* | | *11.6%* | | *8.0%* | | *6.9%* | | *--* | *Jul-09* |
| BlackRock Government Long Duration Index | $1,364,484,936 | 6.8% | -7.9% | 93 | 9.9%* | 96 | -- | -- | -- | -- | 4.7% | Aug-09 |
| *Barclays Capital LT Govt.* | | | *-7.9%* | *93* | *9.4%* | *98* | *5.6%* | *97* | *5.7%* | *95* | *4.5%* | *Aug-09* |
| *Mercer Instl US Fixed Long Duration Median* | | | *-4.8%* | | *11.6%* | | *8.0%* | | *6.9%* | | *--* | *Aug-09* |
| **SIF U.S. Long Credit** | **$5,454,499,225** | **27.0%** | **-3.6%** | **75** | **11.0%** | **86** | **--** | **--** | **--** | **--** | **11.0%** | **Jul-09** |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *10.8%* | *Jul-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Jul-09* |
| SSGA Credit Long Duration Index | $3,908,128,746 | 19.4% | -3.6% | 75 | 10.9% | 88 | -- | -- | -- | -- | 10.8% | Jul-09 |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *10.8%* | *Jul-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Jul-09* |
| BlackRock Credit Long Duration Index | $1,546,370,479 | 7.7% | -3.6% | 74 | 11.2%** | 78 | -- | -- | -- | -- | 9.7% | Aug-09 |
| *Barclays Capital LT Credit* | | | *-3.7%* | *76* | *10.7%* | *90* | *7.5%* | *84* | *5.9%* | *99* | *9.6%* | *Aug-09* |
| *Mercer Instl US Fixed Long Credit Median* | | | *-3.2%* | | *12.0%* | | *9.0%* | | *6.8%* | | *--* | *Aug-09* |

*Tracking error due to pricing differences between custodian and manager and cash flows
**Tracking error due to pricing differences between custodian and manager

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Gross of Fee)

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| **SIF TIPS Composite** | **$3,104,093,124** | **15.4%** | **-0.9%** | **--** | **6.3%** | **--** | **4.9%** | **--** | **--** | **--** | **6.7%** | **Jan-07** |
| *Barclays Capital US TIPS* | | | *-0.6%* | *--* | *6.3%* | *--* | *5.0%* | *--* | *5.3%* | *--* | *6.7%* | *Jan-07* |
| BlackRock TIPS Index | $2,191,014,501 | 10.8% | -0.9%* | 65 | -- | -- | -- | -- | -- | -- | 5.8% | Feb-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *5.9%* | *Feb-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | *--* | *Feb-10* |
| SSGA TIPS Index | $913,078,623 | 4.5% | -0.9%* | 65 | 5.9%* | 80 | 4.8% | 89 | -- | -- | 6.5% | Jan-07 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *6.7%* | *Jan-07* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | *--* | *Jan-07* |
| **SIF Equity Composite** | **$5,944,967,280** | **29.4%** | **10.2%** | **--** | **15.1%** | **--** | **-3.2%** | **--** | **--** | **--** | **-0.9%** | **Dec-06** |
| *SIF Equity Composite Benchmark* | | | *10.2%* | *--* | *15.2%* | *--* | *-2.8%* | *--* | *--* | *--* | *--* | *Dec-06* |
| **SIF U.S. Public Equity Composite** | **$4,058,480,409** | **20.1%** | **11.6%** | **51** | **16.9%** | **43** | **-2.4%** | **65** | **--** | **--** | **-0.8%** | **Jan-07** |
| *SIF US Public Equity Benchmark* | | | *11.6%* | *47* | *16.9%* | *43* | *-2.4%* | *65* | *--* | *--* | *-0.9%* | *Jan-07* |
| *Mercer Instl US Equity All Cap Core Median* | | | *11.6%* | | *16.6%* | | *-1.1%* | | *4.0%* | | *--* | *Jan-07* |
| MCM Russell 3000 Index | $1,251,503,009 | 6.2% | 11.6% | 64 | -- | -- | -- | -- | -- | -- | 17.3% | May-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *17.3%* | *May-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | *--* | *May-10* |
| NTGI Russell 3000 Index | $2,806,977,400 | 13.9% | 11.6% | 64 | -- | -- | -- | -- | -- | -- | 17.3% | May-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *17.3%* | *May-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | *--* | *May-10* |
| **SIF International Equity Composite** | **$1,884,921,879** | **9.3%** | **7.2%** | **--** | **10.9%** | **--** | **--** | **--** | **--** | **--** | **15.6%** | **Aug-09** |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *--* | *11.2%* | *--* | *-5.0%* | *--* | *4.8%* | *--* | *15.5%* | *Aug-09* |
| ACWI ex US TM #2 | $191 | 0.0% | 0.0% | -- | -6.4% | -- | -- | -- | -- | -- | 1.7% | Aug-09 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *--* | *11.2%* | *--* | *-5.0%* | *--* | *4.8%* | *--* | *15.5%* | *Aug-09* |
| BlackRock ACWI ex US Index | $1,884,921,688 | 9.3% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 9.4% | Mar-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *9.4%* | *Mar-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | *9.7%* | *Mar-10* |

*Tracking error due to pricing differences between custodian and manager

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Gross of Fee)

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| Miscellaneous Holding Account | $443,285 | 0.0% | 175.5% | -- | 463.7% | -- | 174.8% | -- | -- | -- | 116.8% | Nov-06 |
| Transition Account | $1,121,706 | 0.0% | 1.0% | -- | 3.4% | -- | -2.2% | -- | -- | -- | -2.2% | Dec-07 |
| **SIF Cash Composite** | **$94,490,230** | **0.5%** | **0.0%** | **--** | **0.1%** | **--** | **1.0%** | **--** | **3.4%** | **--** | **3.4%** | **Jun-05** |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |
| SIF Cash Account | $94,490,230 | 0.5% | 0.0% | -- | 0.1% | -- | 1.0% | -- | 3.2% | -- | 3.2% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |
| **DWRF Composite** | **$1,330,973,488** | **6.6%** | **2.4%** | **--** | **12.8%** | **--** | **6.0%** | **--** | **--** | **--** | **6.2%** | **Dec-06** |
| *DWRF Policy Benchmark* | | | *2.3%* | -- | *16.8%* | -- | *6.7%* | -- | -- | -- | -- | *Dec-06* |
| SSGA U.S. Aggregate Index | $435,231,175 | 2.2% | -1.3% | 74 | -- | -- | -- | -- | -- | -- | -1.2% | Aug-10 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *-1.2%* | *Aug-10* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | -- | *Aug-10* |
| SSGA TIPS Commingled Index | $458,798,532 | 2.3% | -0.7% | 44 | -- | -- | -- | -- | -- | -- | -0.1% | Aug-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *0.0%* | *Aug-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | -- | *Aug-10* |
| SSGA Russell 3000 Index | $292,186,486 | 1.4% | 11.5% | 64 | -- | -- | -- | -- | -- | -- | 22.0% | Aug-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *22.1%* | *Aug-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | -- | *Aug-10* |
| BlackRock ACWI ex US Index | $144,555,795 | 0.7% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 17.8% | Aug-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *17.9%* | *Aug-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | -- | *Aug-10* |
| DWRF Cash Account | $201,501 | 0.0% | 0.0% | -- | 0.1% | -- | 1.1% | -- | 2.8% | -- | 2.7% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | -- | *0.1%* | -- | *0.8%* | -- | *2.4%* | -- | *2.5%* | *Jun-05* |

# Ohio Bureau of Workers Compensation (Ohio BWC)

## Performance Summary (Gross of Fee)

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | Inception | |
| **BLF Composite** | **$278,075,490** | **1.4%** | **1.2%** | **--** | **11.4%** | **--** | **5.5%** | **--** | **--** | **--** | **5.7%** | **Dec-06** |
| *BLF Policy Benchmark* | | | *1.2%* | *--* | *14.5%* | *--* | *6.0%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SSGA U.S. Aggregate Index | $108,099,978 | 0.5% | -1.3% | 74 | -- | -- | -- | -- | -- | -- | -1.2% | Aug-10 |
| *Barclays Capital Aggregate* | | | *-1.3%* | *75* | *6.5%* | *89* | *5.9%* | *82* | *5.8%* | *79* | *-1.2%* | *Aug-10* |
| *Mercer Instl US Fixed Core Median* | | | *-0.9%* | | *7.9%* | | *6.9%* | | *6.4%* | | *--* | *Aug-10* |
| SSGA TIPS Commingled Index | $109,291,071 | 0.5% | -0.7% | 44 | -- | -- | -- | -- | -- | -- | -0.1% | Aug-10 |
| *Barclays Capital US TIPS* | | | *-0.6%* | *43* | *6.3%* | *65* | *5.0%* | *71* | *5.3%* | *82* | *0.0%* | *Aug-10* |
| *Mercer Instl US Fixed Inflation Linked Bonds Median* | | | *-0.7%* | | *6.5%* | | *5.2%* | | *5.5%* | | *--* | *Aug-10* |
| SSGA Russell 3000 Index | $38,699,452 | 0.2% | 11.5% | 64 | -- | -- | -- | -- | -- | -- | 22.0% | Aug-10 |
| *Russell 3000* | | | *11.6%* | *63* | *16.9%* | *62* | *-2.0%* | *70* | *2.7%* | *74* | *22.1%* | *Aug-10* |
| *Mercer Instl US Equity Combined Median* | | | *12.7%* | | *19.7%* | | *-0.2%* | | *4.3%* | | *--* | *Aug-10* |
| BlackRock ACWI ex US Index | $21,886,377 | 0.1% | 7.2% | 60 | -- | -- | -- | -- | -- | -- | 17.8% | Aug-10 |
| *MSCI AC World ex USA (Net)* | | | *7.2%* | *60* | *11.2%* | *53* | *-5.0%* | *50* | *4.8%* | *43* | *17.9%* | *Aug-10* |
| *Mercer Instl Intl Equity Median* | | | *7.5%* | | *11.5%* | | *-5.1%* | | *4.2%* | | *--* | *Aug-10* |
| BLF Cash Account | $98,612 | 0.0% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.7% | -- | 2.8% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |
| **PWRF Composite** | **$25,553,792** | **0.1%** | **-1.4%** | **--** | **5.8%** | **--** | **4.4%** | **--** | **--** | **--** | **4.2%** | **Dec-06** |
| *PWRF Policy Benchmark* | | | *-1.4%* | *--* | *5.8%* | *--* | *5.4%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SSGA Government/Credit Intermediate Duration Index | $25,181,344 | 0.1% | -1.4% | 85 | 5.8% | 86 | -- | -- | -- | -- | 6.5% | Feb-09 |
| *Barclays Capital Int Govt/Credit* | | | *-1.4%* | *85* | *5.9%* | *83* | *5.4%* | *86* | *5.5%* | *88* | *6.7%* | *Feb-09* |
| *Mercer Instl US Fixed Intermediate Median* | | | *-1.2%* | | *6.5%* | | *6.3%* | | *6.2%* | | *--* | *Feb-09* |
| PWRF Cash Account | $372,448 | 0.0% | 0.0% | -- | 0.1% | -- | 1.0% | -- | 2.0% | -- | 2.1% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |

## Ohio Bureau of Workers Compensation (Ohio BWC)

### Performance Summary (Gross of Fee)

| Name | Current Market Value | Current Allocation | 3 Mo | Rank | 1 Yr | Rank | 3 Yrs | Rank | 5 Yrs | Rank | Inception Return | Inception Since |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ending December 31, 2010 | | | | | | | | | |
| **MIF Composite** | **$19,245,476** | **0.1%** | **-1.4%** | **--** | **5.7%** | **--** | **4.3%** | **--** | **--** | **--** | **4.1%** | **Dec-06** |
| *MIF Policy Benchmark* | | | *-1.4%* | *--* | *5.8%* | *--* | *5.4%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SSGA Government/Credit Intermediate Duration Index | $18,813,775 | 0.1% | -1.4% | 85 | 5.8% | 86 | -- | -- | -- | -- | 6.5% | Feb-09 |
| *Barclays Capital Int Govt/Credit* | | | *-1.4%* | *85* | *5.9%* | *83* | *5.4%* | *86* | *5.5%* | *88* | *6.7%* | *Feb-09* |
| *Mercer Instl US Fixed Intermediate Median* | | | *-1.2%* | | *6.5%* | | *6.3%* | | *6.2%* | | *--* | *Feb-09* |
| MIF Cash Account | $431,700 | 0.0% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.1% | -- | 2.3% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |
| **SIEGF Composite** | **$47,878,965** | **0.2%** | **0.0%** | **--** | **0.1%** | **--** | **0.9%** | **--** | **--** | **--** | **2.0%** | **Dec-06** |
| *SIEGF Policy Benchmark* | | | *0.0%* | *--* | *0.1%* | *--* | *0.6%* | *--* | *--* | *--* | *--* | *Dec-06* |
| SIEGF Cash Account | $47,878,965 | 0.2% | 0.0% | -- | 0.1% | -- | 0.9% | -- | 2.6% | -- | 2.7% | Jun-05 |
| *BofA Merrill Lynch 91 Day T-Bill* | | | *0.0%* | *--* | *0.1%* | *--* | *0.8%* | *--* | *2.4%* | *--* | *2.5%* | *Jun-05* |

## Benchmark Weights

The benchmarks for their respective accounts are as follows:

| | | Weight |
|---|---|---|
| **SIF Policy Benchmark*:** | | |
| BarCap US Long Credit Index | | 28% |
| BarCap US Long Government Index | | 9% |
| BarCap US Aggregate Index | | 15% |
| BarCap US TIPS Index | | 17% |
| 3 Month US Treasury Bill | | 1% |
| Russell 3000 Index | | 20% |
| MSCI All Country World ex US Index | | 10% |
| | **TOTAL:** | 100% |
| **DWRF Policy Benchmark**:** | | |
| BarCap US Aggregate Index | | 34% |
| BarCap US TIPS Index | | 35% |
| Russell 3000 Index | | 20% |
| MSCI All Country World ex US Index | | 10% |
| 3 Month US Treasury Bill | | 1% |
| | **TOTAL:** | 100% |

| | | Weight |
|---|---|---|
| **BLF Policy Benchmark***:** | | |
| BarCap US Aggregate Index | | 39% |
| BarCap US TIPS Index | | 40% |
| Russell 3000 Index | | 13% |
| MSCI All Country World ex US Index | | 7% |
| 3 Month US Treasury Bill | | 1% |
| | **TOTAL:** | 100% |
| **PWRF Policy Benchmark:** | | |
| BarCap US Intermediate Government/Credit Index | | 99% |
| 3 Month US Treasury Bill | | 1% |
| | **TOTAL:** | 100% |
| **MIF Policy Benchmark:** | | |
| BarCap US Intermediate Government/Credit Index | | 99% |
| 3 Month US Treasury Bill | | 1% |
| | **TOTAL:** | 100% |
| **SIEGF Policy Benchmark:** | | |
| 3 Month US Treasury Bill | | 100% |

* From January 1, 2008 until September 30, 2009 the SIF Benchmark was comprised of BarCap Long US Government/Credit Index - 59%; BarCap US TIPS Index - 20%; S&P 500 Index - 20%; 3 Month US Treasury Bill - 1%.

** From January 1, 2008 until August 31, 2010 the DWRF Benchmark was comprised of BarCap Long US Government/Credit Index - 59%; BarCap US TIPS Index - 20%; S&P 500 Index - 20%; 3 month US Treasury Bill - 1%.

*** From January 1, 2008 until August 31, 2010 the BLF Benchmark was comprised of BarCap Long US Government/Credit Index - 59%; BarCap US TIPS Index - 20%; S&P 500 Index - 20%; 3 month US Treasury Bill - 1%.

## Manager Roster and Fee Schedule

### as of December 31, 2010

| Account | Fee Schedule | Est. Minimum Annual Fee ($) | Estimated Annual Fee ($) | Estimated Annual Fee (%) |
|---|---|---|---|---|
| **SIF U.S. Aggregate Composite** | | | | |
| SSGA U.S. Aggregate Index | 0.01% of First $500.0 Mil, 0.01% of Next $1,000.0 Mil, 0.01% Thereafter | | $307,958 | 0.01% |
| **SIF U.S. Long Government Composite** | | | | |
| BlackRock Government Long Duration Index | 0.03% of First $1,000.0 Mil, 0.03% of Next $1,000.0 Mil, 0.02% Thereafter | | $391,121 | 0.03% |
| **SIF U.S. Long Credit** | | | | |
| SSGA Credit Long Duration Index | 0.05% of First $1,000.0 Mil, 0.04% of Next $1,000.0 Mil, 0.03% Thereafter | $0 | $1,377,032 | 0.04% |
| BlackRock Credit Long Duration Index | 0.09% of First $1,000.0 Mil, 0.07% of Next $1,000.0 Mil, 0.06% Thereafter | | $1,309,778 | 0.08% |
| **SIF TIPS Composite** | | | | |
| BlackRock TIPS Index | 0.04% of First $1,000.0 Mil, 0.03% of Next $1,000.0 Mil, 0.03% Thereafter | | $697,754 | 0.03% |
| SSGA TIPS Index | 0.01% of First $500.0 Mil, 0.01% of Next $1,000.0 Mil, 0.01% Thereafter | $0 | $116,308 | 0.01% |
| **SIF U.S. Public Equity Composite** | | | | |
| MCM Russell 3000 Index | 0.01% of First $2,000.0 Mil, 0.01% Thereafter | $75,000 | $125,150 | 0.01% |

# Fee Schedule

| Account | Fee Schedule | Est. Minimum Annual Fee ($) | Estimated Annual Fee ($) | Estimated Annual Fee (%) |
|---|---|---|---|---|
| NTGI Russell 3000 Index | 0.01% of Assets | $50,000 | $364,907 | 0.01% |
| **SIF International Equity Composite** | | | | |
| BlackRock ACWI ex US Index | 0.07% of First $100.0 Mil,<br>0.05% of Next $900.0 Mil,<br>0.04% of Next $1,000.0 Mil,<br>0.03% Thereafter | | $873,969 | 0.05% |
| Miscellaneous Holding Account | | | -- | -- |
| Transition Account | | | -- | -- |
| **SIF Cash Composite** | | | | |
| SIF Cash Account | | | -- | -- |
| **DWRF Composite** | | | | |
| SSGA U.S. Aggregate Index | 0.01% of First $500.0 Mil,<br>0.01% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $65,285 | 0.02% |
| SSGA TIPS Commingled Index | 0.01% of First $500.0 Mil,<br>0.01% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $68,820 | 0.02% |
| SSGA Russell 3000 Index | 0.03% of First $500.0 Mil,<br>0.02% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $73,047 | 0.03% |
| BlackRock ACWI ex US Index | 0.07% of First $100.0 Mil,<br>0.05% of Next $900.0 Mil,<br>0.04% of Next $1,000.0 Mil,<br>0.03% Thereafter | | $92,278 | 0.06% |
| DWRF Cash Account | | | -- | -- |

# Fee Schedule

| Account | Fee Schedule | Est. Minimum Annual Fee ($) | Estimated Annual Fee ($) | Estimated Annual Fee (%) |
|---|---|---|---|---|
| **BLF Composite** | | | | |
| SSGA U.S. Aggregate Index | 0.01% of First $500.0 Mil,<br>0.01% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $16,215 | 0.02% |
| SSGA TIPS Commingled Index | 0.01% of First $500.0 Mil,<br>0.01% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $16,394 | 0.02% |
| SSGA Russell 3000 Index | 0.03% of First $500.0 Mil,<br>0.02% of Next $1,000.0 Mil,<br>0.01% Thereafter | | $9,675 | 0.03% |
| BlackRock ACWI ex US Index | 0.07% of First $100.0 Mil,<br>0.05% of Next $900.0 Mil,<br>0.04% of Next $1,000.0 Mil,<br>0.03% Thereafter | | $15,320 | 0.07% |
| BLF Cash Account | | | -- | -- |
| **PWRF Composite** | | | | |
| SSGA Government/Credit Intermediate Duration Index | 0.04% of First $500.0 Mil,<br>0.03% of Next $500.0 Mil,<br>0.02% Thereafter | $0 | $10,073 | 0.04% |
| PWRF Cash Account | | | -- | -- |
| **MIF Composite** | | | | |
| SSGA Government/Credit Intermediate Duration Index | 0.04% of First $500.0 Mil,<br>0.03% of Next $500.0 Mil,<br>0.02% Thereafter | $0 | $7,526 | 0.04% |
| MIF Cash Account | | | -- | -- |
| **SIEGF Composite** | | | | |
| SIEGF Cash Account | | | -- | -- |
| **Investment Management Fee** | | | **$5,938,608** | **0.03%** |

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MERCER

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

| Asset Sector | Market Value December 31, 2010 | % Assets | Market Value November 30, 2010 | % Assets | Increase(Decrease) Prior Month-End | % Change | Market Value June 30, 2010 | % Assets | Increase(Decrease) Prior Fiscal Year-End | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bonds** | 13,544,868,581 | 67.1% | 13,783,058,271 | 68.6% | (238,189,690) | -1.7% | 13,537,054,766 | 71.2% | 7,813,815 | 0.1% |
| **Equity** | 6,435,244,477 | 31.9% | 6,116,508,689 | 30.4% | 318,735,788 | 5.2% | 5,154,562,423 | 27.1% | 1,280,682,054 | 24.8% |
| **Net Cash - OIM** | 67,721,604 | 0.3% | 78,855,849 | 0.4% | (11,134,245) | -14.1% | 64,622,125 | 0.3% | 3,099,479 | 4.8% |
| **Net Cash - Operating** | 101,282,480 | 0.5% | 80,692,510 | 0.4% | 20,589,970 | 25.5% | 218,991,596 | 1.2% | (117,709,116) | -53.8% |
| **Net Cash - SIEGF** | 47,880,997 | 0.2% | 48,633,706 | 0.2% | (752,709) | -1.5% | 47,335,733 | 0.2% | 545,264 | 1.2% |
| **Total Net Cash** | 216,885,081 | 1.0% | 208,182,065 | 1.0% | 8,703,016 | 4.2% | 330,949,454 | 1.7% | (114,064,373) | -34.5% |
| **Total Invested Assets** | 20,196,998,139 | 100% | 20,107,749,025 | 100% | $89,249,114 | 0.4% | $19,022,566,643 | 100% | $1,174,431,496 | 6.2% |

**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.

**December 2010/November 2010 Comparisons**

- Net investment income in December 2010 was $234 million representing a monthly net portfolio return of **+1.2%** (unaudited).
- Bond market value decrease of $(238.2) mm comprised of $58.3 mm in interest income, $255.3 mm in OIM realized/unrealized losses ($4.2 mm net realized gain) and $55.0 mm in operations redemptions, offset by $13.8 mm in OIM net bond purchases, representing a monthly net return of **-1.4%** (unaudited).
- Equity market value increase of $318.7 mm comprised of $8.9 mm of dividend income and $423.1 mm in net realized/unrealized gains ($15.8 mm net realized gain), offset by $110.0 mm in operations redemptions and $3.3 mm in OIM net equity sales, representing a monthly net return of **+7.1%** (unaudited).
- Net cash balances increased $8.7 mm in December 2010 largely due to increased operating cash balances of $20.6 mm, offset by $11.1 mm in OIM net purchases. JPMorgan US Govt. money market fund had 30-day average yield of 0.04% for December 2010 (0.08% for Nov10) and 7-day average yield of 0.03% on 12/31/10 (0.06% on 11/30/10).

**December 2010/June 2010 FYTD Results**

- Net investment income for FYTD2011 was $1,470 million largely comprised of $347 mm of interest/dividend income and $1,126 mm of net realized/unrealized gains ($203 mm net realized gain), offset by $4 mm in fees, representing a FYTD2011 net portfolio return of **+7.7%** (unaudited).
- Bond market value increase of $8 mm for FYTD2011 comprised of $304 mm in interest income and $(109) mm of net realized/unrealized losses ($161 mm net realized gain), offset by $125 mm in OIM/TM net bond sales and by $62 mm in operations redemptions, representing a FYTD2011 net return of **+1.3%** (unaudited).
- Equity market value increase of $1,281 mm for FYTD2011 comprised of $43 mm in dividend income, $1,235 mm in net realized/unrealized gains ($42 mm net realized gain) and $120 mm in OIM/TM net equity purchases, offset by $117mm in operations/miscellaneous asset redemptions, representing a FYTD2011 net return of **+25.1%** (unaudited).

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

| Asset Sector | Market Value January 31, 2011 | % Assets | Market Value December 31, 2010 | % Assets | Increase(Decrease) Prior Month-End | % Change | Market Value June 30, 2010 | % Assets | Increase(Decrease) Prior Fiscal Year-End | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bonds** | **13,481,750,866** | **66.7%** | **13,544,868,581** | **67.1%** | **(63,117,715)** | **-0.5%** | **13,537,054,766** | **71.2%** | **(55,303,900)** | **-0.4%** |
| **Equity** | **6,543,213,549** | **32.3%** | **6,435,244,477** | **31.9%** | **107,969,072** | **1.7%** | **5,154,562,423** | **27.1%** | **1,388,651,126** | **26.9%** |
| **Net Cash - OIM** | **49,974,130** | **0.3%** | **67,721,604** | **0.3%** | **(17,747,474)** | **-26.2%** | **64,622,125** | **0.3%** | **(14,647,995)** | **-22.7%** |
| **Net Cash - Operating** | **105,367,906** | **0.5%** | **101,282,480** | **0.5%** | **4,085,426** | **4.0%** | **218,991,596** | **1.2%** | **(113,623,690)** | **-51.9%** |
| **Net Cash - SIEGF** | **47,104,056** | **0.2%** | **47,880,997** | **0.2%** | **(776,941)** | **-1.6%** | **47,335,733** | **0.2%** | **(231,677)** | **-0.5%** |
| **Total Net Cash** | **202,446,092** | **1.0%** | **216,885,081** | **1.0%** | **(14,438,989)** | **-6.7%** | **330,949,454** | **1.7%** | **(128,503,362)** | **-38.8%** |
| **Total Invested Assets** | **20,227,410,507** | **100%** | **20,196,998,139** | **100%** | **$30,412,368** | **0.2%** | **$19,022,566,643** | **100%** | **$1,204,843,864** | **6.3%** |

**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.

**January 2011/December 2010 Comparisons**

- Net investment income in January 2011 was $45 million representing a monthly net portfolio return of **+0.2%** (unaudited).

- Bond market value decrease of $(63.1) mm comprised of $46.7 mm in interest income, $117.5 mm in OIM realized/unrealized losses ($0.4 mm net realized gain) and $10.0 mm in operations redemptions, offset by $17.7 mm in OIM net bond purchases, representing a monthly net return of **-0.5%** (unaudited).

- Equity market value increase of $108.0 mm comprised of $4.1 mm of dividend income, $111.4 mm in net realized/unrealized gains ($2.6 mm net realized gain) and $0.1 mm in OIM equity purchases, offset by $7.6 mm in operations redemptions, representing a monthly net return of **+1.8%** (unaudited).

- Net cash balances decreased $(14.4) mm in January 2011 largely due to $17.7 mm in OIM net purchases, offset by increased operating cash balances of $4.1 mm. JPMorgan US Govt. money market fund had 30-day average yield of 0.04% for January 2011 (0.04% for Dec10) and 7-day average yield of 0.04% on 1/31/11 (0.03% on 12/31/10).

**January 2011/June 2010 FYTD Results**

- Net investment income for FYTD2011 was $1,515 million largely comprised of $399 mm of interest/dividend income and $1,120 mm of net realized/unrealized gains ($206 mm net realized gain), offset by $4 mm in fees, representing a FYTD2011 net portfolio return of **+7.9%** (unaudited).

- Bond market value decrease of $(55) mm for FYTD2011 comprised of $350 mm in interest income and $(226) mm of net realized/unrealized losses ($161 mm net realized gain), offset by $107 mm in OIM/TM net bond sales and by $72 mm in operations redemptions, representing a FYTD2011 net return of **+0.8%** (unaudited).

- Equity market value increase of $1,389 mm for FYTD2011 comprised of $47 mm in dividend income, $1,347 mm in net realized/unrealized gains ($45 mm net realized gain) and $120 mm in OIM/TM net equity purchases, offset by $125 mm in operations/miscellaneous asset redemptions, representing a FYTD2011 net return of **+27.3%** (unaudited).

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

## As of December 31, 2010

*(in thousands)*

| | SIF | % Trust | DWRF | % Trust | BLF | % Trust | PWRF | % Trust | MIF | % Trust | SIEGF | % Trust | ACF | % Trust | Totals | % of Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bonds** | **$ 12,389,453** | **67.0%** | **$ 894,030** | **67.2%** | **$ 217,391** | **78.2%** | **$ 25,181** | **98.5%** | **$ 18,814** | **97.7%** | **$ -** | **0.0%** | **$ -** | **0.0%** | **$ 13,544,869** | **67.1%** |
| Long Credit | 5,403,858 | 29.2% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 5,403,858 | 26.7% |
| Long Government | 1,363,947 | 7.4% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 1,363,947 | 6.8% |
| Long Gov/Credit | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| TIPS | 3,097,863 | 16.8% | 458,799 | 34.5% | 109,291 | 39.3% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,665,953 | 18.2% |
| Aggregate | 2,523,785 | 13.6% | 435,231 | 32.7% | 108,100 | 38.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,067,116 | 15.2% |
| Intermediate Gov/Credit | - | 0.0% | - | 0.0% | - | 0.0% | 25,181 | 98.5% | 18,814 | 97.7% | - | 0.0% | - | 0.0% | 43,995 | 0.2% |
| **Stocks** | **5,937,917** | **32.1%** | **436,742** | **32.8%** | **60,585** | **21.8%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **6,435,244** | **31.9%** |
| Russell 3000 | 4,052,960 | 21.9% | 292,186 | 22.0% | 38,699 | 13.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 4,383,845 | 21.7% |
| MSCI ACWI ex-U.S. | 1,884,922 | 10.2% | 144,556 | 10.8% | 21,886 | 7.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 2,051,364 | 10.2% |
| S&P 500 | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| Dividends Receivable | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 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** | **165,804** | **0.9%** | **242** | **0.0%** | **101** | **0.0%** | **372** | **1.5%** | **446** | **2.3%** | **47,881** | **100.0%** | **2,039** | **100.0%** | **216,885** | **1.0%** |
| **Total Cash & Investments** | **$ 18,493,174** | **100.0%** | **$ 1,331,014** | **100.0%** | **$ 278,077** | **100.0%** | **$ 25,553** | **100.0%** | **$ 19,260** | **100.0%** | **$ 47,881** | **100.0%** | **$ 2,039** | **100.0%** | **$ 20,196,998** | **100.0%** |

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

| 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)

Equity index returns significantly increased for the MSCI ACWI ex-U.S. (+7.83%) and the Russell 3000 (+6.78%) in the month of December. As a result, the equity allocation increased to 32.1% for the month from 30.7% for the prior month-end. All bond indices returns decreased for the Barclays Capital Government Long Term Index (-3.69%), U.S. TIPS Index ( -1.55%), the U.S. Aggregate Bond Index (-1.08%) as well as for the Barclays Capital Long Credit Index (-0.87%) in December. The SIF strong equity performance along with negative bond indices returns resulted in the overall bond asset allocation decreasing from 68.5% at end of November to 67.0% at end of December.

Cash allocations slightly increased from 0.8% at end of November to 0.9% at end of December largely due to increased SIF operating cash of $20.9 million offset by $10.9 million in decreased SIF investment manager cash balances.

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

The increase in the MSCI ACWI ex U.S. (+7.83%) index return and the Russell 3000 ( +6.78%) index return increased the equity allocations for DWRF and BLF from 31.0% and 20.4% at end of November, to 32.8% and 21.8%, respectively by fund, at month-end December. The negative bond returns for the U.S. TIPS Index (-1.55%) and the U.S. Aggregate Bond Index ( -1.08%) decreased the bond asset allocations for DWRF and BLF from 69.0% and 79.5% at end of November to 67.2% and 78.2%, respectively by fund, at month end December.

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

The Barclays Capital Government/Credit Intermediate index return decreased -1.25% in the month of December.

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

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

## As of January 31, 2011

*(in thousands)*

| | SIF | % Trust | DWRF | % Trust | BLF | % Trust | PWRF | % Trust | MIF | % Trust | SIEGF | % Trust | ACF | % Trust | Totals | % of Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bonds** | **$ 12,324,096** | **66.6%** | **$ 895,349** | **67.1%** | **$ 217,710** | **78.1%** | **$ 25,426** | **99.2%** | **$ 19,170** | **99.0%** | **$ -** | **0.0%** | **$ -** | **0.0%** | **$ 13,481,751** | **66.7%** |
| Long Credit | 5,349,868 | 28.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 5,349,868 | 26.5% |
| Long Government | 1,333,374 | 7.2% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 1,333,374 | 6.6% |
| Long Gov/Credit | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| TIPS | 3,103,520 | 16.8% | 459,686 | 34.5% | 109,503 | 39.3% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,672,709 | 18.2% |
| Aggregate | 2,537,334 | 13.7% | 435,663 | 32.6% | 108,207 | 38.8% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,081,204 | 15.2% |
| Intermediate Gov/Credit | - | 0.0% | - | 0.0% | - | 0.0% | 25,426 | 99.2% | 19,170 | 99.0% | - | 0.0% | - | 0.0% | 44,596 | 0.2% |
| **Stocks** | **6,044,533** | **32.6%** | **438,024** | **32.8%** | **60,657** | **21.8%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **6,543,214** | **32.3%** |
| Russell 3000 | 4,137,699 | 22.3% | 292,052 | 21.9% | 38,556 | 13.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 4,468,307 | 22.1% |
| MSCI ACWI ex-U.S. | 1,903,340 | 10.3% | 145,972 | 10.9% | 22,101 | 7.9% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 2,071,413 | 10.2% |
| S&P 500 | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| Dividends Receivable | 3,459 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,459 | 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** | **152,083** | **0.8%** | **1,197** | **0.1%** | **213** | **0.1%** | **208** | **0.8%** | **189** | **1.0%** | **47,104** | **100.0%** | **1,452** | **100.0%** | **202,446** | **1.0%** |
| **Total Cash & Investments** | **$ 18,520,712** | **100.0%** | **$ 1,334,570** | **100.0%** | **$ 278,580** | **100.0%** | **$ 25,634** | **100.0%** | **$ 19,359** | **100.0%** | **$ 47,104** | **100.0%** | **$ 1,452** | **100.0%** | **$ 20,227,411** | **100.0%** |

Market value of bonds includes accrued investment income.

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

| 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)

Equity index returns increased for the Russell 3000 (+2.18%) and the MSCI ACWI ex-U.S. (+0.98%) in the month of January. As a result, the equity allocation increased to 32.6% for the month from 32.1% from the prior month-end. Bond indices returns decreased for the Barclays Capital Government Long Term Index (-2.08%) as well as decreased for the Barclays Capital Long Credit Index (-0.90%) but slightly increased for the U.S. TIPS Index ( +0.20%) as well as for the U.S. Aggregate Bond Index (+0.12%) in January. The SIF equity performance along with the net negative bond indices returns resulted in the overall bond asset allocation decreasing from 67.0% at end of December to 66.6% at end of January.

Cash allocations slightly decreased from 0.9% at end of December to 0.8% at end of January largely due to decreased SIF investment manager cash balance of $17.7 million slightly offset by increased SIF operating cash of $3.4 million.

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

The increases in the Russell 3000 (+2.18%) Index return and the MSCI ACWI ex-U.S. (+0.98%) Index returns were offset by DWRF and BLF equity cash redemptions for operations, holding equity allocations for DWRF and BLF at 32.8% and 21.8% respectively by fund for both month-ends January and December. January month-end bond return increases for the U.S. TIPS Index (+0.20%) and the U.S. Aggregate Bond Index (+0.12%) were slightly eclipsed by the increased month-end cash allocations from equity cash redemptions, resulting in bond asset allocations for DWRF and BLF of 67.1% and 78.1% at end of January compared to 67.2% and 78.2%, respectively by fund, at month-end December. Cash allocations increased for both DWRF and BLF from 0.0% at month-end December to 0.1% at month-end January for each fund due to net operating cash balance increases resulting from U.S. equity ( Russell 3000) redemptions.

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

The Barclays Capital Government/Credit Intermediate Index return increased (+0.39%) in the month of January. Investment fund bond purchases for PWRF and MIF decreased month-end cash allocations from 1.5% and 2.3% at end of December to 0.8% and 1.0%, respectively by fund, at end of January. As a result of increases in monthly returns as well as additional fund purchases, the bond asset allocations for PWRF and MIF increased from 98.5% and 97.7% at month-end December to 99.2% and 99.0%, respectively by fund, at month-end January.

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

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

## As of November 30, 2010

***(in thousands)***

| | SIF | % Trust | DWRF | % Trust | BLF | % Trust | PWRF | % Trust | MIF | % Trust | SIEGF | % Trust | ACF | % Trust | Totals | % of Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bonds** | **$ 12,612,347** | **68.5%** | **$ 905,896** | **69.0%** | **$ 220,265** | **79.5%** | **$ 25,499** | **98.5%** | **$ 19,051** | **97.8%** | **$ -** | **0.0%** | **$ -** | **0.0%** | **$ 13,783,058** | **68.6%** |
| Long Credit | 5,497,563 | 29.8% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 5,497,563 | 27.3% |
| Long Government | 1,413,294 | 7.7% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 1,413,294 | 7.0% |
| Long Gov/Credit | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| TIPS | 3,147,909 | 17.1% | 466,003 | 35.5% | 111,007 | 40.1% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,724,919 | 18.5% |
| Aggregate | 2,553,581 | 13.9% | 439,893 | 33.5% | 109,258 | 39.4% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 3,102,732 | 15.6% |
| Intermediate Gov/Credit | - | 0.0% | - | 0.0% | | 0.0% | 25,499 | 98.5% | 19,051 | 97.8% | - | 0.0% | - | 0.0% | 44,550 | 0.2% |
| **Stocks** | **5,652,185** | **30.7%** | **407,774** | **31.0%** | **56,550** | **20.4%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **-** | **0.0%** | **6,116,509** | **30.4%** |
| Russell 3000 | 3,895,584 | 21.1% | 273,711 | 20.8% | 36,252 | 13.2% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 4,205,547 | 20.9% |
| MSCI ACWI ex-U.S. | 1,748,101 | 9.6% | 134,063 | 10.2% | 20,298 | 7.2% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 1,902,462 | 9.5% |
| S&P 500 | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| Dividends Receivable | 8,465 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% | 8,465 | 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** | **155,125** | **0.8%** | **557** | **0.0%** | **249** | **0.1%** | **382** | **1.5%** | **433** | **2.2%** | **48,634** | **100.0%** | **2,802** | **100.0%** | **208,182** | **1.0%** |
| **Total Cash & Investments** | **$ 18,419,657** | **100.0%** | **$ 1,314,227** | **100.0%** | **$ 277,064** | **100.0%** | **$ 25,881** | **100.0%** | **$ 19,484** | **100.0%** | **$ 48,634** | **100.0%** | **$ 2,802** | **100.0%** | **$ 20,107,749** | **100.0%** |

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

| 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)

The equity index return increased slightly for the Russell 3000 (+0.58%) but was offset by a significantly decreased MSCI ACWI ex-U.S. (-3.86%) index return in the month of November. The net equity allocation actually increased to 30.7 % for the month from 30.5% for the prior month-end as a result of the larger overall decrease in return in the bond indices. All bond indices returns decreased for the U.S. TIPS Index (-1.69%), Barclays Capital Long Credit Index (-1.37%), Barclays Capital Government Long Term Index (-1.31%) as well as for the U.S. Aggregate Bond Index (-0.57%) in November. The SIF overall bond asset allocation remained relatively flat from 68.4% at end of October to 68.5% at end of November.

Cash allocations decreased from 1.1% at end of October to 0.8% at end of November largely due to decreased SIF operating cash of $80.9 million offset by $32.1 million in increased SIF investment manager cash balances.

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

The increase in the Russell 3000 ( +0.58%) index return offset by a significant decrease in the MSCI ACWI ex U.S.(-3.86%) index return modestly affected the net equity allocations for DWRF and BLF from 30.9% and 20.6% at end of October, to 31.0% and 20.4%, respectively by fund at month end November. The negative bond returns for the U.S. TIPS Index (-1.69%) and the U.S. Aggregate Bond Index (-0.57%) affected the bond asset allocations for DWRF and BLF from 69.0% and 79.0% at the end of October to 69.0% and 79.5%, respectively by fund, at month end November.

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

The Barclays Capital Government/Credit Intermediate index return decreased -0.67% in the month of November.

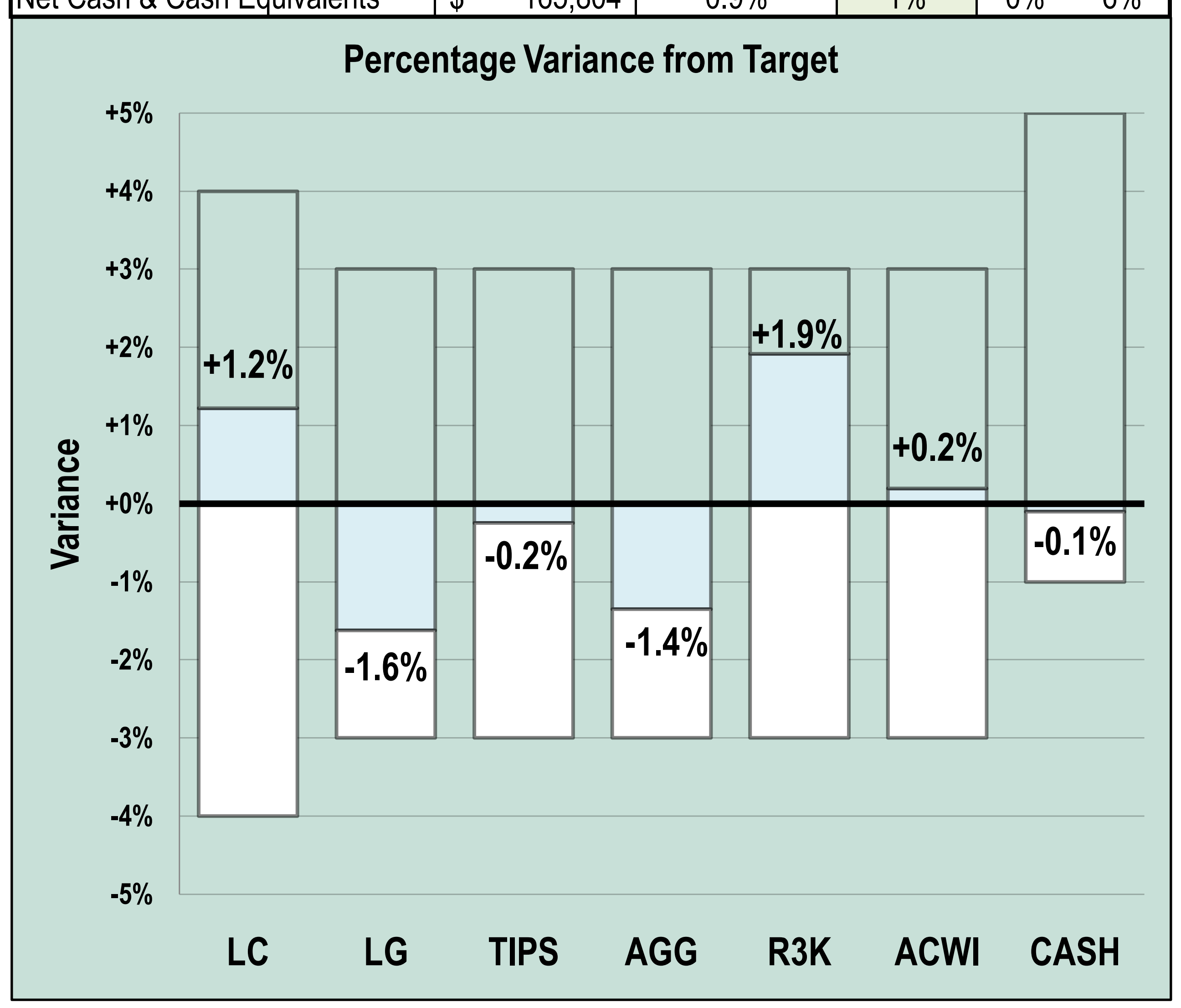
SIF: State Insurance Fund
DWRF: Disabled Workers' Relief Fund
BLF: Coal Workers' Pneumoconiosis Fund
PWRF: Public Workers' Relief Fund
MIF: Marine Industry Fund
SIEGF: Self-Insured Employers Guaranty Fund
ACF: Administrative Cost Fund

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

## As of December 31, 2010

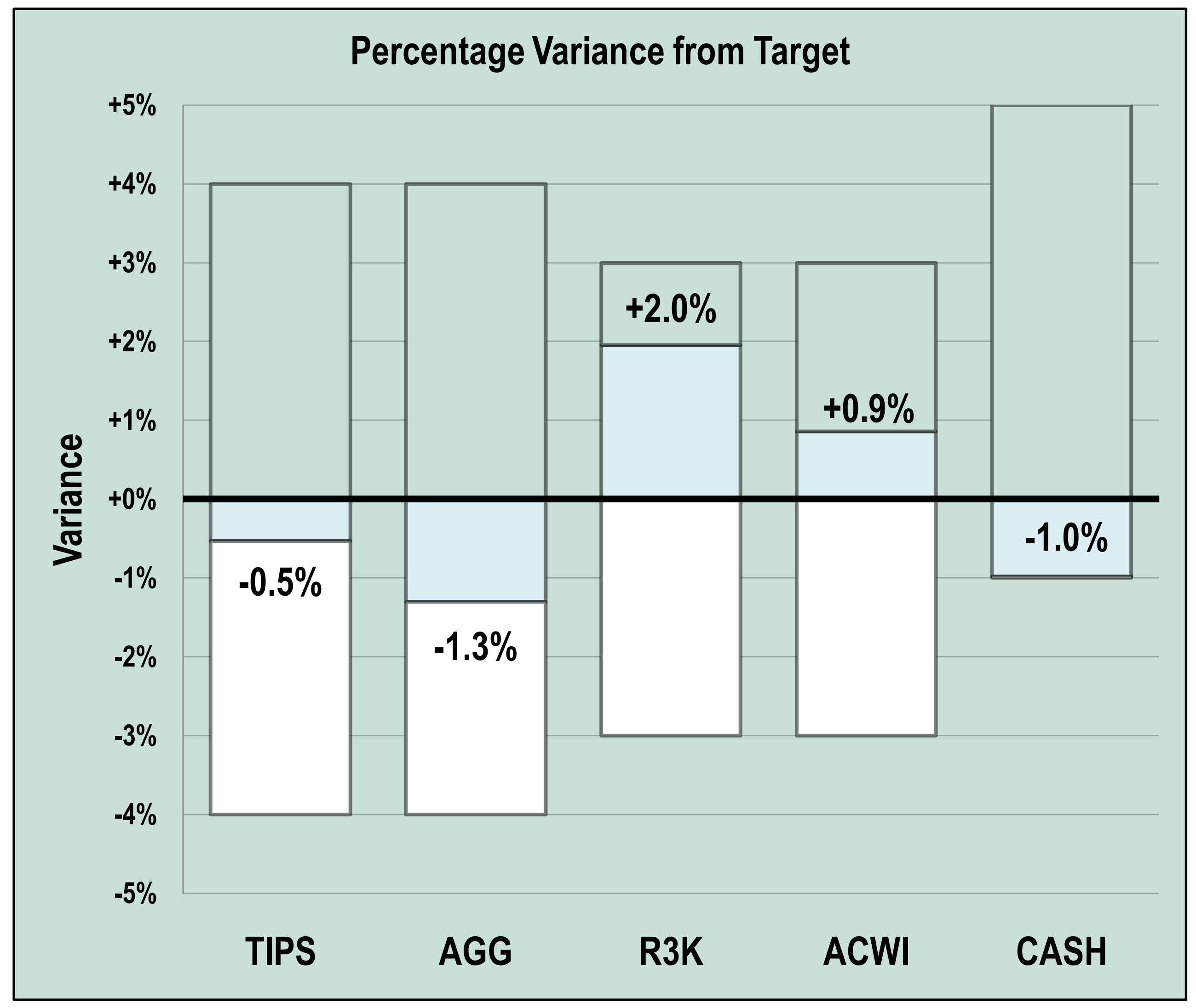
*(in thousands)*

| State Insurance Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| Long Credit | $ 5,403,858 | 29.2% | 28% | 24% — 32% |
| Long Government | $ 1,363,947 | 7.4% | 9% | 6% — 12% |
| TIPS | $ 3,097,863 | 16.8% | 17% | 14% — 20% |
| Aggregate | $ 2,523,785 | 13.6% | 15% | 12% — 18% |
| Russell 3000 | $ 4,052,960 | 21.9% | 20% | 17% — 23% |
| MSCI ACWI ex-U.S. | $ 1,884,922 | 10.2% | 10% | 7% — 13% |
| Miscellaneous | $ 35 | 0.0% | 0% | 0% — 0% |
| Net Cash & Cash Equivalents | $ 165,804 | 0.9% | 1% | 0% — 6% |

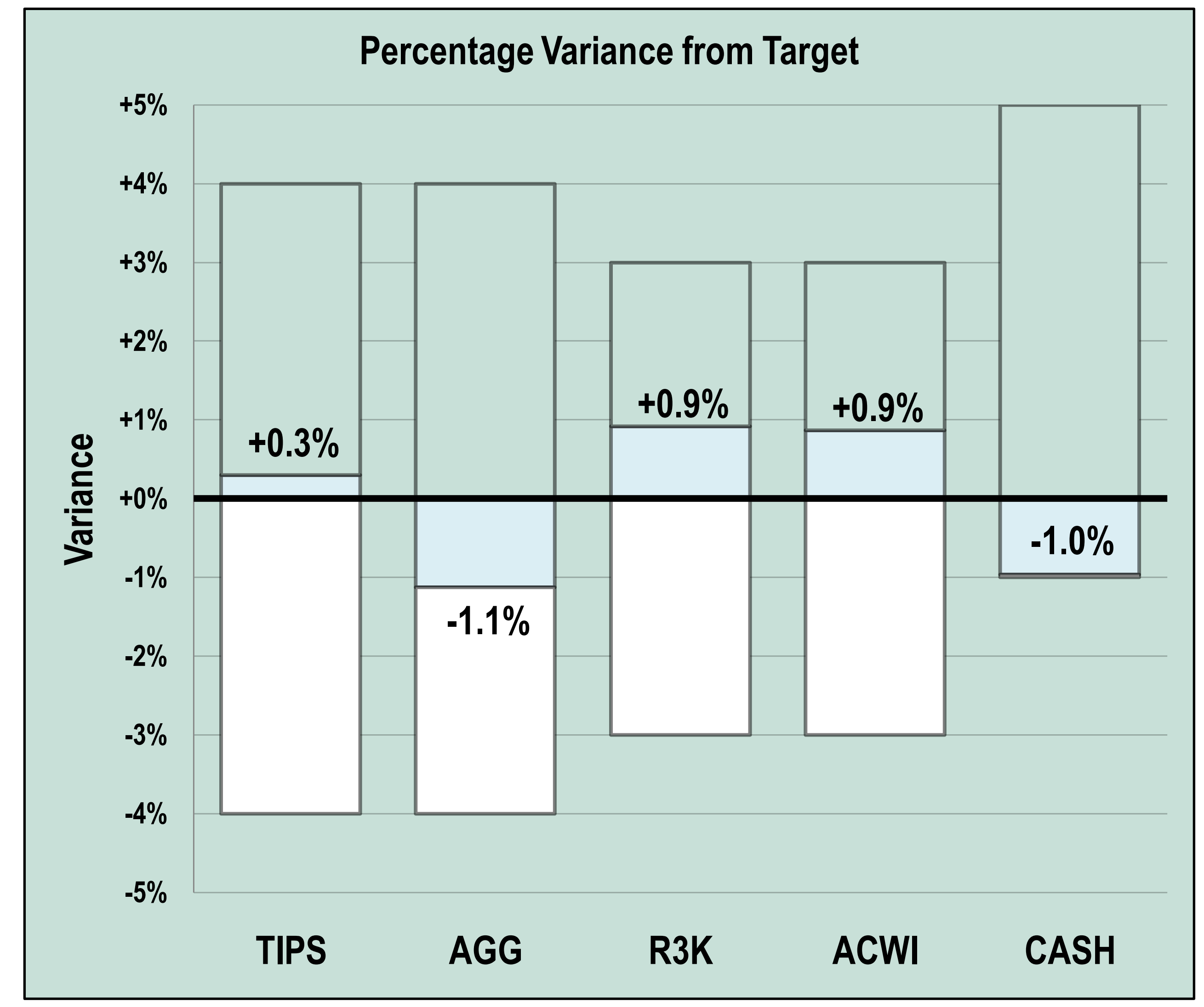



| Disabled Workers' Relief Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| TIPS | $ 458,799 | 34.5% | 35% | 31% — 39% |
| Aggregate | $ 435,231 | 32.7% | 34% | 30% — 38% |
| Russell 3000 | $ 292,186 | 22.0% | 20% | 17% — 23% |
| MSCI ACWI ex-U.S. | $ 144,556 | 10.9% | 10% | 7% — 13% |
| Net Cash & Cash Equivalents | $ 242 | 0.0% | 1% | 0% — 6% |

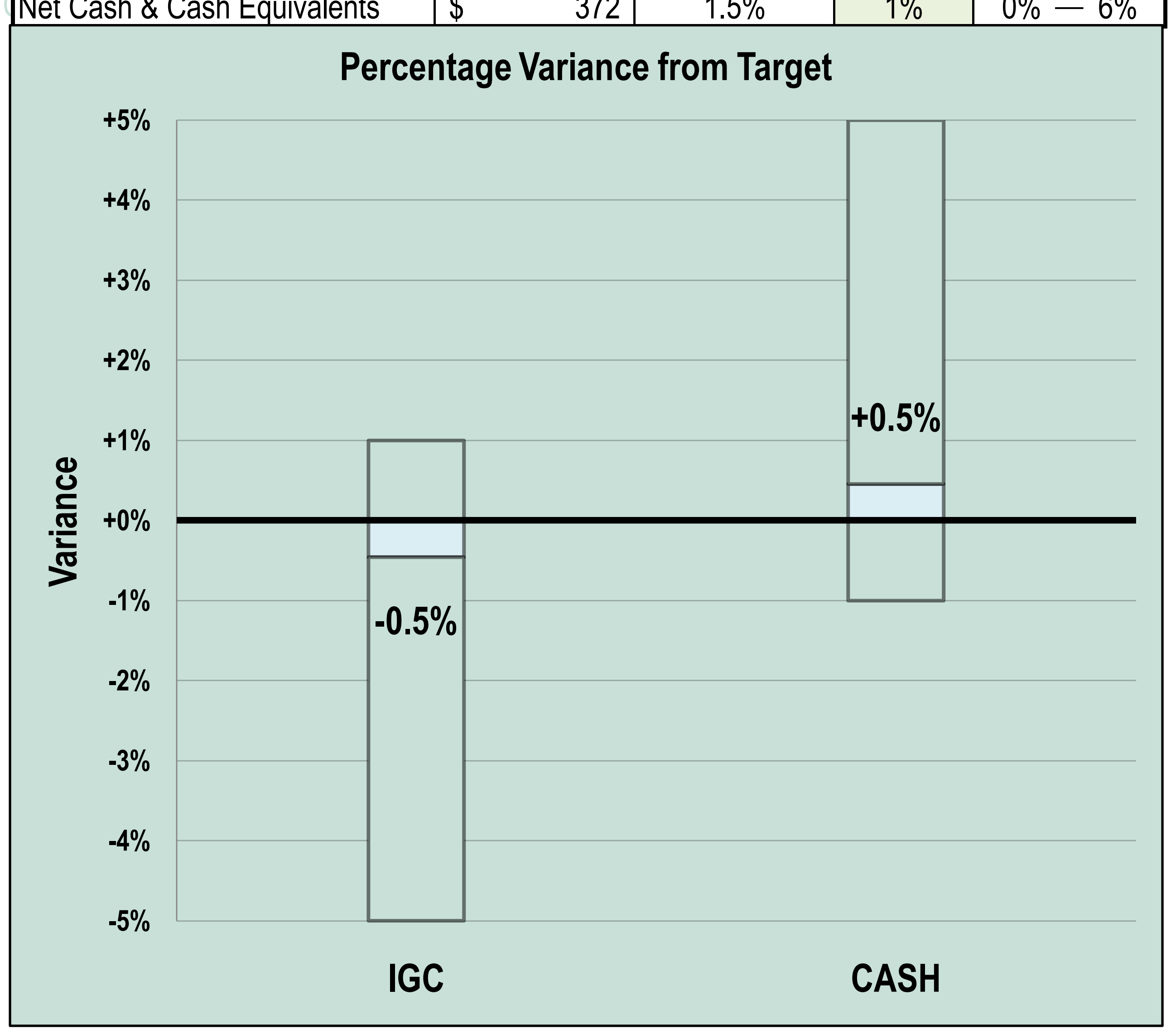
SP500
CASH



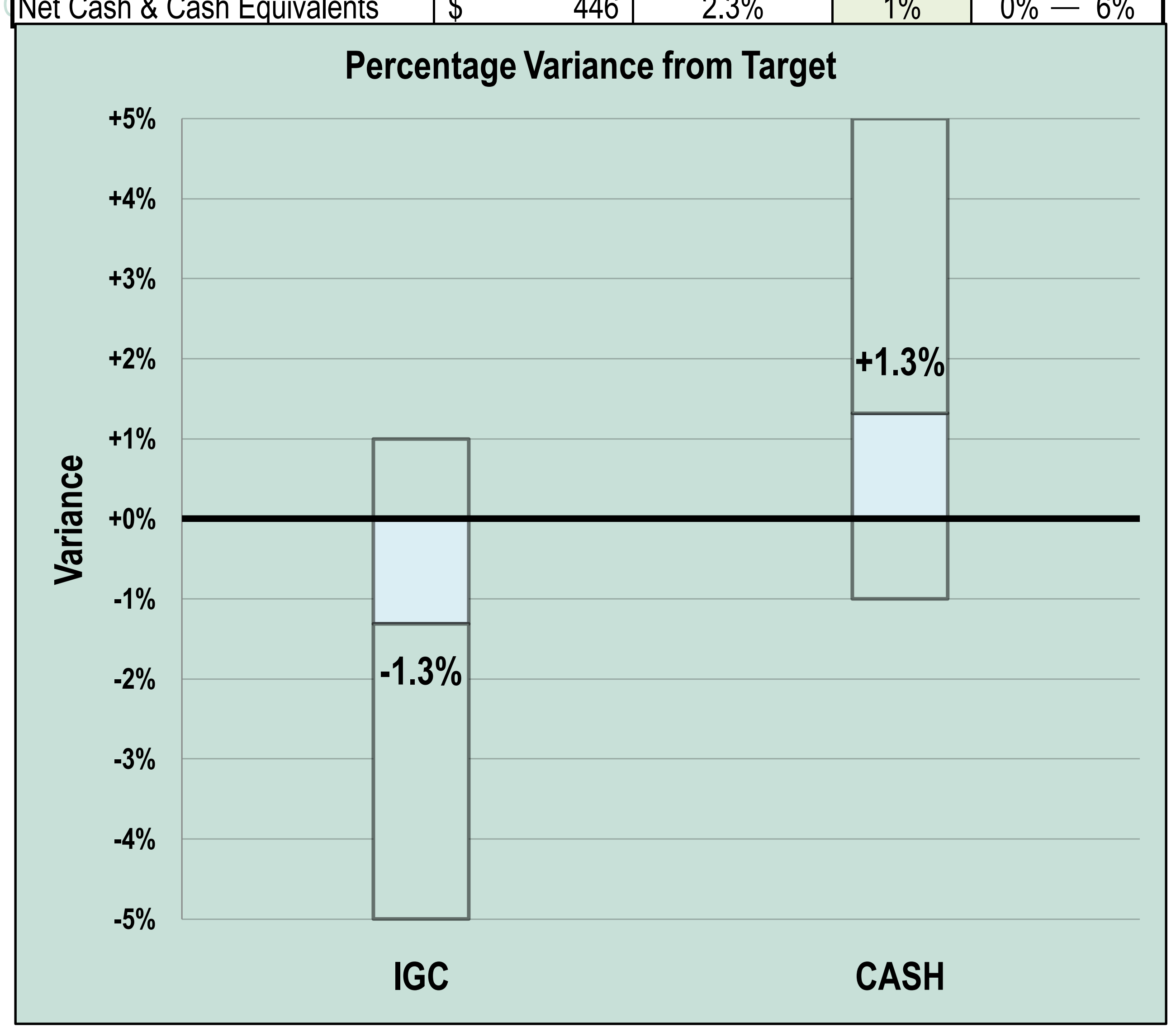

| Coal Workers' Pneumoconiosis Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| TIPS | $ 109,291 | 39.3% | 39% | 35% — 43% |
| Aggregate | $ 108,100 | 38.9% | 40% | 36% — 44% |
| Russell 3000 | $ 38,699 | 13.9% | 13% | 10% — 16% |
| MSCI ACWI ex-U.S. | $ 21,886 | 7.9% | 7% | 4% — 10% |
| Net Cash & Cash Equivalents | $ 101 | 0.0% | 1% | 0% — 6% |




| Public Work-Relief Employees' Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| Intermediate Gov/Credit | $ 25,181 | 98.5% | 99% | 94% — 100% |
| Net Cash & Cash Equivalents | $ 372 | 1.5% | 1% | 0% — 6% |




| Marine Industry Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| Intermediate Gov/Credit | $ 18,814 | 97.7% | 99% | 94% — 100% |
| Net Cash & Cash Equivalents | $ 446 | 2.3% | 1% | 0% — 6% |




| Self Insured Employers Guarantee Fund | | | | |
|---|---|---|---|---|
| Asset Class | Market Value | Actual | Target | Range |
| Net Cash & Cash Equivalents | $ 47,881 | 100% | 100% | N/A |

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

**_INVESTMENT DIVISION_**

TO: Stephen Buehrer, Administrator/CEO
BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: February 15, 2011

SUBJECT: CIO Report December 2010/January 2011

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## 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 was 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. The CIO presented at the November, 2010 Investment Committee meeting an estimated timetable for the various necessary steps to be addressed with the Investment Committee for the implementation of each of these seven potential new strategies. These steps include appropriate education, leading to IPS revisions then leading RFP issuance approval in turn leading to RFP finalists recommendations for each recommended new strategy.

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 in order to improve investment income and returns on its cash investments while maintaining desired liquidity. In addition, the Investment Division is 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.

**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.

**Investment Consultant RFP Update**

A Request for Proposals (RFP) for a Full Service Investment Consultant was issued by BWC as scheduled on November 16, 2010. The BWC Board of Directors provided BWC staff the approval to issue this important RFP at its October 22, 2010 meeting.

This RFP is accessible from the Ohio Department of Administrative Services procurement website and a link to this website is available from the BWC website ohiobwc.com. This RFP was advertised in both the November 15 and November 29 dated publications of Pensions & Investments, a widely read publication of the investment management and investment consulting community. BWC received eight respondent submissions to this RFP on the RFP submission due date of January 20, 2011. The RFP Evaluation Committee is currently proceeding with the evaluation process towards the selection of a Finalist investment consulting firm. It is anticipated that a new Finalist investment consultant will be selected by the RFP Evaluation Committee and will be recommended for consideration by the Investment Committee and Board at their respective March, 2011 meetings.

## Investment Asset Redemptions

The Investment Division developed and executed an asset redemption strategy between late November, 2010 and early January, 2011 for the purpose of providing cash for operations of the State Insurance Fund. This strategy was developed by the CIO in collaboration with the Fiscal and Planning Division who supplied necessary information, including estimated weekly future cash balance projections. The period of December through most of January is historically a cyclical period of significantly declining cash balances for the State Insurance Fund whereby expenses paid materially exceed premium revenue. Such trend typically reverses itself by the end of January and into February each year as premium collections accelerate.

The SIF asset redemption strategy developed by the CIO had three purposes: (a) raise sufficient cash to adequately fund payments; (b) minimize investment transaction costs; and (c) opportunistically rebalance the portfolio. A total of $175 million was redeemed from several SIF portfolios in three stages between the end of November, 2010 and early January, 2011. The CIO worked with each impacted portfolio manager so that sufficient advance notice of respective redemption amounts was provided to each portfolio manager for the purpose of minimizing related transaction costs.

The CIO focused on redeeming assets from portfolio asset classes that were most above their targeted asset class portfolio allocation reflected in the SIF investment policy. The two asset classes that were most above their respective target asset allocations, due largely to their respective strong relative performance compared to other SIF portfolio asset classes, were U.S. equities and long duration credit bonds. As a result, a total of $35 million was redeemed in early December, 2010 from the two long duration credit portfolios managed by State Street and BlackRock with an additional $30 million redeemed from both of these two portfolios in late December, 2010 and early January, 2011. This $65 million cash total redeemed from these two portfolios represented a portion of interest income earned during the months of November and December that was not reinvested by the portfolio managers at the end of each respective month.

The remaining $110 million of cash redeemed came from the Russell 3000 indexed portfolio managed by Northern Trust. The Northern Trust portfolio manager suggested December 17 would be an optimal date to sell securities from this SIF managed portfolio, given flows of funds from other Northern Trust clients that created both trade activity crossing opportunities and portfolio index rebalancing opportunities that reduce total trading costs. At the time of this redemption, the U.S. equity class at current market value was the SIF asset class most above its target allocation on a percentage basis at approximately 22.6% or 2.6% above its targeted 20% asset allocation and near the high end of its 17-23% asset allocation range. As a result, the CIO took advantage of the need to raise a significant amount of cash by rebalancing the SIF portfolio closer to asset class target allocations with this action. The sale of equity assets from this Northern Trust managed portfolio in December provided a realized gain of $15.4 million for the SIF portfolio.

In addition, $6.6 million of invested assets were redeemed for cash from the Disabled Workers Fund (DWRF) and $1.0 million of invested assets were redeemed for cash from the Coal Workers Fund (BLF) on January 24, 2011 in order to fund their respective impending operating needs. The decision was made by the CIO to redeem invested assets from the asset class most above its target asset allocation on a percentage basis for each of these two specialty funds. The asset class most above its targeted allocation at market value on a percentage basis per the investment policy was the U.S. equity portfolio indexed to the Russell 3000 index benchmark at the time the redemption decision was made by the CIO. This asset class has had the best relative performance of the four equity or bond asset classes represented in the portfolio for each of these two specialty funds from the time all invested assets of both funds were transitioned from separate account managers to commingled account managers in August, 2010. At the time of this redemption decision made by the CIO, the Russell 3000 indexed commingled fund was 2.4% above its 20% ownership allocation target for DWRF and 1.2% above its 13% ownership target for BLF. The only other asset class above its target allocation for these funds was non-U.S. equities at less than 1% above its respective ownership targets. These redemptions executed resulted in a realized capital gain of $1.26 million for DWRF and $0.19 million for BLF (both sold at 23.6% above cost over a holding period of less than five months).

## Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of each of December, 2010 and January, 2011.

**<u>Quarterly Investment Manager Meetings Summary</u>** (Third Quarter 2010)

**<u>Northern Trust</u>**
(Passive All Cap U.S. Equity; Passive Large Cap U.S. Equity)

The BWC CIO, BWC Director of Investments and former BWC Investment Committee Vice Chair Alison Falls met with many representatives of Northern Trust during meetings held on November 5, 2010 at their headquarters offices in Chicago. Also participating in these meetings on-site in Chicago were the three members of the Mercer investment consulting team servicing the Bureau. The remaining BWC investment staff in Columbus participated in the 3Q2010 quarterly OIM portion of these meetings with Northern Trust via conference call.

Northern Trust reported 3Q2010 net income of $156 million compared with net income of $188 million in 3Q2009 and $200 million in 2Q2010. The decline in earnings is attributable primarily to a decline in securities lending revenue and very low short-term interest rates whereby Northern Trust subsidized many money market funds it managed by waiving management fees. Assets under custody increased by 10% to $3.9 trillion and assets under management increased 8% to $657 billion as of 9/30/10 compared to 9/30/09.

The Northern Trust senior investment strategist indicated that institutional investors are seeking more risk efficient and cost effective strategies to gain market exposures after the recent market turmoil whereby downside protection and risk controls were challenged. This has led to movements by some institutions to a portion of their assets being managed passively rather than actively to the benefit of Northern Trust. This trend has been very noticeable in employer-sponsored defined contribution benefit plans offered that are demanding low cost market exposure products. The strategist indicated a persistent trend is continuing by U.S. pension fund clients to reduce their home country bias and increase equity asset allocations especially towards non-U.S. emerging markets and global small cap strategies.

A total of $2.44 billion market value of Russell 3000 indexed stocks owned in a SIF transition account were transferred in-kind at the end of May, 2010 to Northern Trust as a new separate account indexed manager for this mandate. As a result, the third quarter of 2010 was the first full quarter of performance for this SIF Russell 3000 indexed domestic equity portfolio. Northern Trust reported that this managed SIF portfolio had a return of 11.46% for 3Q2010 compared to the Russell 3000 benchmark index return of 11.53%. The underperformance of the managed portfolio to the index is largely attributable to cash drag representing 4-5 basis points. In a period such as 3Q2010 when the market appreciates in value significantly, any cash retained in the portfolio detracts from performance. The NT portfolio manager typically targets a 10-20 basis point average cash position before justifying rebalancing and dividend reinvestment trading activity, since the portfolio manager is not currently permitted by BWC to employ derivatives to substantially offset average cash positions. The SIF portfolio managed by Northern Trust owned 2,442 of the 2,955 equity holdings of the Russell 3000 index as of 9/30/10.

The S&P 500 non-lending commingled fund managed by Northern Trust for DWRF and BLF assets had a return of 7.01% compared to the 7.01% of the S&P 500 benchmark for the month of July, 2010 as reported by custodian JPMorgan. All units owned by DWRF and BLF in this commingled fund were subsequently redeemed on the first business day of August, 2010 in exchange for in-kind securities transferred into new respective transition accounts that positioned these portfolios for their respective large transitions executed in August, 2010.

Discussion occurred with the NT global director of equity index management about strategies employed on stocks already in the Russell 3000 index that may be added to the S&P 500 index as well as for Russell 3000 Initial Public Offering additions to that index that occur every quarter. The NT global index team has directed much research to studying trading patterns of additions of names to the S&P 500 index that can benefit their managed Russell index portfolios. Interesting statistics mentioned by the NT equity index team are that 11% of shares of stocks of the S&P 500 are owned by indexers, whereas 4% of shares of the Russell 1000 index (large cap & mid cap) and 10% of shares of the Russell 2000 index (small cap) are owned by indexers.

After the conference call on the quarterly fund portfolio review concluded, additional meetings were held by the BWC representatives on-site with additional representatives of Northern Trust on its Emerging Manager program and global markets outlook. Northern Trust offers fund-of-funds for emerging managers, hedge funds and private equity. The firm has been involved with emerging managers since 1993 and $3.2 billion is currently under management in dedicated emerging manager programs for 12 clients. Most mandates are benchmarked to equity indexes, with the largest being the Russell 3000 index representing about 60% of total assets managed. Approximately 40% of NT's emerging markets programs are exclusively represented by MWBE managers. Northern Trust also discussed in some detail their due diligence process for selecting and reviewing emerging managers.

A presentation was made by Jim McDonald, chief investment strategist of Northern Trust. Mr. McDonald's viewpoint is that the Fed's quantitative easing program is positive for the stock market, will cause the U.S. dollar to weaken and allow interest rates to remain low. Banks are now willing to lend because of their own strengthened capital positions but demand for loans remains weak. Mr. McDonald believes that any significant increase in interest rates will be driven by economic growth and consequent inflation, not by the added supply of money. Global growth will occur away from the U.S. and Europe with emerging markets remaining attractive investment opportunities as emerging market stocks have similar P/E ratios to developed global markets and debt levels on average of emerging market countries are at one-third the level of developed market countries.

**BlackRock**

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

The BWC investment staff as well as former Administrator Ryan met with the BWC BlackRock primary relationship manager, a BlackRock fixed income strategist (Chris Woida) and a BlackRock international equities strategist (Marco Merz) on November 8, 2010 at the Investment Division offices.

The senior relationship manager indicated that BlackRock has introduced a new software system that can better organize portfolio data for clients and that the improved quarterly account review client book distributed at the meeting reflects this new system. Total assets under management at

BlackRock totaled $3.45 trillion as of 9/30/10 (up from $3.15 trillion on 6/30/10). The quantitative or scientific actively managed equity business has been the most challenged of the asset management segments of BlackRock due to poor recent relative performance to benchmarks with $100 billion under management now compared to $250-300 billion several years ago. A new CIO for that quant equity business was appointed over the summer. BlackRock is aggressively marketing alternative asset products which now total over $100 billion under management which includes many different proprietary alpha strategies (hedge funds), real estate and private equity.

With respect to the SIF fixed income portfolios under BlackRock management, BlackRock reported that the SIF separate account Long Government portfolio returned 5.24% over 3Q2010 versus 5.26% for the benchmark index and that the SIF separate account Long Credit portfolio returned 6.36% versus the 6.33% benchmark return for 3Q2010. The slight outperformance of the SIF Long Credit portfolio was attributable to favorable performance of the industrial credit sampled portfolio versus the benchmark index industrials composition which represents approximately 50% of the benchmark index market value. The SIF Long Credit portfolio owned 831 issues or approximately two-thirds of the 1,260 issues in the benchmark index on 9/30/10. The vibrancy of the new issue market for long maturity credits during 3Q2010 and its strong appetite by both investors and issuers willing to accommodate investor demand is evidenced by the fact that the number of issues in the benchmark index increased from 1,158 issues on 6/30/10 to 1,260 on 9/30/10. The year 2010 is likely to be a record year for new issuance of long duration corporate credit and certainly a record year for long duration taxable Build America Bonds which are municipal credits.

BlackRock currently projects expected annual tracking error for the SIF separate account Long Government and Long Credit portfolios it manages to be 3 and 11 basis points, respectively. With the bifurcation of the SIF Long Government Credit portfolio having occurred in the third quarter of 2009, there are now a full twelve months of performance data of these two separated portfolios for the period ended 9/30/10. As reported by BlackRock, the gross annual return (before management fees) of the SIF Long Government portfolio was 12.81% versus the benchmark return of 12.83% for a tracking error of 0.02% (2 basis points) over the twelve month period ended 9/30/10. BlackRock reported the gross annual returns of the SIF Long Credit portfolio over this same period to be 13.83% compared to the benchmark return of 14.08% for a tracking error of -0.25% or 25 basis points.

BlackRock reported the SIF separate account TIPS portfolio returned 2.49% for 3Q2010 versus the benchmark index return of 2.48%. The BlackRock strategist indicated inflation expectations in the marketplace have increased significantly beginning in September, 2010 with discussion of a second quantitative easing by the Federal Reserve and a Federal Open Market Committee statement that focused on inflation being below acceptable levels. As a consequence, breakeven yield spreads between TIPS and nominal Treasuries for both 10 year and 30 year maturities have increased significantly in September and October from their lows for the year in August. The Barclays Index Advisory Council discussed the possibility of adding inflation-linked bonds to the large core Barclays Aggregate Bond Index but it was rejected once again.

The BlackRock international equities strategist indicated there are two major trends presently observed in the international equity marketplace, namely a continued reduction in home country equity investing by U.S. institutions towards non-U.S. equities and a movement to small cap non-U.S. stocks not represented in the ACWI ex-U.S. index. Emerging market stocks now comprise 23% of the market weighting of the ACWI ex-U.S. benchmark index compared to 17% at the inception in

August 2009 when the SIF portfolio commenced investment exposure to this broad non-U.S. equity benchmark index.

BlackRock reported the SIF ACWI ex-U.S. indexed commingled non-lendable “B” fund had a gross return of 16.53% for 3Q2010 versus the benchmark index return of 16.58%. This commingled fund has a strategy of fully replicating the benchmark index which had 1,819 issues on 9/30/10. The very high index return of 16.58% for 3Q2010 was comprised of 8.56% return from the cumulative local markets and 8.02% from local currency contributions that collectively appreciated in foreign exchange value versus the weakening U.S. dollar. The foreign currency exchange rates contributed significantly to achieving this very large third quarter 2010 return.

The DWRF and BLF transition activity directed towards achieving its new asset allocation targets occurred in August, 2010. A targeted 10% of DWRF invested assets and 7% of BLF invested assets were invested in the BlackRock ACWI ex-U.S. indexed commingled non-lendable “B” fund that SIF owns. For the first full month of performance for September 2010, this commingled fund returned 9.93% for both BWC speciality funds compared to the benchmark index return of 9.95%.

**State Street Global Advisors**

(Passive Long Credit Fixed Income; Passive Long Government/Credit Fixed Income; Passive U.S. Aggregate Fixed Income; Passive Intermediate Duration Government/Credit Fixed Income; Passive TIPS Fixed Income; Passive All Cap U.S. Equity)

The BWC CIO, BWC Director of Investments and former BWC Investment Committee Vice Chair Alison Falls met with many representatives of State Street Global Advisors (SSGA) during meetings held on November 9, 2010 at their headquarters offices in Boston. Also participating in these meetings on-site in Boston was Jordan Nault of the Mercer investment consulting team servicing the Bureau. The remaining BWC investment staff in Columbus participated in the 3Q2010 quarterly OIM portion of these meetings with SSGA via conference call.

Several SSGA personal changes were addressed at the beginning of the quarterly OIM meeting. Mark Marinella, Global Fixed Income CIO, recently left SSGA and has been replaced by Kevin Anderson who is based in London. Mr. Anderson joined SSGA in 2001 and was previously Global Head of Fixed Income Beta Solutions. The SSGA passive index fixed income management team is largely unaffected by this top level management change. Mr. Marinella had largely completed his mission of restoring and stabilizing active fixed income platforms offered by SSGA during his three-year tenure at SSGA. Another very recent departure from the SSGA fixed income was James Mauro who was a government bond and MBS fixed income strategist and portfolio manager who had some direct involvement with BWC TIPS portfolios under management. Mr. Mauro will be assuming a similar position with BlackRock in San Francisco. It was subsequently learned recently that Mr. Mauro will have oversight responsibilities for the management of the SIF TIPS and Long Government portfolios currently being managed by BlackRock. The BWC investment staff has been very satisfied with Marc Touchette as SSGA portfolio manager for the TIPS portfolios.

SSGA had slightly over $1.90 trillion in assets under management as of 9/30/10 compared to $1.78 trillion on 6/30/10. Virtually all growth in AUM in 3Q10 came from passive management which totalled $1.348 billion in AUM on 9/30/10, with active strategies and enhanced index strategies representing $104 billion and cash assets under management of $451 billion. The equity/fixed income split for passive assets under management was 64/36 on 9/30/10. Over 60% of clients have two or more strategies under SSGA management with 82% of new business coming from existing clients. Recent trends of client demand seen by SSGA include growing interest in world inflation-protected products, more interest by institutions utilizing exchange traded funds for in-house portfolio rebalancing management, and increasing allocations towards real assets and private equity by public funds. The trend moving to more passive fixed income investment management by institutions early in the year has abated recently.

Discussions then focused on operations. SSGA has been building an improved attribution model for eight months and data from this effort is now reflected in client portfolio update presentations beginning with this 3Q2010 meeting. The SSGA fixed income team had become dissatisfied with Barclays index pricing on ABS and CMBS issues (represented in the BarCap U.S. Aggregate benchmarked portfolios managed for BWC) and has shifted to Interactive Data pricing which is the pricing source largely used by both BNY Mellon as BWC accounting vendor and JPMorgan Chase Bank as BWC sub-custodian.

With the addition of three commingled accounts (TIPS, U.S. Aggregate, Russell 3000) under management for each of the DWRF and BLF portfolios during 3Q2010 to replace four separate accounts (Long Govt/Credit and TIPS for each) to complete the DWRF and BLF transition activity to new portfolio target asset allocation, SSGA now manages a total of three separate accounts for SIF and four different commingled funds for each of two BWC specialty funds for a total of eleven different portfolio accounts. The total market value of assets under SSGA management for BWC was slightly in excess of $9 billion on 9/30/10.

SSGA reported that the large ($4.1 billion) separate account SIF Long Credit portfolio had a gross return of 6.35% for 3Q10 compared to the benchmark index return of 6.33%. The slight excess return was attributable to positive security selection sampling returns in the industrial credit sector. With the bifurcation in July, 2009 of the previously combined SIF Long Government/Credit portfolio managed by SSGA into separate account managed Long Credit and Long Government portfolios, there is now a full twelve-month performance history of the SIF Long Credit portfolio managed by SSGA for the period ending 9/30/10. As reported by SSGA, the gross annual return of this portfolio was 13.71% compared to the benchmark return of 14.08% for this twelve-month period for a tracking error of -0.37% or 37 basis points. The BarCap Long Credit index is a very challenging benchmark index for an index manager to achieve low tracking error, especially when the new issue volume is very high at both ends of the 10-year and 30-year maturity spectrum which was the case over this one-year period. Many issues are being added and removed from the index each quarter and index sampling techniques cause added tracking error.

SSGA reported that the separate account SIF U.S. Aggregate fixed income portfolio had a gross return of 2.45% for 3Q10 compared to the benchmark return of 2.48%. This slight underperformance was largely attributable to the sampled CMBS portfolio held which was of higher average quality than the benchmark index representation during a quarter where lower quality issues in the CMBS segment of the index significantly outperformed higher quality CMBS issues in the index. The portfolio managers have successfully completed their strategy goal of reducing MBS TBA positions in the portfolio by buying specific targeted MBS pools. Only 1% of the MBS portfolio is comprised of TBA’s. With the dearth of issuance in 2010 of new MBS pools by Fannie Mae and Freddie Mac combined with the large issuance of Treasuries, corporates and municipal Build America Bonds, the

weighting of the U.S. Aggregate benchmark index allocated to residential MBS pools is now 33% as compared to 39% at the end of 2009.
SSGA reported that the separate account SIF TIPS portfolio had a total gross return of 2.49% for 3Q10 which closely matched the 2.48% benchmark quarterly return. The TIPS portfolio manager indicated there have been eight TIPS auctions to date in 2010 and expects 12 auctions in 2011. The aggregate supply of new TIPS issues resulting from these auctions is increasing significantly from $40 billion in 2009 to a projected $80 million in 2010 and a projected $120 billion for 2011. The TIPS portfolio manager has had to undertake more frequent monthly rebalancing actions with these more frequent auctions to maintain full replication of managed indexed TIPS portfolios to the benchmark index.

The two smaller specialty funds (Public Work-Relief Employers' Fund and Marine Industry Fund) investment in the commingled Intermediate Duration Government/Credit Fixed Income Fund managed by SSGA had a gross return of 2.73% for 3Q10 compared to the benchmark return of 2.76%. As mentioned earlier, both the DWRF and BLF speciality funds started and completed portfolio transition activities in August, 2010 that resulted in investments in State Street managed passive indexed commingled funds for each of U.S. TIPS, U.S. Aggregate Fixed Income and Russell 3000 indexed mandates. One-month performance results for September, 2010 had acceptable narrow tracking error to the respective benchmark indexes.

With respect to the Russell 3000 domestic equity mandate now managed by SSGA for DWRF and BLF, Lynn Blake will be succeeding Paul Braake as head of passive equity investing at SSGA. Mr. Braake will be retiring at the end of 2010. Ms. Blake has over twenty years of experience with SSGA and had been responsible for all non-U.S. equity index strategies at SSGA. Ms. Blake indicated that net new passive equity assets under management have grown by $200 billion over the past 2 ½ years to $726 billion on 9/30/10 which is higher growth than any competitor. Approximately $50 billion of passive indexed assets are currently managed to the Russell 3000 benchmark by SSGA with the non-ERISA, non-lending commingled fund of DWRF and BLF having $6 billion under management.

After the conclusion of this quarterly meeting on the BWC managed portfolios, the BWC representatives on-site had meetings with the SSGA CEO (Scott Powers), SSGA Chief Risk Officer, SSGA Chief Compliance Officer, new Global Fixed Income CIO (Kevin Anderson), and other SSGA representatives of both active fixed income and active equity management. Much was learned from each of these meetings. It was very clear that SSGA has emphasized the reduction and vigilance of operational risk, counterparty risk and client full disclosure of portfolio risks under the leadership of CEO Scott Powers and his risk and compliance team. With respect to active management, SSGA offers a variety of quantitative related strategies for active equity management and customized oriented strategies for clients regarding active fixed income management. The BWC on-site representatives received an introductory overview by SSGA on these portfolio management strategies.

**Mellon Capital Management**
(Passive All Cap U.S. Equity)

The BWC investment staff met with two relationship managers of Mellon Capital Management (MCM) on November 12, 2010 at the Investment Division offices. The group heard via conference call from the MCM Managing Director, Equity Indexing Strategies (Karen Wong) and a MCM global investment strategist (Jonathan Xiong).

Curtis Arledge, a former senior-level fixed income executive with Black Rock, started his position as CEO of BNY Asset Management on November 1, 2010, replacing Ron O'Hanley who recently joined Fidelity Investments. Charles Jacklin, CEO of MCM, now reports directly to Mr. Arledge as he had to Mr. O'Hanley.

A total of $1.046 billion market value of Russell 3000 indexed stocks owned in a SIF transition account were transferred in-kind at the end of May, 2010 to MCM as a new separate account indexed manager for this mandate. As a result, the third quarter of 2010 was the first full quarter of performance for this SIF Russell 3000 indexed domestic equity portfolio. MCM reported that the Russell 3000 indexed separate account SIF portfolio had a return of 11.51% for 3Q2010 compared to the Russell 3000 benchmark index return of 11.53%. The performance drag of cash held in this very strong positive performance period accounted for all of the 2 basis point tracking error. A total of 2,432 stock positions out of 2,955 total benchmark index issues were owned in the SIF portfolio on 9/30/10. All key portfolio characteristics of the benchmark such as P/E ratio, dividend yield, beta, ROE, etc., were very closely replicated in the SIF portfolio. The 523 index names not owned represent Russell 2000 index small cap names where the portfolio manager could substitute with overweights of other small cap names held to replicate the benchmark. MCM constantly weighs the transaction costs of accumulating small cap names with representative substitutes of other names in order to keep trading costs to a minimum. Trading turnover was quite low in 3Q10 after the large Russell reconstitution event occurring in June, 2010. Much turnover was driven by corporate actions.

The MCM global investment strategist indicated that the recently announced Quantitative Easing II program is designed by the Fed to provide liquidity and lift inflation expectations, encouraging consumption and economic activity. The Fed wants banks to be incentivized to lend funds rather than buy securities. Equities are expected to benefit from quantitative easing. Fed Quantitative Easing has resulted in the U.S. Equity risk premium (equity expected returns minus fixed income expected returns) now being at 30 year highs. MCM expects equity returns will be driven more by earnings growth rather than by P/E expansion. At the present time, MCM believes U.S. sovereign nominal debt is the least attractive asset class. Commodity currencies and emerging markets currencies will benefit from Quantitative Easing as commodity pricing will increase from dollar devaluation and capital investment flows. The strong equity performance in 2010 from emerging market equities has been driven by impressive earnings growth, not P/E expansion.

DATE: January 12, 2011

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Chief Investment Officer Investment Policy Recommendation**
**Long Duration Credit Fixed Income Active Management**
**State Insurance Fund**

## BACKGROUND

The BWC Investment Committee and Board of Directors in May, 2009 approved the recommendation of the CIO to split the 37% targeted asset allocation benchmark index for passive indexed managed long duration bonds of the State Insurance Fund (SIF) portfolio into two separate benchmark indexes. The former Barclays Capital U.S. Long Government/Credit Index was split into its two key sector component indexes, the Barclays Capital U.S. Long Government index and the Barclays Capital U.S. Long Credit index. At the time of this approved benchmark split, each of these two component indexes represented approximately 50% of the total market value weighting of the combined Long Government/Credit index. However, the CIO recommended and the Board of Directors approved a new target asset allocation weighting of **28%** towards the Long Credit index and **9%** towards the Long Government index. This asset allocation favored Long Credit bonds over Long Government bonds by slightly over a three times higher asset allocation weighting. This benchmark action was taken for the SIF portfolio to achieve a significant increase in interest income (approximately $50 million annually at time of action) and consequent higher bond portfolio yield (0.88% higher for long duration bond portfolio at time of action) as well as to achieve a more diversified portfolio with less exposure and dependence on lower yielding U.S. Treasury bonds. The reallocation of SIF long duration bond assets occurred over the months of July and August, 2009 whereby a total of approximately $4.88 billion at market value was invested in Long Credit bonds and $1.71 billion was invested in Long Government bonds on 8/31/09. The Long Credit portfolio has since increased in total market to approximately $5.45 billion on 12/31/10 divided between two large passive indexed managers, State Street ($3.9 billion) and BlackRock ($1.55 billion).

Over the course of calendar year 2010 beginning in May and continuing in September, the CIO has provided recommendations to the Investment Committee regarding certain specific asset class mandates represented in the SIF portfolio that would be suitable for active investment management in his opinion. The BWC investment consulting team of Mercer has led Investment Committee meeting education and discussion on the topic of active investment management. In the opinion of the CIO, Mercer has provided outstanding background and market information on this topic as well as their perspectives based on experiences. In the past two Investment Committee meetings of November and

December 2010, Mercer has presented very useful and specific information applicable to active management of long duration credit fixed income assets that has solidified the opinion and recommendation of the CIO regarding the appropriateness and importance of having active management of long duration credit fixed income portfolios for the Bureau.

## RECOMMENDATION RATIONALE

Long Duration Credit Fixed Income represents the largest SIF portfolio asset class mandate at a current 28% target investment policy asset allocation. The CIO strongly believes that Long Duration Credit Fixed Income is a compelling asset class for active management. This position favoring active management for this asset class is based on a combination of:

(a) many opportunities that exist for a skillful active manager to add incremental returns above the benchmark;
(b) ability of an active manager to control/reduce credit risk;
(c) empirical evidence and performance results of the Mercer active manager database;
(d) portfolio management challenges/difficulties and consequent tolerable benchmark index tracking error of the two very skilled SIF passive index managers with respect to attempting to match the returns of the benchmark index.

The composition of the Barclays Capital (BarCap) U.S. Long Credit benchmark index affords the experienced and skillful active investment manager a number of ways to deliver excess return or "alpha" to this benchmark index through high quality in-depth fundamental credit research. As illustrated in the table provided in this memorandum, the benchmark index on 12/31/10 consisted of 1,343 issues with a concentration on "A" and "BBB" rated credits, each representing approximately 40% of the weighted market value of the index. Corporate credits, both U.S. and Non-U.S., comprise almost 80% of the current benchmark index at weighted market value. The fast growing U.S. taxable municipal bond sector which includes popular Build America Bonds, foreign sovereign debt, foreign agency/local government debt, and supranational debt together comprise the remaining 21% of the index at weighted market value.

Skilled active fixed income credit management firms have the resources and experienced staff to conduct extensive in-depth fundamental credit research on most or all credit names in the benchmark index with the objective of over/underweighting respective credits based on their relative credit strength and market value yield versus alternative ownership opportunities. These credit management teams of top investment firms have access to extensive industry and company specific information as well as knowledge of and access to company senior management. In addition, a keen understanding of macroeconomic and industry sector trends allows the skilled credit manager to overweight/underweight the important asset sectors comprising the benchmark index to help deliver sought after alpha or excess portfolio return.

In the opinion of the CIO, a very important advantage that a knowledgeable research-oriented active credit fixed income manager has compared to a passive index manager is the ability to control and reduce risk exposure to significant individual issuer credit erosion by eliminating through sale or simply avoiding prominent deteriorating credits that can have material outsized negative impacts on portfolio returns. In contrast to an active manager, a passive index portfolio manager must hold and retain in its portfolios 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 index manager cannot defensively reduce credit risk like active managers to limit or avoid significant loss in value. The passive index manager is forced to 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. In fact, experience has shown that among the worse times to sell bonds that have just declined to junk credit status from investment grade quality is right after such downgrades occur because both indexers and many institutional holders of such debt issues are required to immediately sell due to investment guideline restrictions which further damages value.

This important difference in management style between astute active bond credit managers and passive index bond managers towards controlling and managing individual issue credit and portfolio risk cannot be overemphasized in the judgement of the CIO. Previous notable deteriorating credit examples represented prominently in the benchmark index such as Enron, WorldCom and in more recent years Lehman Brothers, Bear Stearns, AIG, Citicorp, General Motors and Ford have significantly negatively impacted the overall benchmark index return. Reducing, eliminating or avoiding exposure to these types of credits affords the opportunity for an active well-managed portfolio that is closely monitored daily to have a significant return advantage over the rules constrained passive index managed portfolio.

As presented in prior meetings of the Investment Committee, the Mercer manager database for the U.S. Long Duration fixed income asset class shows the median active manager and Mercer highly rated “A/A-” 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 reported by Mercer. As provided in the November, 2010 meeting of the Investment Committee, Mercer presented a median rolling three-year excess return for active long duration credit managers in its manager database of 1.08% per annum above the benchmark index which exceeded by 0.86% the median annual management fee of 0.22% covering a period from late 2007 to 2010. Over the three-year period ended 6/30/10, the thirteen active long duration credit managers in the Mercer manager database had a median excess return of 1.2% above the benchmark index with a similar standard deviation of return as the benchmark index exhibited over this period. The median performance active manager information ratio was 0.7 and the upper quartile performance information ratio was 1.3, both representing strong ratios for an active management asset class. The information ratio is a measure of the skill of an investment manager and is defined as the ratio of excess returns to the benchmark index or alpha divided by the standard deviation or variability of these excess alpha returns. In summary, there is clearly empirical evidence that skillful active management of long duration credit can provide impressive excess returns to the benchmark index.

In the opinion of the CIO and supported by performance data from Mercer as well as both of the current BWC long duration credit passive index managers, the BarCap U.S. Long Credit index is the most difficult of all prominent U.S. investment grade fixed income indexes for a passive manager to match in total return performance. A passive indexed Long Credit manager faces many challenges in attempting to match performance of this benchmark index. A modified sampling security selection process must be employed as a number of index issues are either not available for purchase at acceptable prices due to their relative illiquidity or their transaction costs would be unacceptably high if required to purchase all issues in the index. In addition, many new issues with maturities slightly in excess of ten years in maturity are added to the index for only one or two months and then deleted from the index since their remaining maturity falls inside of ten years, the minimum maturity for inclusion in this long duration index. This index rule forces added transaction fees and consequently higher tracking error as well for the passive indexed manager. During periods such as the past several years when the new issuance market has been large and vibrant for long duration credit bonds, many new issues are added to the benchmark index each month. This then forces the passive index manager to add many of these issues to their managed indexed portfolios from purchases in the secondary market at higher than new issue price due to the demand/supply imbalance created at new issuance. For example, the number of total issues in the BarCap index has increased by over one-third between 4/30/09 (967 issues) and 12/31/10 (1,343 issues).

As a result of these index management challenges described, the acceptable or tolerable tracking error currently being represented by both current BWC Long Credit passive index managers is significantly higher than the tolerable tracking error for any of the other prominent investment-grade fixed income benchmarks and certainly higher than the other BWC fixed income benchmarks adopted and in use. For example, State Street Global Advisors (SSGA), as passive index manager of $3.9 billion of SIF long duration credit assets on 12/31/10, has a current expected annualized tracking error of performance return of 25-30 basis points or between 2 and 3 basis points per month gross of management fees. This compares to a lower 10-15 basis points expected annual tracking error for the separate account passive indexed U.S. Aggregate portfolio SSGA also manages for SIF. The expected tracking error is well within 10 basis points annually for a U.S. TIPS and U.S. Long Government benchmark indexed portfolio managed for SIF. The BlackRock passive indexed long duration credit portfolio managed for SIF ($1.55 billion on 12/31/10) has had a projected BlackRock annualized tracking error target of between 12-16 basis points for most of 2010 as represented by BlackRock.

With the bifurcation of the SIF Long Government/Credit portfolios managed by SSGA and BlackRock completed during the third quarter of 2009, the SIF portfolios had a full twelve months of performance results at the end of September, 2010. The SSGA managed passive indexed long credit portfolio had a total return of 13.71% gross of fees versus the benchmark index return of 14.08% or 37 basis points less than the benchmark for the period from 10/01/09 to 9/30/10. The BlackRock managed passive indexed SIF long credit portfolio provided a total return of 13.83% gross of fees or 25 basis points less than the benchmark index over this same period. When average annual management fees for this recent twelve-month period of 3.5 basis points for SSGA and 8.5 basis points for BlackRock are deducted from these returns, it is evident that even the two largest and best long credit indexed management firms in the world significantly underperformed the challenging benchmark index but yet were close to within their tolerable tracking error levels.

In summary, there is a significant expected future performance returns gap for this SIF asset class mandate between passive indexed managed portfolios that may underperform the benchmark index by upwards of 25 basis points or more after fees and an active managed portfolio historically capable of outperforming the benchmark index by at least 25 basis points or more after fees. Mercer in fact represented in its Investment Committee presentation last month that indicative estimated annual management fees for a $500 million to $1 billion active long credit management engagement are in the 14 to 16 basis point range and could even be negotiated lower. This estimated annual management fee differential of around 10 basis points or $1 million in incremental fees per $1 billion of assets under management for active versus passive management is competitive and attractive for this asset class mandate, given the anticipated long-term incremental gain in returns for the SIF portfolio. An incremental annualized increase in portfolio return of 50 basis points (0.50%) for an allocation shift of $3.7 billion or 20% of SIF assets from passive to active management would represent an increase in annualized investment income approaching $20 million. Actual recent performance of the top-tier active long duration credit managers suggest the possibility of higher annual incremental investment income exceeding 0.50% or $20 million for a 20% active management target allocation for this mandate.

## INVESTMENT POLICY RECOMMENDATION

The CIO recommends that a **targeted 20%** of total SIF investment assets be allocated to active management of long duration credit fixed income assets. The remaining 8% of SIF invested assets allocated to this mandate would remain under the passive indexed style of management. If this recommendation is approved, approximately $3.7 billion of long duration credit fixed income assets would theoretically be under active management based on 12/31/10 SIF invested assets of $18.5 billion at market value, with currently $1.75 billion of long duration credit fixed income assets remaining under passive indexed management.

Attached at the end of this memorandum of recommendation are specific proposed revisions to the BWC Statement of Investment Policy and Guidelines (IPS). These modifications are reflected in red.

Proposed **<u>Section IV.C.i</u>** of the IPS adds an investment manager diversification guideline pertinent to any specific identified active fixed income mandate whereby no single investment organization can manage more than 50% of any specific mandate on a prospective basis at the time it is hired under contract. The CIO believes it is important to select, through a rigorous RFP search process, several top-tier investment managers for any identified fixed income mandate where active management is warranted in order to both diversify active management styles and reduce organizational risk to the Bureau. The CIO has a current initial target of having three or four active long duration credit managers under contract in the management of separate account portfolios if a 20% SIF asset allocation target is approved by the Investment Committee and Board of Directors.

Proposed revisions of **Section <u>IV.C.ii</u>** of the IPS intend to state the general objectives and specific expectations for the management of both passive and active managed fixed income investment mandates. Active management of fixed income investment mandates can only be justified if the active manager has the directive to provide excess returns to an assigned benchmark while also being sensitive to controlling risk in a manner acceptable to BWC. The four complementary objectives specified for active managed long duration credit portfolios intend to set the overall tone of management style expected as well as specific rate of return expectations with a sensitivity to acceptable tracking error and dispersion of returns. The total performance return expectations stated of 0.25% above the benchmark index net-of-fees are consistent with proposed objectives for Long Credit active management presented by Mercer in its December 2010 presentation made to the Investment Committee last month.

It would be the intention to have specific investment management guidelines focusing on diversification rules by issuers, industry groups and credit quality in each respective investment management agreement with each active investment manager under contract. Such diversification guidelines would be discussed and agreed upon with each such investment manager so as to enable such manager the ability to implement and execute its management style to deliver excess performance returns yet be required to maintain sufficient diversification rules to reduce portfolio risk. Other typical investment guidelines as to acceptable and unacceptable investments would also be reflected in each investment management agreement.

Proposed **Section <u>VI.A</u>** of the IPS pertaining to the asset allocation table for SIF reflects the recommended addition of Active Long Duration Credit fixed income management as an asset class. Reflected in the revised asset allocation table are the new recommended asset allocation targets for both active and passive indexed managed long duration credit mandates, their target asset allocation ownership ranges and the recognition of the same benchmark for both mandates. The ownership range for each mandate is consistent with the ranges for other mandates with similar target asset allocation percentages.

# BARCLAYS CAPITAL
# U.S. LONG CREDIT INDEX

As of December 31, 2010

| **Portfolio Characteristics** | | **Ratings** | **(MV) %Index** |
|---|---|---|---|
| Number of Issues | 1,343 | Aaa | 2.75 |
| Avg. Maturity (Yrs) | 24.18 | Aa | 17.29 |
| Avg. Yield to Maturity (%) | 5.80 | A | 39.59 |
| Avg. Modified Adj Duration (Yrs) | 12.21 | Baa | 40.37 |
| Avg. Quality | A2/A3 | | 100.00% |

| **ASSET SECTOR** | **(MV) % Index** | |
|---|---|---|
| U.S. Taxable Municipals | 11.52 | |
| U.S. Corporates: | 65.98 | |
| Industrials | | 38.02% |
| Financials | | 15.98 |
| Utilities | | 11.98 |
| Non-U.S. Credits: | 22.50 | |
| Corporates | | 12.76% |
| Sovereigns | | 6.74 |
| Agency/Local Govt. | | 2.43 |
| Supranationals | | 0.57 |
| | 100.00% | |

Source: Barclays Capital Indices

# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: September 24, 2010

Amends Adoption of: March 26, 2010

**The Ohio Bureau of Workers' Compensation**
**Statement of Investment Policy and Guidelines**

# I. INVESTMENT OBJECTIVES

The primary investment objective is to manage assets to create and maintain a reasonable net asset position that has a high probability to meet identified long term liabilities. This net asset level will be achieved through an investment strategy that assumes a prudent amount of risk to earn sufficient returns to improve the level of net assets over time while keeping premium payments as reasonable and predictable as possible for the benefit of the injured workers and employers of Ohio.

# II. BACKGROUND

## A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and ~~Ancillary~~ Specialty Funds ("the Funds"). The Workers' Compensation Board of Directors ("Board") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the net assets and reserves of the Funds as required by Ohio Revised Code Section 4121.12(F).

> *The Board is required to establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. (O.R.C. 4121.12(F))*

## B. Fiduciary Standard

Under Ohio Revised Code Section (O.R.C.) 4123.44, the voting members of the Board, the Administrator of OBWC, and the Chief Investment Officer of the OBWC are trustees of the state insurance fund and fiduciaries of the Funds, which are held for the benefit of the injured workers and employers of Ohio.

> *All fiduciaries shall discharge their duties with respect to the Funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. (*O.R.C. 4123.44*)*

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the O.R.C. 4123.44 and any other applicable statutory or administrative rules.

xvi. Collect and review the current Form ADV, the document filed with the U.S. Securities and Exchange Commission to register as an investment advisor, of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the Board.

## C. Investments Managers' Responsibilities

Each Investment Manager shall:

i. Be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of 1940.

ii. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.

iii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Investment Management Agreement and the specific portfolio guidelines contained therein.

iv. Subject to any exceptions expressly set forth herein, Investment Managers shall be directly responsible for executing trades related to the portfolios they manage for the Funds. Investment Managers shall be responsible for seeking the best execution of trades. Any Broker used by any Investment Manager must be properly licensed.

v. Provide monthly performance evaluation reports that comply with the Global Investment Performance ~~Presentation~~ Standards (~~GPPS~~GIPS) issued by the CFA Institute.

vi. Provide the CIO with firm's Brokerage, Soft Dollar and Trade Execution Policy on an annual basis.

vii. Provide the CIO with a report on at least monthly basis on the trading activities of the Funds, including, but not limited to, the volume of trades and related commissions executed by each Broker.

viii. Provide the CIO with the firm's Ethics Policy and quarterly confirmation of its compliance with said policy.

ix. Provide the CIO with the firm's most recent Form ADV on an annual basis.

x. Comply with the Campaign Contribution Policy as set forth in the Ohio Revised Code (O.R.C.) Section 3517 and provide written evidence of such compliance on a quarterly basis.

xi. Promptly inform the CIO in writing of all changes of a material nature pertaining to the firm's organization and professional staff.

xii. If directed by the Administrator and/or the Chief Investment Officer, shall promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds. Each manager designated to vote shall provide OBWC with firm's proxy voting policy on an annual basis, keep detailed records of said voting of proxies and related action and comply with all regulatory obligations related thereto.

xiii. Report to the CIO on at least a quarterly basis on the status of the portfolio and its performance for various time periods and meet with the staff at least semi-annually to report on the economic outlook and compliance with goals and objectives.

xiv. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy.

# IV. INVESTMENT POLICY GUIDELINES

## A. Asset Allocation Guidelines

**The Funds are part of the Ohio Workers' Compensation System, an exclusive state insurance fund system that is held for the sole benefit of the injured workers and employers of Ohio.**

**Asset allocation** refers to the strategic deployment of assets among the major classes of investments such as fixed income, U.S. equity, non-U.S. equity, alternative investments and cash equivalents. It is the primary determinant of success in meeting long term investment objectives. The asset allocation decision reflects the Funds' return requirements as well as the Funds' tolerance for return variability (risk) within the context of the expected liabilities of the Funds. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, premiums and total assets. These factors are important for identifying the investment horizon of the Funds and their cash flow requirements. A formal asset/liability analysis for each Fund will be conducted every three – five years, or more frequently if conditions warrant.

The Board has a long-term asset allocation policy for each Fund that identifies the strategic target asset weights and ranges to each of the major asset classes. These policies are detailed in Section VI.

## B. Rebalancing Policy

Rebalancing is the periodic adjustment of an asset portfolio for the purposes of shifting the asset allocation back towards the desired target percentages. Rebalancing policies are put in place to provide a reliable discipline to keep a portfolio in balance as market fluctuations change the percentages that are committed to various assets classes. Over, time the asset mix of any portfolio will tend to drift away from its strategic target asset allocation, acquiring risk and return characteristics that are unintended.

The Board has a policy of rebalancing when actual asset allocations fall outside of the desired ranges as detailed in Section VI. For purposes of rebalancing, the percentages that each asset class constitutes of the total market value of the fund of which it is a part will be computed at the end of every calendar quarter. If the actual percentage of an assets class falls outside of the allowable ranges as outlined in Section VI by any amount, a rebalancing event will be triggered.

The following sequence of actions will be applied for any rebalancing activity:

1. When a rebalancing event is triggered, the Chief Investment Officer will notify the Administrator that a rebalancing event is imminent.
2. The Investment Division will then contact the appropriate outside investment managers and the BWC investment consultant to discuss market conditions and potential rebalancing actions.
3. The Investment Division will calculate a specific rebalancing dollar reallocation that will factor in appropriate future trust fund cash flows and the desired asset allocations after rebalancing. In general, the Board's policy, when rebalancing becomes necessary, is to restore an asset allocation for the out-of-balance asset class that is halfway between the outer bound that was violated and the original targeted asset percentage. Thus, as an example, if equities have a target allocation of 20%, and an allowable lower limit of 17%, but fall to 16% at a quarter's end as a result of market action, the proposed rebalancing plan would seek to restore equities to 18½% of the total fund (halfway between 17% and 20%).

4. The Chief Investment Officer will present a rebalancing recommendation to the Senior Officer Review Team, which consists of the BWC Administrator, the Chief Operating Officer, and the Chief Fiscal & Planning Officer, for approval before any such asset rebalancing can be implemented and executed.
5. Finally, the Chief Investment Officer will provide a written summary of the fully executed rebalancing activity for any respective trust fund portfolio to the BWC Investment Committee at its next scheduled meeting.

In order to minimize turnover, Fund cash flows, such as premiums received or benefits paid, will be used to the fullest extent to achieve rebalancing objectives.

During periods of extreme market conditions and consequent illiquid markets whereby the ability to execute identified Fund assets rebalancing adjustments is made difficult and costly in the judgment of the Administrator and Chief Investment Officer, such rebalancing actions may be suspended. The suspension of such rebalancing actions and the reason for such decision will be reported promptly to the Board by the Administrator and Chief Investment Officer. Any required rebalancing action for a Fund will be implemented when the impacted financial markets become sufficiently liquid so as to execute such rebalancing action with reasonable cost in the judgment of the Administrator and Chief Investment Officer.

## C. General Guidelines

The following represent the general guidelines that will apply to the management of Fund assets. In addition, each Investment Manager will have specific guidelines that are part of their Investment Management Agreement that will document the Funds' performance expectations and the Investment Manager's role in the overall portfolio. The Funds use these guidelines to establish, guide and control the strategy for each Investment Manager.

i. The following guidelines serve to diversify the organizational risk of Investment Management firms or General Partners providing services to the Funds and to minimize the dependence by the Funds on any one investment firm. The diversification guidelines are as follows:

- No one investment organization or General Partner, utilizing active management investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- On a prospective basis, an investment organization which utilizes passive management investment strategies, may manage up to 50% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The Board, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds
- On a prospective basis, an investment organization which utilizes active fixed income investment management strategies may manage up to 50% of the Fund's assets approved for active management at the time it is hired within that specific identified fixed income mandate. This guideline has been established to both diversify desired active management styles of such specific fixed income mandate as well as to reduce organizational risk and dependency on any one investment organization. The Board, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets.

- The Funds' assets managed by any one firm, utilizing either active or passive management investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that asset class at the time it is hired. For purposes of this constraint, "asset class" shall be broadly defined to include all styles, sub-sectors, or specialty portfolios managed by a firm within a particular asset class such as bonds or stocks.

ii. **Fixed Income Investments**

The investment goal of the fixed income investments is to offer the Funds a broad exposure to the return opportunities and investment characteristics associated with the U.S. domestic fixed income market. Each Fund's fixed income portfolio shall be invested in a manner that takes into consideration the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow net assets.

Passive indexed fixed income investment mandates shall be managed to match the risk and return profile of an assigned fixed income benchmark resulting in performance with a reasonably low tracking error.

Active managed fixed income investment mandates shall be managed to provide an enhanced return-to-risk profile and excess investment return performance relative to an assigned fixed income benchmark.

Active managed Long Duration Credit fixed income portfolios are to have the following complementary objectives:

- Controlling/reducing risk and notable market value deterioration, independent of general interest rate increases, by eliminating/avoiding exposure to prominent declining credits
- Emphasizing the careful selection of well-researched credit holdings sufficiently diversified by both issuers and industry/sector groups
- Achieving acceptable risk-adjusted portfolio returns by outperforming the benchmark index by 0.25% (25 basis points) per annum net-of-fees over the trailing three-year period within acceptable returns tracking error and dispersion objectives
- Outperforming the peer group manager total return median over the trailing three-year period net-of-fees

iii. **U.S. Equity**

The investment goal of the domestic equity investments is to offer the Funds a broad exposure to the return opportunities and investment characteristics associated with the U.S. domestic equity market. Passive U.S. equity investment mandates shall be managed to match the risk and return profile of an assigned U.S. equity benchmark resulting in performance with a reasonably low tracking error.

iv. **Non-U.S. Equity**

The investment goal of the non-U.S. equity investments is to offer the Funds a broad exposure to the return opportunities, diversification effects and investment characteristics associated with the non-U.S. equity market. Passive international equity investment mandates shall be managed to match the risk and return profile of an assigned international equity benchmark resulting in performance with a reasonably low tracking error.

## VI. TARGET ASSET MIXES AND RANGES

### A. State Insurance Fund (SIF)

The State Insurance Fund liabilities consist of the following primary components:

- Indemnity cost: the compensation paid to injured workers for lost wages
- Medical cost: the cost of providing medical coverage to injured workers

These liabilities are long-term in nature, with an approximate duration of 10 years. Premiums are set each year at a level that is expected to cover the cost of future claims. Future claims are estimated based on actuarial methods that measure the expected indemnity and medical costs. These costs are discounted at a rate that is consistent with the guidelines as established by the Government Accounting Standards Board (GASB).

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes with a specific performance benchmark for each asset class. The asset allocation is deemed reasonable by the Board given the risk and return objectives of the Fund within the context of the Fund's expected liabilities and the current funding ratio. Performance benchmarks have been selected to provide broadly diversified market coverage within each asset class segment.

The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

## State Insurance Fund

| Investment Category | Target Allocation | Permissible Range | Performance Benchmark |
|---|---|---|---|
| Active Long Duration Fixed Income – Credit Bonds | 20% | 17% - 23% | Barclays Capital U.S. Long Credit Index |
| Indexed Long Duration Fixed Income – Credit Bonds | ~~2~~8% | ~~24~~5% - ~~32~~11% | Barclays Capital U.S. Long Credit Index |
| Indexed Long Duration Fixed Income – U.S. Government Bonds | 9% | 6% - 12% | Barclays Capital U.S. Long Government Index |
| Indexed Barclays Capital Aggregate Fixed Income | 15% | 12% - 18% | Barclays Capital U.S. Aggregate Index |
| Indexed Treasury Inflation Protected Securities | 17% | 14% - 20% | Barclays Capital U.S. Treasury: U.S. TIPS Index |
| Cash and Cash Equivalents | 1% | 0 - 6% | 3 Month U.S. Treasury Bills |
| **Total Fixed Income** | **70%** | | |
| Indexed U.S. Equity | 20% | 17% - 23% | Russell 3000 Stock Index |
| Index Non-U.S. Equity | 10% | 7% - 13% | MSCI All World ex-U.S. Index |
| **Total Public Equity** | **30%** | | |
| | | | Fund Performance Benchmark |
| **Total State Insurance Fund** | **100%** | | A weighted index consisting of:<br>28% BC U.S. Long Credit Index<br>9% BC U.S. Long Govt. Index<br>15% BC U.S. Aggregate Index<br>17% BC U.S. TIPS Index<br>1% 3 Month U.S. Treasury Bills<br>20% Russell 3000 Index<br>10% MSCI All World Ex-U.S. Index |

# 12-month Investment Committee Calendar

| Date | February |
|---|---|
| 2/23/2011 | 1. MWBE MoM RFP issuance approval, vote<br>2. Investment Consultant Performance Report 4Q10<br>3. Long Credit active management IPS revision, first review |

| Date | March |
|---|---|
| 3/24/2011 | 1. Investment consultant RFP Finalist recommendation, vote<br>2. Long Credit active management IPS revision, second review, possible vote<br>3. Transition Managers Optional Use Contracts renewal, first review, possible vote |

| Date | April |
|---|---|
| 4/28/2011 | 1. Active Long Credit manager RFP issuance approval, vote<br>2. Real Estate class IPS revision, first review<br>3. Expanded use of derivatives, first review |

| Date | May |
|---|---|
| 5/26/2011 | 1. Investment Consultant Performance Report 1Q11<br>2. Real Estate class IPS revision, second review, possible vote<br>3. Cash Overlay strategy education, first review<br>4. Investment Consultant research, Real Estate asset class<br>5. Active investment manager governance process, first review |

| Date | June |
|---|---|
| 6/15/2011 | 1. Real Estate manager RFP issuance approval, vote<br>2. Derivatives usage IPS changes, possible vote<br>3. Cash Overlay strategy education, second review<br>4. Active investment manager governance process, second review |

| Date | July |
|---|---|
| 7/28/2011 | 1. MWBE MoM RFP Finalist(s) recommendation, possible vote<br>2. Cash Overlay strategy IPS change, first review, possible vote<br>3. Annual Review Summary, FY 2011 IPS changes<br>4. Investment Consultant education session, U.S. Small/Mid Cap Equity active management, first review |

| Notes |
|---|
| |

# 12-month Investment Committee Calendar

| Date | August | Notes |
|---|---|---|
| 8/25/2011 | 1. MWBE MoM RFP Finalists(s) recommendation, possible vote<br>2. Cash Overlay strategy manager RFP issuance approval, vote<br>3. Investment Consultant Performance Report 2Q11<br>4. BWC Investment Division Goals Fiscal Year 2012<br>5. Investment Consultant education session, U.S. Small/Mid Cap Equity active management, second review | |
| **Date** | **September** | |
| 9/29/2011 | 1. Brokerage Activity Fiscal Year 2011 summary report<br>2. U.S. Small/Mid Cap Equity active management IPS revision, first review<br>3. Investment Consultant education session, Non-U.S. Equity active management, first review | |
| **Date** | **October** | |
| 10/27/2011 | 1. Investment class performance/value annual report [ORC4121.12(F)(12)]<br>2. Annual Review Committee Charter (1st read)<br>3. Long Credit active manager RFP Finalist(s) recommendations, possible vote<br>4. U.S. Small/Mid Cap Equity active management IPS revision, second review, possible vote<br>5. Investment Consultant education session, Non-U.S. Equity active management, second review | |
| **Date** | **November** | |
| 11/17/2011 | 1. Investment Consultant Performance Report 3Q11<br>2. Annual Review Committee Charter (2nd read), possible vote<br>3. Long Credit active manager RFP Finalist(s) recommendations, possible vote<br>4. Non-U.S. Equity active management IPS revision, first review<br>5. U.S. Small/Mid Cap Equity active manager RFP issuance approval, vote | |
| **Date** | **December** | |
| 12/14/2011 | 1. Cash Overlay Strategy manager RFP Finalist recommendation, possible vote<br>2. Non-U.S. Equity active management IPS revision, second review, possible vote<br>3. Investment Consultant education session, U.S. Aggregate Fixed Income active management, first review | |
| **Date** | **January** | |
| 1/2012 | 1. Non-U.S. Equity active manager RFP issuance approval, vote<br>2. Investment Consultant education session, U.S. Aggregate Fixed Income active management, second review | |

# Recommended Phase I & II Strategies
# Investment Committee Estimated Timetable: State Insurance Fund

| INVESTMENT STRATEGY | EDUCATION #1 | EDUCATION #2 | IPS REVISION | RFP ISSUANCE APPROVAL | FINALIST RECOMMENDATION |
|---|---|---|---|---|---|
| **PHASE I PRIORITIES** | | | | | |
| Investment Consultant | NA | NA | NA | Oct10 | Mar11 |
| MWBE (MoM) | June10 | July10 | Sept10 | Feb11 | July11 & Aug11 |
| Long Credit FI Active Mgmt. | Nov10 | Dec10 | Feb11 & Mar11 | Apr11 | Oct11 & Nov11 |
| Cash Overlay Strategy | May11 | June11 | July11 | Aug11 | Dec11 |
| Real Estate | Aug10 | Oct10 & May11 | Apr11 & May11 | June11 | Feb12 & Mar12 |
| **PHASE II PRIORITIES** | | | | | |
| U.S. Small/Mid-Cap Equity Active Mgmt. | July11 | Aug11 | Sept11 & Oct11 | Nov11 | July12 & Aug12 |
| Non-U.S. Equity Active Mgmt. | Sept11 | Oct11 | Nov11& Dec11 | Jan12 | Oct12 & Nov12 |
| U.S. Aggregate FI Active Mgmt. | Dec11 | Jan12 | Feb12 & Mar12 | Apr12 | Jan13 & Feb13 |

**Prepared by Investment Division**
**February 23, 2011**

**BWC Invested Assets**
Estimated and Unaudited
As of February 22, 2011

Feb2011 MTD MV Increase Bonds………… + $ 22 million (+0.2% return)
Feb2011 MTD MV Increase Equities………… + $ 161 million (+2.5% return)

Feb2011 MTD MV Increase Bonds+Equities.... + $ 183 million
(+0.9% Feb11 MTD portfolio return including Cash)

## BWC Asset Allocation MV 2/22/2011

| | | |
|---|---|---|
| Bonds*………… | $13,548 million | 66.3% |
| Equities*………. | 6,709 million | 32.8% |
| Cash…………… | 189 million | 0.9% |
| TOTAL………... | $20,446 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)
Portfolio Return Calendar 2010……..+10.5% (+$1,989 million net inv. income)

## Fiscal Year 2011 YTD

Portfolio Return July10-Jan11 ……… + 7.9% (+$1,515 million net inv. income)

**Prepared by: Bruce Dunn, CFA**
**BWC Chief Investment Officer**