BWC Board of Directors

Investment Committee Agenda

William Green Building
Thursday, March 24, 2011
Level 2, Room 3
10:00 a.m. – 12:00 p.m.

Call to Order
Bob Smith, Committee Chair

Roll Call
Linda Byron, Scribe

Approve Minutes of the February 23, 2011 Meeting
Bob Smith, Committee Chair

Review and Approve Agenda*
Bob Smith, Committee Chair

New Business/Action Items

1. Full Service Investment Consultant Request For Proposals Search Finalist Selection
   - Review of RFP Process
     Bob Smith, Committee Chair
     Bruce Dunn, Chief Investment Officer
   - RFP Evaluation Committee Finalist Recommendation
     Bob Smith, Committee Chair
     Bruce Dunn, Chief Investment Officer
   - Finalist Investment Consulting Team Introduction
     Bruce Dunn, Chief Investment Officer
   - Finalist Investment Consulting Team Presentation – Discussion and Questions
     Finalist Investment Consulting Team Representatives

   Vote to recommend approval to the Board of Directors

2. BWC Transition Managers Optional Use Contract Renewals
   - Recommendation to renew respective contracts, first review
     Bruce Dunn, Chief Investment Officer

   Request to waive second reading
   Vote to recommend approval to the Board of Directors

3. Long Duration Credit Active Management
   - Investment Policy Recommendation and Revisions, second review
     Bob Smith, Committee Chair
     Bruce Dunn, Chief Investment Officer
     Kweku Obed, Senior Associate, Mercer Consulting

   Vote to recommend approval to the Board of Directors

Discussion Items

1. Monthly and Fiscal Year-to-Date Portfolio Value Comparisons
   - February 2011/January 2011
   - February 2011/June 2010
     Bruce Dunn, Chief Investment Officer

2. Month-End Portfolio Asset Allocation Values
   - February 2011/January 2011
     Lee Damsel, Director of Investments

3. CIO Report – February 2011
   Bruce Dunn, Chief Investment Officer

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

Adjourn

Bob Smith, Committee Chair

Next Meeting: Thursday, April 28, 2011

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

DATE: March 15, 2011

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **BWC Transition Managers Optional Use Contracts**
Contract Renewal Recommendations

Background

A Request for Proposals (RFP) was issued on February 19, 2009 by the BWC for the services of one or more transition management firms to assist the BWC in planning and executing future portfolio transitions. After a thorough RFP process was conducted and completed by the BWC RFP Evaluation Committee consisting of three BWC investment staff members and the senior consultant of BWC investment consultant Mercer, a pool of three transition management firms were recommended to and approved by the BWC Investment Committee and Board of Directors at their respective meetings in May, 2009. An Optional Use Contract for Transition Management Services was subsequently entered into by BWC with each of these three transition management firms. The names and office location of these three transition management firms are listed below:

(A) **BlackRock Institutional Trust Company, N.A.**, as successor to Barclays Global Investors (San Francisco, CA);

(B) **Russell Implementation Services, Inc.**, a wholly-owned subsidiary of Frank Russell Company (Tacoma, WA);

(C) **State Street Bank & Trust Company** (Boston, MA)

The purpose of the Optional Use Contract is to establish the business and legal expectations to be satisfied and fulfilled by a transition management firm. A transition management firm may be selected, sometimes on short notice, by BWC to plan and execute a specific transition of investment assets that are sold or transferred from a BWC external legacy investment manager and are ultimately delivered to a BWC external target investment manager. Top-tier transition managers such as these firms chosen by BWC have the capability and proven strategies to quietly and efficiently trade large groups of stock or bond assets at low cost without disturbing the market price, thus preserving asset value for their clients via their strategic planning and trading skills. In addition, leading transition managers have the capability of effectively managing large asset pools to identified benchmarks for their clients for many months, if necessary, until new external managers are chosen and contracted by clients for the more permanent management of such assets.

Each of the three current transition management firms under Optional Use Contract with the Bureau has been selected by the BWC investment staff (with guidance and assistance from Mercer) in 2009 and/or 2010 to manage and execute large transitions in excess of $1 billion for either the State Insurance Fund or the Disabled Workers' Relief Fund and Coal Workers' Pneumoconiosis Fund. Each of these transition engagements performed by the transition management team selected met the high expectations of the BWC investment staff, both from a strategy planning and trading execution viewpoint as well as from a portfolio management and information reporting perspective. In addition, each firm communicated well with the BWC sub-custodian JPMorgan Chase Bank, the BWC financial reporting staff and the BWC legacy and target portfolio managers as appropriate.

Contract Terms

Each of the three outstanding BWC Optional Use Contracts with the three respective transition management firms identified herein has an automatic expiration date of June 30, 2011. Each contract can be renewed for two additional two-year terms at the sole and exclusive option of the Bureau. It must be emphasized that these Optional Use Contracts simply allow the Bureau the ability to request specific proposals from these firms for a future transition activity to be determined by the Bureau. Once the BWC investment staff, in collaboration with its investment consultant, determines which of these firms offers the best proposal for an identified transition activity, a transition management contract specific to the identified transition is negotiated and executed by both parties before any actual transition activity can commence. It is an internal policy of the BWC Investment Division to solicit detailed proposals for review from at least two of its transition managers for each identified portfolio transition before any selection is made as to the best proposal offered in terms of efficiency of execution and estimated cost.

Recommendation

The BWC investment staff is very satisfied with the transition management services offered and exhibited in recent major engagement activities entered into with each of its three current transition management firms. As a result, it is recommended that the first of two contract renewal options for a two-year term extension to June 30, 2013 of the respective outstanding Optional Use Contracts be approved with each of BlackRock Institutional Trust Company, N.A.; Russell Implementation Services, Inc.; and State Street Bank & Trust Company. If these contract extensions are not approved, these respective Optional Use Contracts will expire on June 30, 2011 and the Bureau will then need to issue a new RFP for transition manager services in short order.

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 **Section IV.C.i** 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 IV.C.ii** 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 VI.A** 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

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.

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

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: 28% BC U.S. Long Credit Index 9% BC U.S. Long Govt. Index 15% BC U.S. Aggregate Index 17% BC U.S. TIPS Index 1% 3 Month U.S. Treasury Bills 20% Russell 3000 Index 10% MSCI All World Ex-U.S. Index

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Memo

To: OBWC Investment Committee
OBWC Board of Directors

Date: January 12, 2011

From: Guy M. Cooper
Jordan Nault
Kweku Obed

Subject: **CIO - Investment Policy Recommendations for Active Management in the State Insurance Fund (Long Duration Credit Fixed Income)**

The State Insurance Fund (SIF) currently has an approved target asset allocation weighting of 28% to passive long duration credit fixed income (as measured by the Barclays Capital U.S. Long Credit Index).

Following ongoing discussions with Mercer and the Investment Committee (Committee) during 2010, the CIO has recommended that 20% of total SIF assets should be allocated to actively managed long duration credit fixed income, while 8% of total SIF assets would remain passively managed. Based on the State Insurance Fund's assets under management as of December 31, 2010, approximately $3.7 billion of long duration credit fixed income assets could be actively managed while roughly $1.75 billion of long duration credit fixed income assets would remain passively managed in the SIF.

The potential pros and cons of active management in the major asset classes (including long duration credit) were examined by Mercer during the March 2010 and April 2010 Investment Committee meetings. The performance of active managers in Mercer's manager universes were highlighted and referenced in subsequent meetings in 2010, while the potential merits of pursuing active management in long duration credit fixed income were highlighted in Mercer's presentations to the Committee in the November 2010 and December 2010 meetings.

Given the detailed discussions and analysis that have taken place on active management in long duration credit fixed income, Mercer concurs with the CIO's recommendations. Additionally, Mercer agrees with the CIO's proposed revisions to Section IV.C.i, Section IV.C.ii and Section VI.A in the Investment Policy Statement.

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

Asset Sector	Market Value February 28, 2011	% Assets	Market Value January 31, 2011	% Assets	Increase(Decrease) Prior Month-End	% Change	Market Value June 30, 2010	% Assets	Increase(Decrease) Prior Fiscal Year-End	% Change
Bonds	13,626,059,057	65.2%	13,481,750,866	66.7%	144,308,191	1.1%	13,537,054,766	71.2%	89,004,291	0.7%
Equity	6,756,724,205	32.3%	6,543,213,549	32.3%	213,510,656	3.3%	5,154,562,423	27.1%	1,602,161,782	31.1%
Net Cash - OIM	54,121,847	0.3%	49,974,130	0.3%	4,147,717	8.3%	64,622,125	0.3%	(10,500,278)	-16.2%
Net Cash - Operating	431,144,882	2.0%	105,367,906	0.5%	325,776,976	309.2%	218,991,596	1.2%	212,153,286	96.9%
Net Cash - SIEGF	44,818,249	0.2%	47,104,056	0.2%	(2,285,807)	-4.9%	47,335,733	0.2%	(2,517,484)	-5.3%
Total Net Cash	530,084,978	2.5%	202,446,092	1.0%	327,638,886	161.8%	330,949,454	1.7%	199,135,524	60.2%
Total Invested Assets	20,912,868,240	100%	20,227,410,507	100%	$685,457,733	3.4%	$19,022,566,643	100%	$1,890,301,597	9.9%

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.

February 2011/January 2011 Comparisons

- Net investment income in February 2011 was $362 million representing a monthly net portfolio return of **+1.8%** (unaudited).
- Bond market value increase of $144.3 mm comprised of $49.3 mm in interest income, $95.7 mm in OIM realized/unrealized gains ($0.4 mm net realized loss), offset by $0.7 mm in OIM net bond sales, representing a monthly net return of **+1.1%** (unaudited).
- Equity market value increase of $213.5 mm comprised of $8.6 mm of dividend income, $208.9 mm in net realized/unrealized gains ($1.0 mm net realized gain), offset by $4.0 mm in OIM net equity sales, representing a monthly net return of **+3.3%** (unaudited).
- Net cash balances increased $327.6 mm in February 2011 largely due to increased operating cash balances of $325.8 mm.
  JPMorgan US Govt. money market fund had 30-day average yield of 0.03% for February 2011 (0.04% for Jan11) and 7-day average yield of 0.03% on 2/28/11 (0.04% on 1/31/11).

February 2011/June 2010 FYTD Results

- Net investment income for FYTD2011 was $1,877 million largely comprised of $457 mm of interest/dividend income and $1,425 mm of net realized/unrealized gains ($206 mm net realized gain), offset by $5 mm in fees, representing a FYTD2011 net portfolio return of **+9.8%** (unaudited).
- Bond market value increase of $89 mm for FYTD2011 comprised of $400 mm in interest income and $(131) mm of net realized/unrealized losses ($161 mm net realized gain), offset by $108 mm in OIM/TM net bond sales and by $72 mm in operations redemptions, representing a FYTD2011 net return of **+1.9%** (unaudited).
- Equity market value increase of $1,602 mm for FYTD2011 comprised of $56 mm in dividend income, $1,555 mm in net realized/unrealized gains ($45 mm net realized gain) and $116 mm in OIM/TM net equity purchases, offset by $125 mm in operations/miscellaneous asset redemptions, representing a FYTD2011 net return of **+31.5%** (unaudited).

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

As of February 28, 2011

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	**$ 12,462,194**	**65.0%**	**$ 900,366**	**66.5%**	**$ 218,915**	**77.7%**	**$ 25,419**	**99.2%**	**$ 19,165**	**99.0%**	**$ -**	**0.0%**	**$ -**	**0.0%**	**$ 13,626,059**	**65.2%**
Long Credit	5,439,907	28.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,439,907	26.0%
Long Government	1,351,737	7.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,351,737	6.5%
TIPS	3,134,479	16.4%	463,607	34.2%	110,436	39.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,708,522	17.7%
Aggregate	2,536,071	13.2%	436,759	32.3%	108,479	38.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,081,309	14.8%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	25,419	99.2%	19,165	99.0%	-	0.0%	-	0.0%	44,584	0.2%
Stocks	**6,241,578**	**32.5%**	**452,503**	**33.4%**	**62,643**	**22.2%**	**-**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**	**6,756,724**	**32.3%**
Russell 3000	4,280,367	22.3%	302,688	22.3%	39,960	14.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,623,015	22.1%
MSCI ACWI ex-U.S.	1,953,456	10.2%	149,815	11.1%	22,683	8.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,125,954	10.2%
Dividends Receivable	7,720	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	7,720	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	**481,489**	**2.5%**	**1,445**	**0.1%**	**286**	**0.1%**	**196**	**0.8%**	**203**	**1.0%**	**44,818**	**100.0%**	**1,648**	**100.0%**	**530,085**	**2.5%**
Total Cash & Investments	**$ 19,185,261**	**100.0%**	**$ 1,354,314**	**100.0%**	**$ 281,844**	**100.0%**	**$ 25,615**	**100.0%**	**$ 19,368**	**100.0%**	**$ 44,818**	**100.0%**	**$ 1,648**	**100.0%**	**$ 20,912,868**	**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 Russell 3000 (+3.64%) and the MSCI ACWI ex-U.S. (+2.63%) in the month of February. The equity asset allocation actually decreased to 32.5% for the month from 32.6% from the prior month-end as a result of significant increases in operating cash surpassing the strong equity index performance returns for the month. Additionally, all bond indices returns increased for the Barclays Capital Long Credit Index (+1.73%), Barclays Capital Government Long Term Index (+1.20%), U.S. TIPS Index (+0.86%) as well as for the U.S. Aggregate Bond Index (+0.25%) in February. The strong SIF equity performance along with the significant increase in operating cash eclipsed the positive bond indices returns, resulting in the overall bond asset allocation decreasing from 66.6% at end of January to 65.0% at end of February.

Cash allocations significantly increased from 0.8% at end of January to 2.5% at end of February largely due to seasonal increases in SIF operating cash of $325.4 million as well as slight increases in SIF investment manager cash balances of $4.2 million.

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

The increases in the Russell 3000 (+3.64%) Index and the MSCI ACWI ex-U.S. (+2.63%) Index returns increased equity allocations for DWRF and BLF from 32.8% and 21.8% at end of January to 33.4% and 22.2%, respectively by fund, at month-end February. February month-end bond return increases for the U.S. TIPS Index (+0.86%) and the U.S. Aggregate Bond Index (+0.25%) were overshadowed by the strong equity performance resulting in decreasing bond asset allocations for DWRF and BLF of 66.5 and 77.7% at end of February compared to 67.1% and 78.1%, respectively by fund, at month-end January. Cash allocations remained constant for both DWRF and BLF of 0.1% at month-end January and 0.1% at month-end February for each fund.

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

The Barclays Capital Government/Credit Intermediate Index return decreased very slightly (-0.03%) in the month of February. As a result, the bond asset allocations for PWRF and MIF remained unchanged at 99.2% and 99.0%, respectively by fund, at month-end February.

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

BWC Invested Assets
Estimated and Unaudited
As of March 23, 2011

Mar2011 MTD MV Increase Bonds…………..	+ $ 73 million	(+0.5% return)
Mar2011 MTD MV Decrease Equities…………	- $ 145 million	(-2.1% return)

Mar2011 MTD MV Decrease Bonds+Equities.... - $ 72 million
(-0.3% Mar11 MTD portfolio return including Cash)

BWC Asset Allocation MV 3/23/2011

Bonds*…………	$13,745 million	66.3%
Equities*……….	6,620 million	31.9%
Cash……………	379 million	1.8%
TOTAL………...	$20,744 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-Feb11 ……… + 9.8% (+$1,877 million net inv. income)

Prepared by: Bruce Dunn, CFA
BWC Chief Investment Officer

INVESTMENT DIVISION

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

FROM: Bruce Dunn, CFA, Chief Investment Officer

DATE: March 16, 2011

SUBJECT: CIO Report February 2011

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.

<u>Strategic Goal Two – NEW INVESTMENT CONSIDERATIONS</u>

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 with the issuance of a RFP on March 17, 2011 for the search and selection of one or more MoM firms 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. 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.

BWC received eight respondent submissions to this RFP on the RFP submission due date of January 20, 2011. The BWC RFP Evaluation Committee completed the grading of these eight responses in early February, 2011 and selected four Finalist candidate firms for Phase II interviews conducted on February 24-25, 2011 at the William Green Building. One leading candidate firm emerged as the preferred Finalist firm from these Phase II interviews conducted by the four-member BWC RFP Evaluation Committee. An on-site due diligence meeting was subsequently conducted by the four members of the RFP Evaluation Committee on March 10, 2011 at the headquarters office of the Finalist firm. After this meeting was concluded, the RFP Evaluation Committee concluded that this Finalist firm will be recommended to the Investment Committee and Board of Directors for their consideration and approvals at their respective meetings on March 24 and 25, 2011 to serve as the BWC full service investment consultant firm to succeed Mercer. Representatives of this firm, including the two proposed lead investment consultants to service BWC, will present themselves before the Investment Committee at its March 24, 2011 meeting. If Board approval of this investment consulting firm is provided by the Board upon recommendation of the Investment Committee at the March 25, 2011 Board meeting, it is expected this firm will be under contract and commence its services to the Bureau on April 1, 2011 as the existing Mercer consulting contract with the Bureau expires at the end of this month.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of February, 2011.

12-month Investment Committee Calendar

Date	March	Notes
3/24/2011	1. Investment Consultant RFP Finalist recommendation, vote 2. Long Credit active management IPS revision, second review, possible vote 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 2. Real Estate class IPS revision, first review 3. Investment Consultant research, Real Estate asset class	
Date	**May**	
5/26/2011	1. Investment Consultant Performance Report 1Q11 2. Real Estate class IPS revision, second review, possible vote 3. Expanded use of derivatives, first review 4. Active investment manager governance process, first review	
Date	**June**	
6/15/2011	1. Real Estate manager RFP issuance approval, vote 2. Active investment manager governance process, second review 3. Expanded use of derivatives, second review, possible vote 4. Cash Overlay strategy education, first review	
Date	**July**	
7/28/2011	1. MWBE MoM RFP Finalist(s) recommendation, possible vote 2. Derivatives usage IPS changes, possible vote 3. Cash Overlay strategy education, second review 4. Annual Review Summary, FY 2011 IPS changes 5. Investment Consultant education session, U.S. Small/Mid Cap Equity active management, first review	
Date	**August**	
8/25/2011	1. MWBE MoM RFP Finalists(s) recommendation, possible vote 2. Cash Overlay strategy IPS change, first review, possible vote 3. Investment Consultant Performance Report 2Q11 4. BWC Investment Division Goals Fiscal Year 2012 5. Investment Consultant education session, U.S. Small/Mid Cap Equity active management, second review	

12-month Investment Committee Calendar

Date	September	Notes
9/29/2011	1. Cash Overlay strategy manager RFP issuance approval, vote 2. Brokerage Activity Fiscal Year 2011 summary report 3. U.S. Small/Mid Cap Equity active management IPS revision, first review 4. 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)] 2. Annual Review Committee Charter (1st read) 3. Long Credit active manager RFP Finalist(s) recommendations, possible vote 4. U.S. Small/Mid Cap Equity active management IPS revision, second review, possible vote 5. Investment Consultant education session, Non-U.S. Equity active management, second review	
Date	**November**	
11/17/2011	1. Investment Consultant Performance Report 3Q11 2. Annual Review Committee Charter (2nd read), possible vote 3. Long Credit active manager RFP Finalist(s) recommendations, possible vote 4. Non-U.S. Equity active management IPS revision, first review 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 2. Non-U.S. Equity active management IPS revision, second review, possible vote 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 2. Investment Consultant education session, U.S. Aggregate Fixed Income active management, second review	
Date	**February**	
2/23/2011	1. MWBE MoM RFP issuance approval, vote 2. Investment Consultant Performance Report 4Q10 3. Long Credit active management IPS revision, first 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					
MWBE (MoM)	June10	July10	Sept10	Feb11	July11 & Aug11
Long Credit FI Active Mgmt.	Nov10	Dec10	Feb11 & Mar11	Apr11	Oct11 & Nov11
Cash Overlay Strategy	June11	July11	Aug11	Sept11	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
March 8, 2011 Update