

Investment Committee Agenda

William Green Building

Thursday, April 28, 2011

Level 2, Room 3

9:30 a.m. – 11:30 a.m.

Call to Order

Bob Smith, Committee Chair

Roll Call

Linda Byron, Scribe

Approve Minutes of the March 24, 2011 Meeting

Bob Smith, Committee Chair

Review and Approve Agenda*

Bob Smith, Committee Chair

New Business/ Action Items

1. BWC Active Long Duration Investment Grade Credit Only
Fixed Income Managers Search
Request for Proposals Issuance Recommendation
State Insurance Fund
Bob Smith, Committee Chair
Bruce Dunn, Chief Investment Officer
Vote to recommend approval to the Board of Directors

Discussion Items

1. Monthly and Fiscal Year-to-Date Portfolio Value Comparisons
 - March 2011/February 2011
 - March 2011/June 2010Bruce Dunn, Chief Investment Officer
2. Month-to-Date Portfolio Value and Performance Update
 - As of April 27, 2011Bruce Dunn, Chief Investment Officer

3. Month-End Portfolio Asset Allocation Values
 - March 2011/February 2011
Lee Damsel, Director of Investments
4. Quarter-End Portfolio Target Asset Allocation Results and Variances
 - March 2011
Lee Damsel, Director of Investments
5. CIO Report – March 2011
Bruce Dunn, Chief Investment Officer
6. Introduction of R.V. Kuhns BWC Extended Consulting Team Members
 - Anthony Johnson, RVK Senior Consultant, Principal
 - Dan Krivinkas, RVK Consultant, Director of Real Estate Consulting, Principal
 - Roman Nemtsov, RVK Consultant (specializing in Real Estate)
Bruce Dunn, Chief Investment Officer
Guy Cooper, RVK Senior Consultant, BWC Lead Consultant
7. R. V. Kuhns Real Estate Consulting Service Introduction
Bob Smith, Committee Chair
Dan Krivinkas, RVK Director of Real Estate Consulting
Roman Nemtsov, RVK Consultant
8. R.V. Kuhns Presentation on Real Estate as an Asset Class, First Discussion
Bob Smith, Committee Chair
Dan Krivinkas, RVK Director of Real Estate Consulting
Roman Nemtsov, RVK Consultant
Guy Cooper, RVK Senior Consultant, BWC Lead Consultant
9. CIO Recommendation on Real Estate Asset Class Strategy
State Insurance Fund
 - Investment Policy Recommendation and Revisions, First Review
Bob Smith, Committee Chair
Bruce Dunn, Chief Investment Officer
Guy Cooper, RVK Senior Consultant, BWC Lead Consultant
10. Committee Calendar
Bob Smith, Committee Chair
Bruce Dunn, Chief Investment Officer

Adjourn

Bob Smith, Committee Chair

Next Meeting: Thursday, May 26, 2011

* Not all agenda items may have materials

** Agenda subject to change

DATE: April 19, 2011

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **BWC Active Fixed Income Management
Long Duration Investment Grade Credit
Request for Proposals Issuance Recommendation
State Insurance Fund**

BACKGROUND

At its March 25, 2011 meeting, the BWC Board of Directors approved a recommendation made by the BWC Investment Committee to revise certain sections of the Investment Policy and Guidelines (IPS) to allow for the active management of a targeted 20% of the State Insurance Fund (SIF) investment portfolio allocated towards the long duration credit fixed income mandate. The remaining 8% of SIF assets targeted towards this fixed income asset class mandate would remain passively managed. Based on current SIF invested assets of approximately \$19 billion at market value, approximately \$3.8 billion would be allocated to active long duration credit fixed income managers with the remaining \$1.5 billion staying with passive indexed long duration credit fixed income managers.

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 Active Long Duration Investment Grade Credit Only Fixed Income managers. These managers are expected to be firms involved in investment management for institutional clients of fixed income securities covering the wide spectrum of short-medium-long maturity bonds and involving both government and credit bond sectors. A proposed timeline of important milestone dates for the proposed RFP to select these firms is provided with this memorandum in both tabular and graphic form.

If approved by the Board at its April 29, 2011 meeting, the RFP is scheduled to be issued on May 26, 2011 with the deadline for RFP response submissions being July 14, 2011 which is seven weeks after issuance. An RFP Evaluation Committee consisting of BWC investment staff and R.V. Kuhns as BWC investment consultant will evaluate and grade all qualified responses received over the period from July 14, 2011 to August 19, 2011 with finalist candidates identified on August 23, 2011 by the RFP Evaluation Committee. Although subsequent finalist candidate interviews could occur at the William Green Building and are considered optional, it is likely that all finalist candidate interviews for active management conducted by the RFP

Evaluation Committee will be extensive full-day interviews on-site at the offices of each finalist candidate. Multiple finalist managers are expected to be selected by the RFP Evaluation Committee for consideration and recommendation for this large and very important asset class mandate. The extensive due diligence process of selecting finalist managers for recommendation is projected to occur over the period from late August through early October, 2011.

At the present time, it is the expectation of the CIO that finalist investment managers to be recommended by the RFP Evaluation Committee for approval by the Board will be three to five in number. This targeted number of managers will provide sufficient diversification of managers by management style but will enable BWC to secure low management fees as the amount of funds allocated to each manager will be significant and very much desired by each firm. In addition, overall portfolio trading costs are lower with fewer managers involved due to the economies of scale that result from larger average-sized bond trades. These finalist investment managers recommended for approval by the RFP Evaluation Committee are targeted to be presented for consideration at the scheduled Investment Committee meetings in October and November, 2011. Key representatives of each recommended finalist investment manager will appear at one of these two Investment Committee meetings to provide an overview presentation as well as respond to any questions prior to any votes being taken by the Investment Committee and Board.

If this described timetable is met and approval of recommended investment management firms are provided by the Board at the scheduled meetings of October and November, 2011, the funding of such approved managers is estimated to occur early in calendar year 2012 after all legal contracting is completed and required Ohio Revised Code criminal background checks are completed on identified individual investment managers. BWC transition managers may be employed by the BWC investment staff to sell assets to fund these new managers but it is hoped that in-kind transfer of assets from the existing passive managed long credit accounts managed by State Street and BlackRock will be the funding source for these new 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 Active Long Duration Investment Grade Credit Only Fixed Income Management 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 all finalist investment managers approved are under contract with BWC.

The BWC investment staff is receiving guidance and assistance from R.V. Kuhns in preparing certain questions for the RFP and in reaching decisions on minimum qualifications for eligible investment manager respondents. R.V. Kuhns utilizes a very large comprehensive third party investment manager database named eVestment Alliance in which the performance and asset size data of many likely respondents to this RFP are available and accessible. The R.V. Kuhns manager research group has a working knowledge of the experience, capabilities and management styles of most investment management firms that would meet the minimum firm qualifications set for this RFP.

Among the questions being asked both in the RFP and during the finalist candidate interviewing stage will be the importance and extent of employment of derivatives by the active style investment manager in executing its overall portfolio management strategy and in achieving past performance results. Discussion and education on the use of liquid derivative contracts as an effective management tool that can be used by both skilled passive and active style investment managers to achieve desired portfolio objectives for clients is scheduled as a discussion topic for the Investment Committee in upcoming meetings.

Active Long Credit Fixed Income Management Services RFP Timeline

RFP ACTION ITEM

Investment Committee and BOD MEETING

(BWC staff requests BOD approval to issue RFP)

Issue RFP

RFP Advertisement in Pensions & Investments
(Bi-weekly publication)

Open Period for respondents' question submission via email
Post responses to questions on BWC website on or before

Deadline for submissions of Proposals 2:00 PM

Evaluation Committee review/grading of proposals

Evaluation Committee finalist candidates identified

On-site visits/interviews of finalist candidates

Investment Committee and BOD MEETING

(Finalist(s) recommendation for approval)

TIMELINE

April 28-29, 2011

May 26, 2011

May 25/June 8, 2011
editions

June 13-17, 2011
June 22, 2011

July 14, 2011

July 14 – August 19, 2011

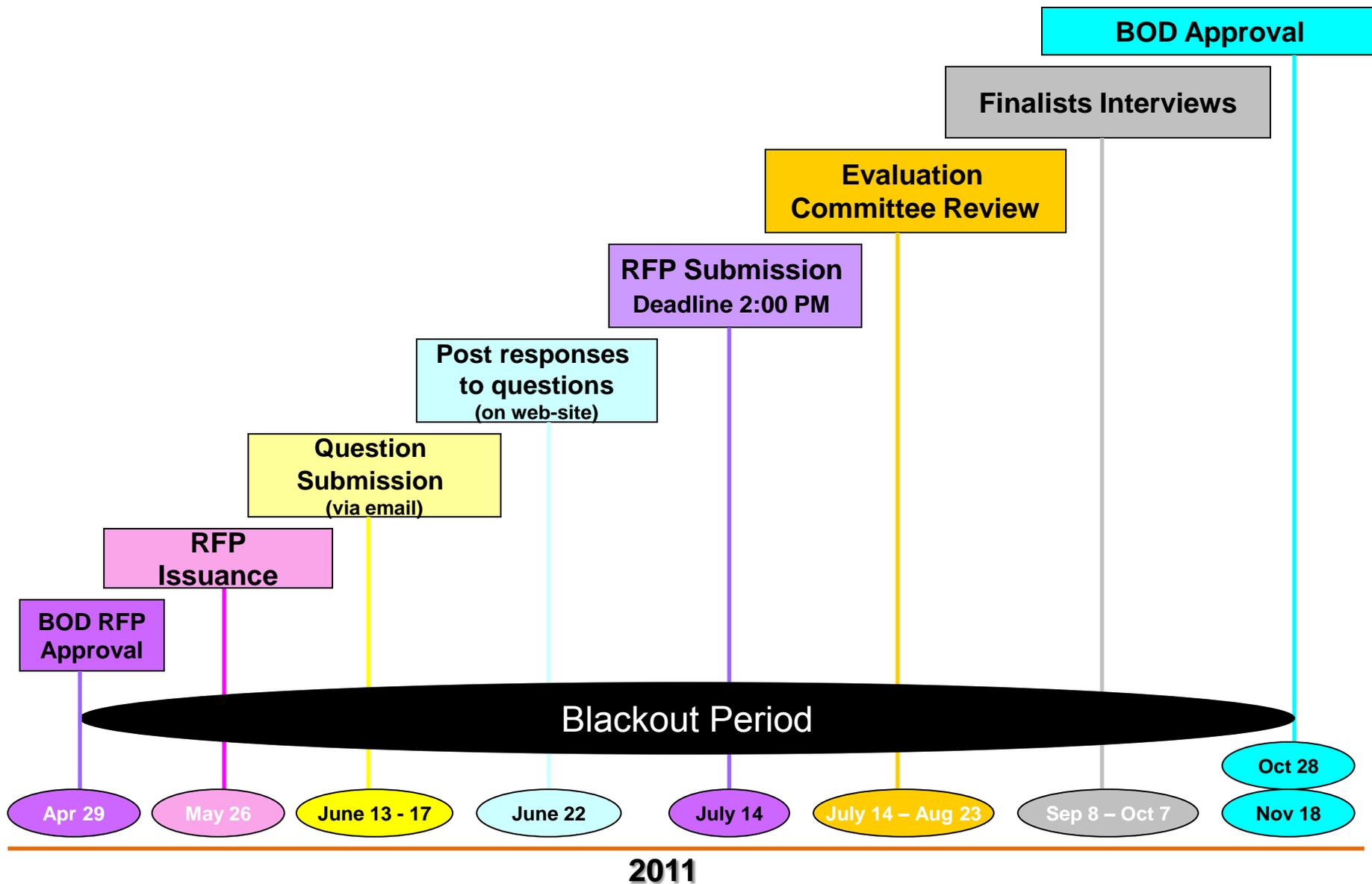
August 23, 2011

September 8 – October 7, 2011

October 27 - 28, 2011 (1st two or three finalists)

November 17-18, 2011 (2nd two or three finalists)

Active Long Credit Fixed Income Management Services RFP Timeline



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

<u>Asset Sector</u>	<u>Market Value March 31, 2011</u>	<u>% Assets</u>	<u>Market Value February 28, 2011</u>	<u>% Assets</u>	<u>Increase(Decrease) Prior Month-End</u>	<u>% Change</u>	<u>Market Value June 30, 2010</u>	<u>% Assets</u>	<u>Increase(Decrease) Prior Fiscal Year-End</u>	<u>% Change</u>
Bonds	13,655,964,280	65.6%	13,626,059,057	65.2%	29,905,223	0.2%	13,537,054,766	71.2%	118,909,514	0.9%
Equity	6,776,120,290	32.5%	6,756,724,205	32.3%	19,396,085	0.3%	5,154,562,423	27.1%	1,621,557,867	31.5%
Net Cash - OIM	47,135,086	0.2%	54,121,847	0.3%	(6,986,761)	-12.9%	64,622,125	0.3%	(17,487,039)	-27.1%
Net Cash - Operating	289,389,739	1.4%	431,144,882	2.0%	(141,755,143)	-32.9%	218,991,596	1.2%	70,398,143	32.1%
Net Cash - SIEGF	52,384,877	0.3%	44,818,249	0.2%	7,566,628	16.9%	47,335,733	0.2%	5,049,144	10.7%
Total Net Cash	388,909,702	1.9%	530,084,978	2.5%	(141,175,276)	-26.6%	330,949,454	1.7%	57,960,248	17.5%
Total Invested Assets	20,820,994,272	100%	20,912,868,240	100%	(\$91,873,968)	-0.4%	\$19,022,566,643	100%	\$1,798,427,629	9.5%

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.

March 2011/February 2011 Comparisons

- Net investment income in March 2011 was \$42 million representing a monthly net portfolio return of **+0.2%** (unaudited).
- Bond market value increase of \$29.9 mm comprised of \$69.2 mm in interest income, \$(42.3) mm in OIM realized/unrealized losses (\$1.2 mm net realized gain), and \$3.0 mm in OIM net bond purchases, representing a monthly net return of **+0.2%** (unaudited).
- Equity market value increase of \$19.4 mm comprised of \$7.7 mm of dividend income, \$8.2 mm in net realized/unrealized gains (\$1.7 mm net realized gain), and \$3.5 mm in OIM net equity purchases, representing a monthly net return of **+0.2%** (unaudited).
- Net cash balances decreased \$(141.2) mm in March 2011 largely due to decreased operating cash balances of \$141.8 mm. JPMorgan US Govt. money market fund had 30-day average yield of 0.02% for March 2011 (0.03% for Feb11) and 7-day average yield of 0.02% on 3/31/11 (0.03% on 2/28/11).

March 2011/June 2010 FYTD Results

- Net investment income for FYTD2011 was \$1,919 million largely comprised of \$534 mm of interest/dividend income and \$1,391 mm of net realized/unrealized gains (\$210 mm net realized gain), offset by \$6 mm in fees, representing a FYTD2011 net portfolio return of **+10.0%** (unaudited).
- Bond market value increase of \$119 mm for FYTD2011 comprised of \$469 mm in interest income and \$(173) mm of net realized/unrealized losses (\$162 mm net realized gain), offset by \$105 mm in OIM/TM net bond sales and by \$72 mm in operations redemptions, representing a FYTD2011 net return of **+2.1%** (unaudited).
- Equity market value increase of \$1,622 mm for FYTD2011 comprised of \$64 mm in dividend income, \$1,564 mm in net realized/unrealized gains (\$47 mm net realized gain) and \$119 mm in OIM/TM net equity purchases, offset by \$125 mm in operations/miscellaneous asset redemptions, representing a FYTD2011 net return of **+31.8%** (unaudited).

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

As of March 31, 2011

(in thousands)

	SIF	% Trust	DWRF	% Trust	BLF	% Trust	PWRF	% Trust	MIF	% Trust	SIEGF	% Trust	ACF	% Trust	Totals	% of Total
Bonds	\$ 12,486,068	65.5%	\$ 905,247	66.6%	\$ 220,081	77.7%	\$ 25,410	99.4%	\$ 19,158	98.9%	\$ -	0.0%	\$ -	0.0%	\$ 13,655,964	65.6%
Long Credit	5,438,376	28.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,438,376	26.1%
Long Government	1,351,977	7.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,351,977	6.5%
Long Gov/Credit	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
TIPS	3,166,485	16.6%	468,235	34.4%	111,539	39.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,746,259	18.0%
Aggregate	2,529,230	13.3%	437,012	32.2%	108,542	38.4%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,074,784	14.8%
Intermediate Gov/Credit	-	0.0%	-	0.0%	-	0.0%	25,410	99.4%	19,158	98.9%	-	0.0%	-	0.0%	44,568	0.2%
Stocks	\$ 6,259,921	32.8%	\$ 453,441	33.4%	\$ 62,758	22.2%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 6,776,120	32.5%
Russell 3000	4,306,372	22.6%	304,023	22.4%	40,136	14.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,650,531	22.3%
MSCI ACWI ex-U.S.	1,948,355	10.2%	149,418	11.0%	22,622	8.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,120,395	10.2%
S&P 500	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Dividends Receivable	5,159	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	5,159	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	328,322	1.7%	471	0.0%	189	0.1%	162	0.6%	205	1.1%	52,385	100.0%	7,176	100.0%	388,910	1.9%
Total Cash & Investments	\$ 19,074,311	100.0%	\$ 1,359,159	100.0%	\$ 283,028	100.0%	\$ 25,572	100.0%	\$ 19,363	100.0%	\$ 52,385	100.0%	\$ 7,176	100.0%	\$ 20,820,994	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.

<u>Policy Fund Asset Allocation</u>	<u>SIF</u>	<u>DWRF</u>	<u>BLF</u>	<u>PWRF</u>	<u>MIF</u>	<u>SIEGF</u>	<u>ACF</u>
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 for the Russell 3000 (+0.45%) but decreased for the MSCI ACWI ex-U.S. (-0.23%) equity index in the month of March. The SIF equity asset allocation increased to 32.8% for the month from 32.5% from the prior month-end primarily due to a large monthly decrease in operating cash amplifying the modest net positive equity index performance return for the month. Bond indices returns increased for the Barclays U.S. TIPS Index (+1.01%), Barclays U.S. Aggregate Bond Index (+0.06%) as well as for the Barclays Capital Government Long Term Index (+0.05%) but decreased for the Barclays Capital Long Credit Index (-0.18%) for the month of March. The SIF overall bond asset allocation increased from 65.0% at end of February to 65.5% at end of March largely boosted by the decrease in operating cash along with slightly net positive bond index performance returns.

Cash allocations decreased from 2.5% at end of February to 1.7% at end of March largely due to decreased SIF operating cash of \$140.4 million as well as slightly decreased SIF investment manager cash balances of \$7.0 million.

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

The increase in the Russell 3000 (+0.45%) Index return offset by the MSCI ACWI ex U.S. (-0.23%) Index return maintained net equity allocations for DWRF and BLF at 33.4% and 22.2%, respectively by fund, at both month-end March and prior month-end. March month-end bond index returns increased for both the U.S. TIPS Index (+1.01%) as well as for the U.S. Aggregate Bond Index (+0.06%). The BLF bond asset allocation remained constant at 77.7% for both month-end March and prior month-end. In addition, BLF cash allocations remained constant at 0.1% for both month-end March and prior month-end. Cash allocations decreased for DWRF from 0.1% at month-end February to 0.0% (rounded) at month-end March due to a large monthly decrease in operating cash. DWRF operating cash decreases and positive bond index returns resulted in a slight increased bond asset allocation for DWRF of 66.6% at end of March compared to 66.5% at prior month-end.

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

The Barclays Capital Government/Credit Intermediate Index return decreased very slightly (-0.02%) in the month of March. As a result, the bond asset allocation for MIF decreased from 99.0% at month-end February to 98.9% at month-end March. The bond asset allocation for PWRF actually increased from 99.2% at month-end February to 99.4% at month-end March as a result of a PWRF operating cash decrease.

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 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.

<u>Policy Fund Asset Allocation</u>	<u>SIF</u>	<u>DWRF</u>	<u>BLF</u>	<u>PWRF</u>	<u>MIF</u>	<u>SIEGF</u>	<u>ACF</u>
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

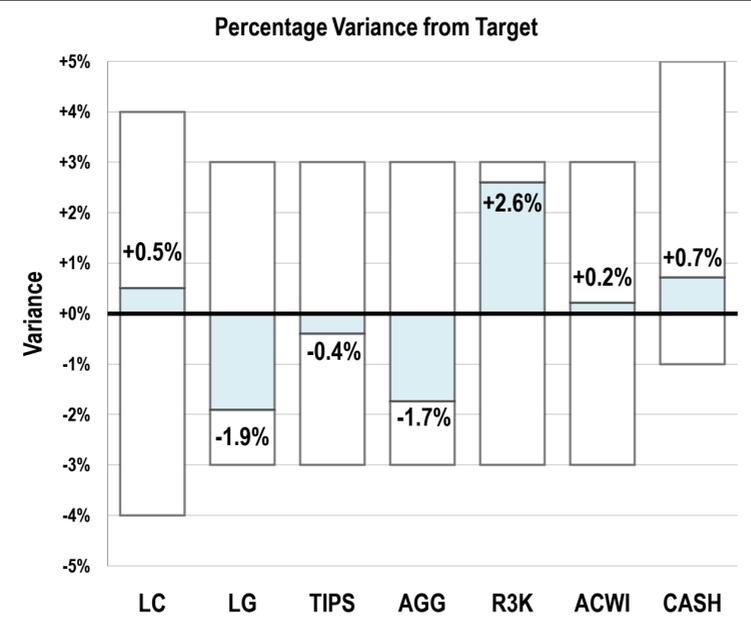
SIEGF: Self-Insured Employers Guaranty Fund
ACF: Administrative Cost Fund

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

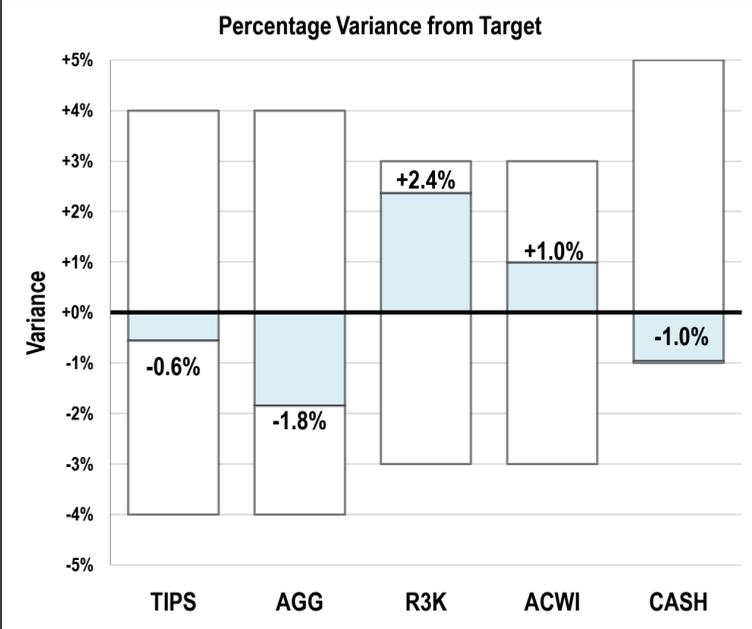
As of March 31, 2011

(in thousands)

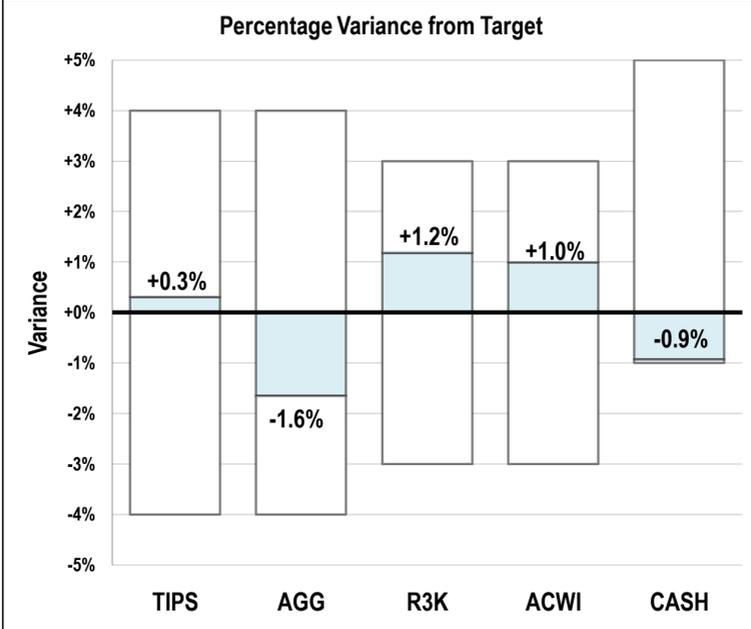
State Insurance Fund				
Asset Class	Market Value	Actual	Target	Range
Long Credit	\$ 5,438,376	28.5%	28%	24%—32%
Long Government	\$ 1,351,977	7.1%	9%	6%—12%
TIPS	\$ 3,166,485	16.6%	17%	14%—20%
Aggregate	\$ 2,529,230	13.3%	15%	12%—18%
Russell 3000	\$ 4,311,531	22.6%	20%	17%—23%
MSCI ACWI ex-U.S.	\$ 1,948,355	10.2%	10%	7%—13%
Miscellaneous	\$ 35	0.0%	0%	0%—0%
Net Cash & Cash Equivalents	\$ 328,322	1.7%	1%	0%—6%



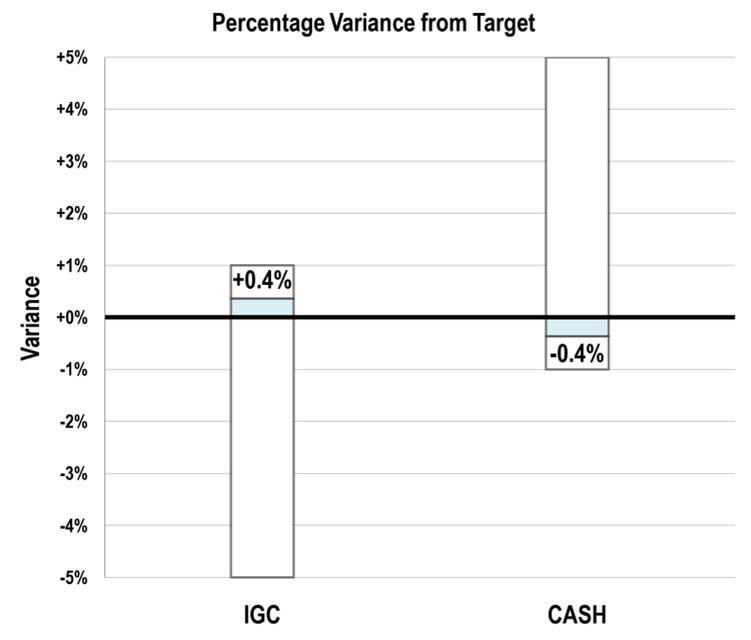
Disabled Workers' Relief Fund				
Asset Class	Market Value	Actual	Target	Range
TIPS	\$ 468,235	34.4%	35%	31%—39%
Aggregate	\$ 437,012	32.2%	34%	30%—38%
Russell 3000	\$ 304,023	22.4%	20%	17%—23%
MSCI ACWI ex-U.S.	\$ 149,418	11.0%	10%	7%—13%
Net Cash & Cash Equivalents	\$ 471	0.0%	1%	0%—6%



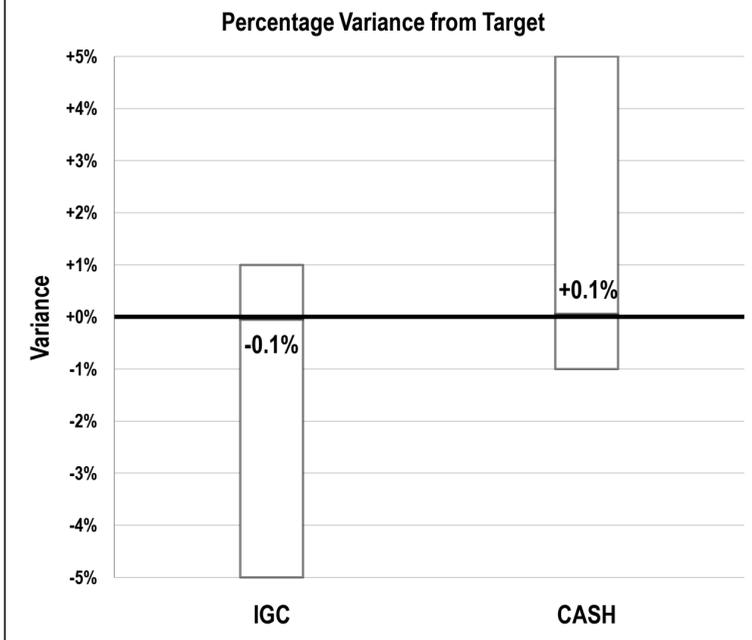
Coal Workers' Pneumoconiosis Fund				
Asset Class	Market Value	Actual	Target	Range
TIPS	\$ 111,539	39.3%	39%	35%—43%
Aggregate	\$ 108,542	38.4%	40%	36%—44%
Russell 3000	\$ 40,136	14.2%	13%	10%—16%
MSCI ACWI ex-U.S.	\$ 22,622	8.0%	7%	4%—10%
Net Cash & Cash Equivalents	\$ 189	0.1%	1%	0%—6%



Public Work-Relief Employees' Fund				
Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	\$ 25,410	99.4%	99%	94%—100%
Net Cash & Cash Equivalents	\$ 162	0.6%	1%	0%—6%



Marine Industry Fund				
Asset Class	Market Value	Actual	Target	Range
Intermediate Gov/Credit	\$ 19,158	98.9%	99%	94%—100%
Net Cash & Cash Equivalents	\$ 205	1.1%	1%	0%—6%



Self Insured Employers Guarantee Fund				
Asset Class	Market Value	Actual	Target	Range
Net Cash & Cash Equivalents	\$ 52,385	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: April 18, 2011

SUBJECT: CIO Report March 2011

Fiscal Year 2011 Goals

The Investment Division has three major goals for 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 former 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 (SIF) 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 was 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 SIF 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. The bids for this RFP are due on April 21, 2011 and the CIO will subsequently communicate to the BWC Administrator and Board members the identity of all eligible bidders submitting proposals.

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 to RFP issuance approval in turn leading to RFP finalists recommendations for each recommended new strategy.

Mercer presented very useful and specific information applicable to active management of long duration credit fixed income assets at the Investment Committee meetings of November and December, 2010. The CIO subsequently presented recommendations regarding active management of the long duration credit fixed income asset class for the SIF portfolio for discussion and consideration at the February and March, 2011 meetings of the Investment Committee. The Investment Committee and Board at their respective March, 2011 meetings approved the recommendation of the CIO to allow a targeted 20% of total SIF portfolio assets to be allocated to active management of long duration credit fixed income assets, with the remaining of SIF assets targeted towards this asset class mandate to remain passively indexed managed. The Board also approved at its March, 2011 meeting the specific CIO recommended changes to the Investment Policy Statement pertaining to active manager diversification, mandate objectives, mandate performance and risk expectations, and asset allocation targets. The BWC investment staff is currently working on the RFP to be issued regarding the search for investment managers to fulfill this active portfolio management objective for this mandate. The new BWC investment consultant R.V. Kuhns is assisting the investment staff in formulating questions and minimum applicant qualifications for inclusion in this RFP. The CIO will be requesting approval at the April, 2011 meeting of the Investment Committee to issue the RFP associated with this active management mandate.

With regards to the introduction of real estate as a new asset class for consideration, a first presentation was made by Mercer to the Investment Committee at its August, 2010 meeting. A second presentation on peer investor investments in real estate assets was made by Mercer at the September, 2010 Investment Committee meeting. The CIO will be presenting and recommending a real estate asset class strategy for SIF and related investment policy revisions

for first review and consideration at the April, 2011 Investment Committee meeting. The two most senior consultants representing the Real Estate Consulting group of new consultant R.V. Kuhns will also be introduced at this April, 2011 meeting and will present an overview of their group as well as a presentation on real estate as an asset class at this meeting.

As is evidenced from the steps taken as described in this section, the Investment Division will planfully coordinate and implement all action steps necessary to achieve the objectives for any new investment consideration approved by the Investment Committee and Board in fiscal year 2011. 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 both the Legal Division and Fiscal and Planning Division.

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.

The BWC Internal Audit Division conducted an audit on the Investment Division RFP process during the first half of fiscal year 2011 and validated its process. This was communicated to the BWC Audit Committee at its March, 2011 meeting. It is noted that the Investment Division RFP process was also audited by the BWC Internal Audit Division in fiscal year 2008.

Investment Consultant RFP Update and Selection

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 in Portland, Oregon. After this meeting was concluded, the RFP Evaluation Committee concluded that this Finalist firm R.V. Kuhns & Associates, Inc. (RVK) would 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 RVK, which consisted of the proposed senior lead consultant, senior co-lead consultant and its President/COO, appeared and presented themselves and information on the firm to the Investment Committee at its March 24, 2011 meeting. The Investment Committee and the Board approved RVK as the new BWC full service investment consultant at their respective meetings of March 24-25, 2011. The initial consulting services contract was subsequently fully executed by BWC and RVK on March 28, 2011 and became effective April 1, 2011 as the existing Mercer consulting contract expired at the end of March, 2011. Mercer will still have the obligation to produce and provide to the Board and BWC staff by mid-May, 2011 a quarterly investment performance report for the period ended March 31, 2011 in return for a one-time fee of \$30,000 to be paid by the Bureau.

Quarterly Investment Manager Meetings Summary (Fourth Quarter 2010)

Northern Trust

(Passive All Cap U.S. Equity)

The BWC investment staff met on February 8, 2011 at the Investment Division offices with a senior domestic equity portfolio manager involved with the management of the Russell 3000 passive indexed separate account as well as two members of the Northern Trust relationship management team.

Northern Trust maintains a very strong balance sheet with total shareholders' equity ending 2010 at \$6.8 billion with \$83.8 billion in total assets and the ratio of tier 1 common equity to risk-weighted assets ending 2010 at 13.1%, very high for a large-sized bank. Net income for 2010 declined 23% to \$670 million from \$864 million in 2009 as securities lending revenue declined significantly in 2010 and low short-term interest rates negatively impacted earnings on its

securities portfolio as well as requiring the reduction or waiver of fees on offered money market mutual funds and short duration fixed income funds. Its net interest margin has declined from 1.76% in 2008 to 1.56% for 2009 and 1.41% for 2010. Northern Trust is emphasizing a strategy of trying to take advantage of captive custody assets and relationships by managing more of these assets by its global investment asset division.

Northern Trust met its 2010 goal for attracting new custody assets with totaled \$4.1 trillion at year-end 2010 but its corporate and institutional assets under management were \$489 billion, up only 1% from year-end 2009 and included a 14% reduction in securities lending collateral. Total assets under management at 12/31/10 were \$644 billion, including \$154 billion of personal individual wealth assets. Global equity indexed assets under management (AUM) were \$281 billion or 43.6% of total AUM as of 12/31/10, of which \$131 billion was U.S. indexed equity. There was a brief mention of the growth of its passive-index global frontier markets fund launched earlier in the year that has exhibited good growth in assets under management.

Northern Trust reported that the SIF managed portfolio had a gross return of 11.55% for 4Q2010 compared to the Russell 3000 benchmark index return of 11.59%. The slight underperformance of the managed portfolio to the index is wholly attributable to cash drag. In a period such as 4Q2010 when the equity market appreciates significantly in value, any cash retained in the portfolio detracts from performance. The NT portfolio manager is not currently permitted by BWC to employ derivatives to substantially offset average cash positions. Consideration is being given by the BWC Investment Division staff to allowing separate account indexed managers to utilize derivative instruments to equitize cash and reduce cash drag and consequently tracking error. It is anticipated this subject matter will be brought before the Investment Committee in the future. The SIF portfolio managed by Northern Trust owned 2,421 of the 2,951 equity holdings of the Russell 3000 index as of 12/31/10. All other important metrics of the SIF indexed portfolio were closely matched with the benchmark index as of 12/31/10. The SIF indexed portfolio managed by NT had a total market value of approximately \$2.81 billion on 12/31/10, with \$110 million redeemed from the portfolio on 12/17/10 in order to fund upcoming projected SIF operating expenses over the next 4-5 weeks. Such redemption provided a realized capital gain on sale of \$15.4 million for SIF. The date for redemption of 12/17/10 represented the third Friday in December where each of the Dow Jones, Russell and S&P indexes were being rebalanced which caused heavy index trading and allowed the SIF portfolio to sell many shares via NT client crossing trades at zero commission cost. There was a brief discussion with the NT portfolio manager about purchase strategies of adding new IPO issues that were recently added to the index.

BlackRock

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

The BWC investment staff met with the BWC BlackRock primary relationship manager, a BlackRock fixed income strategist (Chris Woida) and a BlackRock international equities strategist (Marco Merz) on February 9, 2011 at the Investment Division offices.

BlackRock reported strong 4Q2010 net income of \$670 million, up \$123 million or 25% from 3Q2010. Operating income was \$940 million for 4Q2010, an increase of 31% from 3Q2010 level of \$737 million. Net income of BlackRock for the first full calendar 2010 after the Barclays Global Investors (BGI) acquisition was \$2,139 million. Assets under management (AUM) totaled \$3.56 trillion on 12/31/10, an increase of 6% for 2010 compared to \$3.35 trillion on 12/31/09. The increase in AUM in 2010 was driven by market and investment performance of \$284 billion and net new business of \$58 billion, partially offset by merger-related asset outflows of \$121 billion or less than 7% of acquired BGI business because of client reaction to manager concentration concerns after the BGI-BlackRock union. BlackRock management believes merger-related outflows are largely completed and the organizational integration post-merger is completed. Year-end 2010 AUM included a good balance between \$1.69 trillion of equity managed assets and \$1.14 trillion of fixed income managed assets.

The BlackRock relationship manager indicated that incentive awards to BlackRock employees for 2010 were being paid the week of this meeting and were considered to be fair which settled some anxieties, especially of former BGI employees. BlackRock has taken advantage of its very large post-merger size in combining trading teams for active and passive managed fixed income even though portfolio management for different styles remains and will continue to remain separate. The first year 2010 after the BGI merger was a transition year for the firm but 2011 is expected to have an emphasis on new initiatives and how to expand the business. The relationship manager indicated that there will be new enhancements of the BlackRock trading platform. The former CEO of BGI, Blake Grossman, announced he will be departing BlackRock and has largely discharged his duties. With his departure, the entire senior executive team of BlackRock is comprised of BlackRock executives employed by BlackRock prior to the BGI merger. Despite the dominance of the BlackRock senior executives, BGI portfolio management has been left largely unchanged, especially indexed management. For example, \$1.25 trillion of the \$1.35 trillion AUM in equity indexing is from legacy BGI.

During 4Q2010, BlackRock completed a secondary common stock offering placing \$9.6 billion of common stock sold by Bank of America and PNC with more than 150 new shareholders and increasing the public float of BlackRock common stock to 53% of total shares owned. The remaining common stock ownership shares are now 20.3% PNC, 19.7% Barclays PLC and 7.1% Bank of America. The breakdown of actual voting common stock is currently 72.4% public, 25.3% PNC and 2.3% Barclays.

At the end of 2010, BlackRock managed BWC assets totaling \$7.14 billion in market value consisting of \$5.09 billion of separate account managed indexed fixed income and \$2.05 billion of commingled account managed indexed non-U.S. equities. The 12/31/10 market value of passive indexed fixed income portfolios managed by BlackRock are SIF Long Government (\$1.36 billion), SIF Long Credit (\$1.53 billion) and SIF TIPS (\$2.19 billion).

BlackRock reported that the SIF separate account Long Government portfolio returned a negative 7.92% for 4Q2010 versus a negative 7.94% benchmark return and that the SIF separate account Long Credit portfolio returned negative 3.58% versus the negative 3.68% benchmark return for 4Q2010. The slight outperformance of the SIF Long Government portfolio was attributable to the portfolio sampling of Agency securities which now make up less than 10% of

the benchmark index which is dominated by U.S. Treasuries. The SIF portfolio owns all U.S. Treasury securities comprising the benchmark index and an optimized sampling of U.S. Agency securities. The SIF Long Government portfolio owned 76 of the 111 issues of the benchmark index on 12/31/10. BlackRock indicated the SIF Long Credit portfolio outperformance of 10 basis points compared to the benchmark index in 4Q2010 was largely attributable to performance of taxable municipal bonds sampled in the SIF portfolio compared to the index as several large state GO municipals in the benchmark index were under pressure during the quarter. The SIF portfolio manager participated in 55% of the many new issue long credit deals that came to market in 4Q2010. The number of issues in the benchmark index increased from 1,260 on 9/30/10 to 1,343 on 12/31/10 after increasing a net 102 additional issues added to the benchmark index in 3Q2010. A number of these new issues were Build America Bonds which are taxable municipal credits. This Build America Bond program was not supported and renewed by the federal government for 2011, so there was a rush of new issue supply in 4Q2010 to beat the issuance deadline. The SIF Long Credit portfolio owned 891 issues or approximately two-thirds of the 1,343 issues in the benchmark index on 12/31/10.

BlackRock reported that the SIF separate account TIPS portfolio returned a negative 0.65% for 4Q2010 which exactly matched the benchmark index return. Each of the 30 TIPS issues comprising the benchmark index on 12/31/10 were also owned in the SIF portfolio with comparable weightings as consistent with its full replication of the benchmark index strategy. Although inflation expectations in the marketplace are rising which is favorable for TIPS, the impact of duration in a rising yield environment for 4Q2010 had a much stronger impact and therefore resulted in a negative return for 4Q2010 TIPS performance.

BlackRock reported the ACWI ex-U.S. indexed non-lendable “B” fund had a gross return of 7.20% for 4Q2010 which exactly matched the benchmark index return. This commingled “B” fund is owned by each of SIF, DWRP and BLF. Although SIF seeded this new non-lendable commingled fund with its inception launch in February, 2010, it is encouraging to note that approximately \$400 million of units of this \$2.44 billion market value fund on 12/31/10 were owned outside of BWC. The BlackRock international equities strategist pointed out that the ACWI ex-U.S. index has only 85% non-U.S. equities market exposure by market cap as it excludes smaller cap names in developed and emerging market countries. The ACWI ex-U.S. IMI (Investable Market Index) index is gaining in popularity as a benchmark index because of its inclusion of small cap issues. The ACWI ex-U.S. IMI outperformed the ACWI ex-U.S. index by 2% in 2010.

There was some discussion in the meeting about the Egyptian stock market which was closed since January 27th. Egyptian stocks represented 0.12% of the ACWI ex-U.S. index market value and were approximately \$2.3 million in market value for BWC on 12/31/10. BlackRock has a “hard to price” securities valuation committee that has recently begun to focus on Egypt that is determining the daily fair market value of Egyptian stocks owned in the commingled fund. American depository receipts of certain Egyptian stocks still trade in the U.S. markets and there is also an exchange-traded fund for Egypt. Egyptian stocks in the U.S. markets were actually up 6% in price from January 27 to the date of this meeting (Feb. 9). The BlackRock strategist believes emerging market currencies in the aggregate will continue to appreciate in exchange value versus the U.S. dollar but that the performance of the Euro is more difficult to predict.

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

The BWC investment staff met with two relationship managers of Mellon Capital Management (MCM) on February 9, 2011 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).

The parent company of MCM, The Bank of New York Mellon Corp. (BNY Mellon), reported 4Q10 income from continuing operations of \$690 million compared to \$625 million in 3Q10. Net income of BNY Mellon for calendar year 2010 was \$2.52 billion. BNY Mellon assets under management, excluding securities lending assets, amounted to \$1.17 trillion on 12/31/10, an increase of 5% from year-end 2009. Being one of the largest custodian banks in the U.S., BNY Mellon had total assets under custody of \$25 trillion on 12/31/10, an increase of 12% compared to year-end 2009. BNY Mellon shareholders' equity was \$32.4 billion on 12/31/10 and its Tier I capital ratio on 12/31/10 was a healthy 11.8%, up from 10.5% at 12/31/09.

MCM total assets under management were \$208.5 billion on 12/31/10, consisting of \$139 billion in equity indexing, \$18 billion in fixed income indexing, \$16 billion in active managed equity, \$6 billion in active managed fixed income and \$29 billion in asset allocation, including global tactical absolute return assets under management. The breakdown of the \$139 billion of assets under management for equity indexing at year-end 2010 was \$111 billion in U.S. equity, \$19 billion in non-U.S. developed markets, \$4 billion in emerging markets and \$5 billion in global equity. As mentioned also in the BlackRock quarterly meeting, MCM is seeing more clients moving more assets into non-U.S. emerging markets or global equity through the ACWI IMI (both including and excluding U.S. stocks). There is increasing interest by pension funds in global small cap stocks and frontier markets. MCM has seen recent strong growth in assets under management coming from sovereign wealth funds and approximately 10% of its indexed equity assets under management are represented by overseas investors. A new MCM product launched is an equity indexed fund that invests only in master limited partnership equities for clients desiring higher dividend income yield than offered by the S&P 500. This new product has more than \$200 million of assets under management.

There was a brief discussion about the recent lawsuit filed by the state of Virginia against BNY Mellon (legacy BNY unit) over foreign exchange trading performed over many years where the posted exchange rates disfavored Virginia. This lawsuit is similar to that filed by California against State Street Bank and Trust. The expectation is that similar lawsuits could be filed by other state attorneys general against custodial banks with foreign exchange management responsibilities. The Mellon relationship managers were not able to offer any insight into this recent lawsuit beyond the headlines.

As of 12/31/10, the Russell 3000 equity indexed separate account managed by MCM for the SIF portfolio had a market value of \$1.25 billion. MCM reported that this Russell 3000 indexed portfolio had a return of 11.57% for 4Q2010 compared to the Russell 3000 benchmark index return of 11.59%. This slight underperformance of the managed portfolio to the index is all attributable to cash drag whereby any cash held during a period of strong performance such as

occurred in 4Q2010 will reduce total performance. The portfolio manager indicated portfolio turnover was slight over 4Q2010 being at only ½ of 1% due to benchmark index changes occurring. For all of 2010, portfolio turnover was 6.4% for the Russell 3000 index due to stock names added and deleted from the index. The SIF Russell 3000 indexed portfolio managed by MCM held 2,431 of the 2,951 stocks in the benchmark as of 12/31/10. MCM provides BWC a ranking each quarter of the breakpoints of twenty groups of stocks ranked by total market capitalization. MCM owned every stock in the SIF portfolio for the top 17 market cap groups of the benchmark and virtually every stock (699 of 707 stocks in the 18th and 19th ranked cap sector). It is only for the smallest of the 20 ranked groups by market cap where MCM samples holdings and owned 1,094 of the 1,606 names of this grouping consisting of stocks with market caps below approximately \$1.17 billion. This group represents 4.4% of the total index by market cap weighting and MCM believes in a modified sampling technique strategy that optimizes tracking error when trading costs are factored in to add additional small cap names.

The MCM global investment strategist indicated that MCM expects U.S. GDP growth to be approximately 2.8% in 2011 with virtually no chance of negative GDP growth due to the implementation of the Quantitative Easing II program of the Federal Reserve beginning in 4Q2010. MCM expects headline inflation at 2.4% for 2011 with a slow economic recovery and prices held back by housing shelter and rent costs. MCM favors riskier assets (equities, commodities) over fixed income as equity investors are being well compensated for the additional risk with a historically wide risk premium compared to bonds. MCM believes equity market returns are likely to be driven by earnings growth and not P/E expansion. MCM believes U.S. Treasuries do not offer adequate yields in light of inflation uncertainty. U.S. Treasuries are the least attractive sector in the fixed income market, in the opinion of MCM. For fixed income, MCM favors high yield and convertible bonds due to the economic recovery and improving credit conditions. Emerging market equities are favored by MCM over developed market equities given their higher real growth rates and similar or lower P/E multiples compared to developed markets. Equity sectors favored are information technology, energy and materials, especially information technology. MCM believes the U.S. dollar will continue to depreciate versus many other important currencies until late 2011 when expectations for Fed rate hikes start to build for 2012. MCM believes U.S. dollar depreciation is a natural result of quantitative easing as more supply of a currency will naturally devalue the currency. MCM prefers currencies in commodity rich countries such as Australia, Canada and Norway. Commodities are found to be attractive by MCM as an asset class inflation hedge.

State Street Global Advisors

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

The BWC investment staff met with two members of the BWC relationship manager team, the senior fixed income indexing portfolio manager (John Kirby) and a Senior Managing Director (Eric Brandhorst) on February 10, 2011 at the Investment Division offices. In addition, the group heard via conference call from the SSGA U.S. TIPS portfolio manager (Marc Touchette).

SSGA ended the year 2010 with total assets under management (AUM) of \$2.01 trillion for a net increase of \$160 billion during the year 2010. Most of this growth came from equities under management, representing a combination of organic growth and asset value market appreciation. Passively managed assets totaled \$1.424 trillion at year-end 2010, including \$255 billion of exchange traded funds managed. Actively managed assets totaled \$103 billion and cash managed was \$427 billion at the end of 2010.

Parent company State Street Corp. reported 2010 net income of \$1.56 billion compared to \$1.80 billion for 2009 (before a \$3.68 billion extraordinary loss in 2009), with total fee revenues up 10% over 2009. Its shareholders' equity was \$17.8 billion on 12/31/10 with total assets of \$160.8 billion and a tangible common equity to tangible assets ratio of 7.6%, up from 6.6% at year-end 2009. Its Tier I capital ratio was a very high 20.5% on 12/31/10, up from 17.7% on 12/31/09. The parent company recently announced that 1,400 positions will be eliminated in 2011 with 60 positions estimated at SSGA (out of 2,000 SSGA total employees). Most of the job cuts at parent State Street Bank and Trust (SSBT) will be in the IT area as SSBT makes more use of cloud computing. The SSGA portfolio indexing management area will not be impacted with job cuts and in fact expects to have some new positions in 2011, largely related to the growth of ETF assets under management.

SSGA passively managed over \$8.82 billion of BWC indexed invested assets at the end of 2010, consisting of three fixed income separate accounts representing \$7.34 billion and four separate commingled funds (3 fixed income, 1 equity) in which four of the five BWC specialty trust funds have an aggregate of \$1.48 billion invested.

SSGA reported that the largest separate account managed for BWC, the SIF separate account Long Credit portfolio (\$3.9 billion on 12/31/10), had a gross return of negative 3.60% for 4Q10 compared to the benchmark return of negative 3.68%. Favorable securities sampling compared to the benchmark index composition accounted for 7 basis points of the 8 basis points of outperformance of this portfolio over 4Q10. This 4Q10 performance narrowed the underperformance gap of the Long Credit portfolio for the calendar year to the benchmark index to negative 12 basis points as the SIF portfolio had SSGA reported gross performance return of 10.57% for calendar 2010 versus 10.69% for the benchmark index. The SSGA senior portfolio manager indicated there has been good growth in SSGA assets under management devoted to long duration credit with growing interest by corporate pension plans subject to the Pension Protection Act requiring asset-liability duration matching. SSGA has a commingled long credit

fund now at \$7 billion in assets. The appealing relative yield levels of long duration corporate bonds are attracting more institutional assets.

SSGA reported that the separate account SIF U.S. Aggregate fixed income portfolio (\$2.53 billion on 12/31/10) had a gross return of negative 1.25% for 4Q10 compared to the benchmark index return of negative 1.30%. Similar to the SIF Long Credit portfolio, the SIF U.S. Aggregate portfolio lagged the benchmark index return in performance for calendar year 2010 with a reported gross performance of 6.38% versus 6.54% for the benchmark index. The mortgage backed securities portion of the index (both residential and commercial MBS representing about 35% of total index) had positive returns for the fourth quarter of less than 1% but negative returns of the government index (-2.34%) and the credit index (-1.86%) accounted for the negative return of the U.S. Aggregate index for 4Q10.

SSGA reported that the SIF separate account TIPS portfolio had a gross return of negative 0.64% for 4Q10 which closely matched the negative 0.65% benchmark quarterly return. The TIPS portfolio manager indicated deflation concerns have abated in the marketplace and the current breakeven yield to nominal Treasuries was 233 basis points which is in the normal range. The portfolio manager stated that liquidity for TIPS is very good currently and trading volume has increased. He expects that central banks will show continued demand for TIPS, including the Federal Reserve which announced that 4% of the \$600 billion QEII Treasury repurchase program will be devoted to TIPS.

With the major transition of invested assets for both the DWRF and BLF investment portfolios occurring in August 2010 whereby all assets became managed under a commingled account structure, SSGA became the manager of all fixed income assets of DWRF and BLF as well as for their U.S. equity assets. As a result, 4Q2010 was the first full quarter of DWRF and BLF performance for the selected SSGA managed commingled funds. The SSGA managed U.S. TIPS commingled fund returned a negative 0.65% in 4Q10 for DWRF and BLF which matched the benchmark index. The SSGA managed U.S. Aggregate fixed income commingled fund managed by SSGA returned a negative 1.26% for 4Q10 for DWRF and BLF compared to the benchmark index return of negative 1.30%.

The U.S. equity commingled fund portfolio of DWRF and BLF managed by SSGA to the All Cap Russell 3000 benchmark index returned 11.53% for 4Q10 compared to the benchmark return of 11.59%. SSGA indicated that they are seeing more asset flows from active equity managers and quantitative style management into passive management for equities in general. There is a large increased interest in emerging equity markets. Most RFP searches SSGA has been involved in lately are related to All-World MSCI ACWI indices rather than U.S. indices.

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 negative 1.44% for 4Q10 which matched the benchmark index return.

The meeting concluded with a discussion on alternative beta strategies offered by SSGA which was led by Eric Brandhurst. SSGA offers such strategies that focus both on alternatives to cap

weighting equity indexes whereby there is a tilting of a managed equity portfolio towards either valuation, low volatility/low beta, small cap strategies, and positive momentum strategies. For fixed income alternative beta strategies, there are focus strategies on bond credit ratings as well as sectors of the market. These alternative beta strategies are attracting assets of institutional investors as they do offer desirable aspects of traditional indexing such as diversification, liquidity and low cost but can also offer attractive risk-adjusted returns where beta is still the objective via a reflection of cross-sectional investment theses offering higher than indexed returns.

Compliance

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



State of Ohio Bureau of Workers' Compensation

Real Estate Educational Presentation

April 28, 2011

Presented by Dan Krivinskas, Director of Real
Estate Consulting, and Roman Nemtsov, Consultant

RVKuhns

▶▶▶ & ASSOCIATES, INC.



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RVK Real Estate Consulting Group Overview



RVK Real Estate Consulting Group Overview

Strategic Investment Consulting Is Our Only Business

- ▶ The RVK Real Estate Consulting Group advises a wide array of governmental, corporate, and endowment & foundation clients on commingled fund, separate account, “club deal”, and direct real estate investments
- ▶ Over \$25 billion of retainer real estate client assets under advisement

RVK’s Strength in Building Out New Real Estate Portfolios

- ▶ RVK evaluates each client’s unique circumstances (e.g., liquidity position, funding ratios, etc.) when building out real estate portfolios

Unique Risk-Based Perspective Provides Value for the BWC

- ▶ Proprietary “RVK Corporate Governance Rating System”
 - ▶ Allows RVK to evaluate corporate governance protections and other important aspects of potential investments and to negotiate improvements for the benefit of the BWC
- ▶ Proprietary market updates and educational pieces for the BWC
 - ▶ Examples include RVK’s “Global Real Estate Outlook” and “Global Infrastructure Educational Presentation”



Unique Benefits of RVK Real Estate Consulting

Downside Scenario Focus

- ▶ We always ask two fundamental questions in order to achieve the best returns for our clients:
 - ▶ What can go wrong with a particular investment?
 - ▶ Does the manager have the proper incentives to be successful?
- ▶ We seek out managers who would rather miss out on a good deal than do a really bad one
- ▶ RVK staff takes a proactive approach in structuring investment opportunities to achieve the best outcomes for our clients

Fact-Driven Investment Analysis Focused on Global Investment Themes

- ▶ Evaluate open-ended as well as closed-ended “blind pool” funds and secondary investment opportunities in the market for our clients
- ▶ We endeavor to identify most relevant macro themes—while tuning out “noise”—and to identify investment managers best positioned to take advantage of them
- ▶ RVK real estate consultants spend a significant amount of time reading various publications and speaking with leasing agents, brokers, and other market participants in U.S., Europe, and Asia to get an information edge and find the best risk-adjusted opportunities



Unique Benefits of RVK Real Estate Consulting

Reliability and Integrity With Our Clients and Investment Managers

- ▶ RVK is a reliable partner for investment managers, as we strive to proactively seek out the best investment managers and often get referrals from the “best in the business” rather than wait for managers to come through our offices
- ▶ Our reputation for delivering on our promises is our competitive edge in the marketplace

RVK Provides the Full Range of Real Estate and Real Assets Consulting Services

- ▶ Plan Evaluation and Asset Allocation Guidelines
- ▶ Drafting of Investment Policy, Annual Investment Plan, and Guideline Statements
- ▶ Public and Private Real Estate and Real Assets Due Diligence Reviews
- ▶ Investment Manager Search and Selection
- ▶ Quarterly Performance Analysis and On-Going Investment Performance Oversight
- ▶ Client Education on Pertinent Real Estate and Real Assets Topics
- ▶ Special Project and Fraud Investigation Work



RVK Real Estate Consulting Group Capabilities

Experience Across Core, Value-Added, and Opportunistic Real Estate

- ▶ Evaluated and recommended client commitments totaling over \$15 billion in commingled fund, separate account, and direct real estate

Meet Approximately 200 Managers Per Year and Have Over 800 Opportunities in Our Databases

- ▶ RVK maintains an “open-door policy” in order to stay on top of investment opportunities and trends and to find best-in-class managers at competitive fees

Minority and Women-Owned Real Estate Manager and Green Investment Initiatives

- ▶ Successfully implemented programs with CalPERS, Fannie Mae, and other large institutions to invest in market-rate private real estate focusing on social investment and environmentally-friendly investments
- ▶ Created unique separate account structure to target minority and women-owned real estate enterprises for the Employees Retirement System of Texas

Structured Finance

- ▶ Significant experience evaluating investments throughout capital structure tiers and analyzing the quality of the underlying real estate collateral
- ▶ **Examples:** Whole loans, direct origination loans, mezzanine debt, and non-performing loans



RVK Corporate Governance Rating System

Proprietary RVK Corporate Governance Rating System

- ▶ RVK has implemented a proprietary comprehensive corporate governance rating system which allows us to systematically implement our unique investment philosophy and evaluation approach
- ▶ RVK Corporate Governance Rating System evaluates overlooked aspects affecting private real estate and real assets investments
- ▶ Both strategic reviews and corporate governance reviews necessary to avoid poor investments

Examples

Ownership of the Sponsor

- ▶ Intensive review of entities and individuals that have influence on investment strategy
- ▶ Who profits from asset management fees within sponsor? Incentive fees? Other fees?
- ▶ **Example:** An undisclosed investment in one sponsor by large residential lender influenced decision-making – RVK evaluated financial statements to identify issues

Co-Investment

- ▶ Determine amounts and who precisely is providing co-investment capital
- ▶ **Example:** Sponsor provides loans to employees to co-invest? Recourse or non-recourse?

Accounting

- ▶ Focus on mismatch of the financial statements and information reported to LPs
- ▶ **Example:** Unusual rotation of audit firms



RVK Real Estate Investment Philosophy

Real Estate Is an Illiquid Asset Class, Not a Short-Term Trading Vehicle

- ▶ Long-term outlook is important to achieving superior risk-adjusted returns
- ▶ Too few market participants are able to ignore short-term noise from long-term trends

Short-Term Pressure to Produce Caused Excesses in the Real Estate Markets

- ▶ Encouraged excessive risk-taking by real estate managers
- ▶ Incentivized managers to fully invest with excessive leverage at expense of prudent due diligence, resulting in higher asset prices and lower returns

Bottom-Up Fundamental Analysis Is Key to Long-Term Success

- ▶ Many market participants project recent market trends too far into the future
- ▶ RVK's focus is less on day-to-day (or quarter-to-quarter) price movements but rather on the long-term value of an investment's underlying cash flows
- ▶ Investment decisions should not be guided by capital flows into the asset class or the latest investment fad, as these factors can change swiftly

Avoiding Value Traps

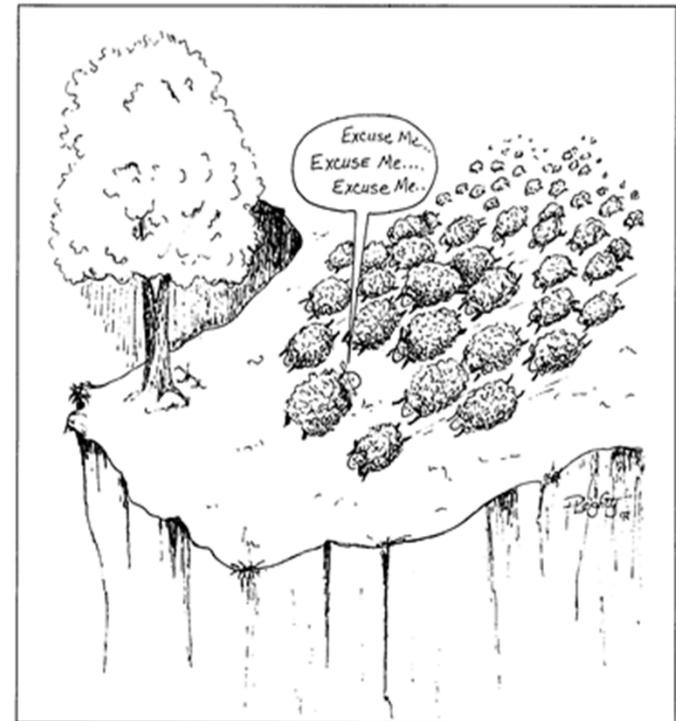
- ▶ Market trends should be used as “catalyst” events for investing after rigorous bottom-up research is completed (e.g., credit quality, significant demand growth, pre-negotiated exits)



RVK Real Estate Investment Philosophy

Superior Returns in Real Estate Are Achievable Only When Managers:

- ▶ Are highly selective, identifying contrarian market views, exhibiting patience and **avoiding crowds**
- ▶ Possess the right amount of experience, skill, and temperament to deal with complicated situations (e.g., bankruptcy, restructuring, multiparty negotiations, etc.) and to know when to walk away
- ▶ Have strong property-level skills and know when to seek outside expertise
- ▶ Are reasonable in their expectations for returns. Given today's market environment, 10-12% leveraged long-term returns from a balanced real estate portfolio are achievable. Anything significantly above that is **not** possible without taking on excess risk
- ▶ Are able to show restraint and are able to discontinue investments when the market shifts or if their investment theses prove to be incorrect





What Is Real Estate?

Traditional Commercial Real Estate Sectors

- ▶ Office
- ▶ Retail
- ▶ Apartments/Residential
- ▶ Industrial
- ▶ Hotels/Hospitality

Non-traditional Commercial Real Estate Sectors

- ▶ Self Storage
- ▶ Senior Housing
- ▶ Student Housing
- ▶ Other “Hybrid” Types (e.g., Health Care, Infrastructure)

Mechanisms for Real Estate Investment

- ▶ Public Real Estate
 - ▶ Real estate securities traded on exchanges, including real estate investment trusts (REITs) and real estate operating companies (REOCs)
- ▶ Private Real Estate
 - ▶ Many ways to invest in private real estate, including direct investment, commingled funds, separate accounts, and hybrid “club deals”



What Is Real Estate?

Real Estate Produces Returns in Two Ways

- ▶ Income: Returns from the rental income of subject investments
- ▶ Appreciation: Returns from price appreciation of subject investments

Two Types of Real Estate Investments

- ▶ Equity Interests: Real estate investments that rise or fall depending on whether real estate values increase or decrease, typically in a “first loss” position
- ▶ Debt Interests: Real estate investments primarily in mortgages or portions of mortgages and other real estate debt that is not in a “first loss” position

Analogous to Investing in a House

- ▶ The owner is in the equity position, who gains (or loses) money from the rise (or fall) in the value of the house as well as any rental income gained from the property
 - ▶ The owner has to pay the bank interest and principal payments in order to keep the house
- ▶ The bank is in the debt position, which does not gain from rises in the value of the house, but has the right to foreclose on the house in case the owner does not pay interest and principal
 - ▶ The bank gets the interest payments from the owner and has the right to foreclose on the owner if the interest and principal is not paid as agreed



Why Invest In Real Estate?

Reasons for Investment in Real Estate

- ▶ **Low Correlation**: Real estate-oriented investments have generated attractive long-term returns with low correlations to traditional asset classes
 - ▶ However . . . private real estate correlation is understated due to the appraisal-based processes utilized, evidenced by public real estate (e.g., REITs) correlation to equities over the short-to-medium term
- ▶ **Inflationary Hedge**: Rental growth and appraised values are tied to inflation, as the replacement cost of real estate acts as a natural hedge
 - ▶ However . . . this inflationary hedge tends to work better in more vibrant real estate markets, while rental growth and appraised values often trail inflation in real estate down cycles
- ▶ **Liability Matching**: Longer-term nature of real estate hedges against longer-term liabilities
 - ▶ However . . . particularly during exuberant periods, many managers are incentivized to aggressively buy assets at hefty prices or to “flip” assets to generate fee revenue, misaligning the interests of investors with managers
- ▶ **Increased Transparency**: Greater numbers of opportunities in both public and private real estate that are much more transparent than in the past, and stronger corporate governance protections are available to investors
 - ▶ However . . . in the past, when capital flows have increased to certain funds and opportunities, managers became less sensitive to transparency and corporate governance issues, causing future problems



How Is Real Estate Defined?

Many Risks Associated With Real Estate

- ▶ There are many risks associated with real estate investment (e.g., liquidity, transparency, valuation), similar to any other kind of investment

Institutional Definitions of Real Estate “Risk”

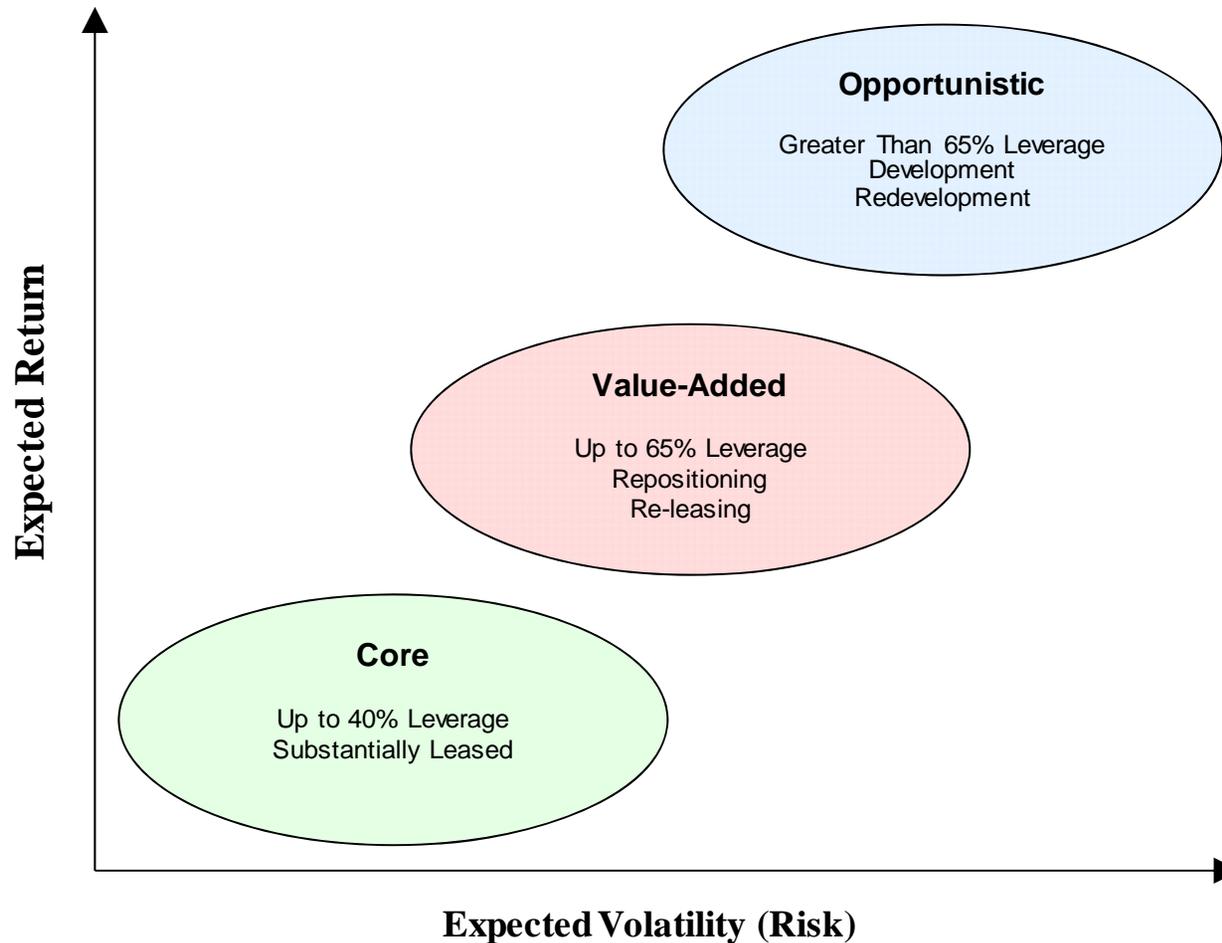
- ▶ While certainly understating the various risks associated with investment, institutions tend to break real estate investment into three “risk” categories
 - ▶ **Core**
 - ▶ Considered to have lower volatility and lower likely return potential, with high levels of income relative to appreciation in overall expected return
 - ▶ **Value-Added**
 - ▶ Considered to have moderate levels of volatility and likely return potential, comprised of both income and appreciation components in overall expected return
 - ▶ **Opportunistic**
 - ▶ Considered to have greatest levels of volatility and likely return potential, comprised primarily (although not exclusively) of appreciation in overall expected return

Many Other Designations Can Be Incorporated Into the Spectrum

- ▶ RVK has decided to break down our asset allocation assumptions into the “core” and “non-core” real estate categories to be more intellectually honest about the difficulties associated with labeling many non-core strategies (e.g., “core-plus” and “enhanced” definitions)



How Is Real Estate Defined?





How Is Real Estate Defined?

	Core	Value-added	Opportunistic
Income and Appreciation	Greater than 75% of return is income	Contains both income and appreciation components	Mostly appreciation
Leverage	Up to 40% Loan-to-Value (LTV)	Up to 65% LTV	Often greater than 65% LTV
Diversification	Fully diversified	Limited diversification	Diversification often not a high consideration in the investment process
Life Cycle	Existing, fully leased, and stabilized	Existing, but requires redevelopment, releasing, and/or repositioning	Development and/or existing properties that require extensive redevelopment, releasing
Holding Period	Buy and hold	3 to 7 years depending on the position of the current market cycle	Implement strategy and sell
Property Types	Primarily the 5 major property types (office, retail, residential, industrial, hotel)	5 major property types plus some selective additional property types (self-storage)	All property types including niche sectors (healthcare, senior housing, etc.)
Markets	Typically primary markets	Both primary and secondary markets	Primary/secondary markets and domestic/international
Property Class	Class A	Typically lower quality buildings, but can be converted to Class A	Typically lower quality buildings, but can be converted to Class A. Sometimes ground-up development
Fund Structure	Typically open-ended	Both open-ended and closed-ended	Typically closed-ended
Fee Structure	Based on assets under management plus some sort of incentive fee	Based on committed capital, plus incentive fee. May include other fees (acquisition, disposition)	Based on committed capital, plus incentive fee. May include other fees (acquisition, disposition)
Liquidity	Relatively high (subject to potential entry and redemption queues)	Moderate to low depending on structure	Low



How to Invest in Real Estate?

Private Real Estate Investments

- ▶ Direct Investments
 - ▶ Investment in traditional or non-traditional assets, such as an individual office building, a shopping center, an apartment building, a commercial warehouse, or a hotel
 - ▶ Less liquid than most other real estate investment options
 - ▶ Inherent lack of diversification
- ▶ Commingled Funds
 - ▶ Pooling of institutional capital into funds to invest in a series of real estate assets
 - ▶ Funds can be diversified or focus on a particular sector (e.g., office) or geography (e.g., Southeast United States)
 - ▶ Commingled funds vary in terms of commitments
 - ▶ Open-Ended Funds: Ability to request funding or redemption of capital (typically within 90-120 days), although this liquidity can be subject to entry or exit queues
 - ▶ Closed-Ended Funds: Requires to contractually commit capital for long periods (typically 7-10 years) without ability to redeem capital
- ▶ Joint Ventures/Separate Accounts
 - ▶ Hybrid of direct investment and commingled fund approaches
 - ▶ Typically for larger institutions with significant real estate portfolios (\$500MM+)



How to Invest in Real Estate?

Public Real Estate Investments

- ▶ Domestic Real Estate Investment Trusts (REITs)
 - ▶ Public securitized real estate companies with tax efficient structures, which invest in various forms of real estate (e.g., Vornado in office, Simon Property Group in shopping malls)
 - ▶ Most liquid real estate investment option, as they trade on listed exchanges
 - ▶ Unlike privately-held real estate, REITs are significantly correlated with U.S. equities

- ▶ Global Real Estate Securities (REITs and REOCs)
 - ▶ Favorable REIT legislation throughout the globe increases opportunities for public real estate investment, particularly in Asia and Europe
 - ▶ Some large global real estate companies (particularly developers) are not set up as REITs, but rather are set up as traditional corporations, where they are taxed at the corporate level but are not forced to distribute all of their income (REOCs)
 - ▶ Listed on exchanges in these countries and denominated in local currencies
 - ▶ Global publicly traded real estate securities are significantly correlated with local equity markets



Private Real Estate Considerations

Various Considerations Related to Private Real Estate

- ▶ Calculation Considerations
 - ▶ More difficult to measure direct real estate and private real estate fund returns due to appraisal-based processes, compared to “marked-to-market” REITs, equities, and fixed income investments
- ▶ Liquidity Considerations
 - ▶ Investment in direct real estate and private real estate funds cannot be entered into or liquidated as quickly as REITs, equities, and fixed income investments
 - ▶ In 2008 and 2009, many core open-ended funds had “redemption queues”
 - ▶ Now, many core open-ended funds have “entry queues”
- ▶ Valuation Considerations
 - ▶ Three main approaches to valuing real estate can lead to different outcomes
 - ▶ Replacement cost approach (i.e., how much would it cost to replicate a particular building?)
 - ▶ Comparative sales approach (i.e., how much did a similar building sell for recently?)
 - ▶ Discounted cash flow (income) approach (i.e., what value would one apply to the income generated from a particular building?)



Private Real Estate Considerations

Various Considerations Related to Private Real Estate (Continued)

- ▶ Fee Considerations
 - ▶ Private real estate investment options generally are more expensive than investment in public real estate
 - ▶ However . . . private real estate vehicles range from core to opportunistic, with a wide range of strategies and fees that can be well worth the cost



Real Estate Market Conditions



Real Estate Market Summary

Current Real Estate Market Dynamics

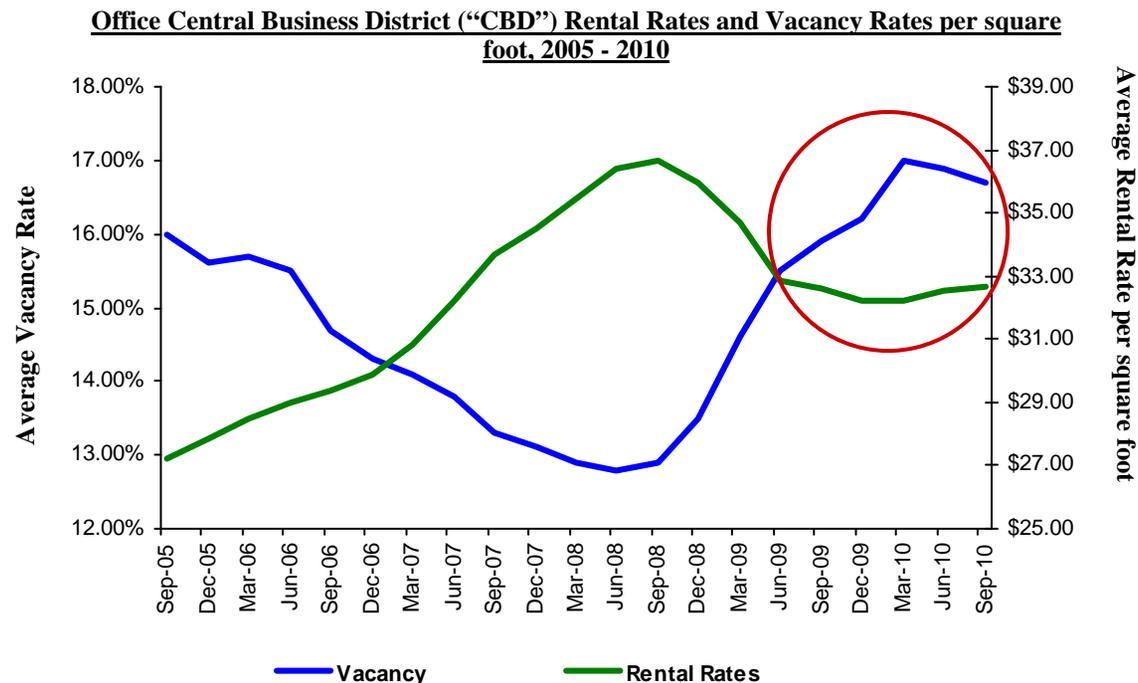
- ▶ Modest Rebound in Domestic Real Estate Valuations
 - ▶ Valuations have fallen significantly from their debt-fueled cyclical peak but have rebounded modestly in recent quarters, though fundamentals and recent transaction pricing have not fully stabilized
- ▶ Aggressive Competition for Core Real Estate, Much Less for Non-Core Real Estate
 - ▶ Transaction and lending markets are currently bifurcated, with aggressive competition arising for core properties while non-core assets continue to face pricing and financing headwinds
- ▶ Concern About Weak Jobs Recovery Impacting Real Estate
 - ▶ Tepid demand for many types of real estate (e.g., office, industrial) due to fewer individuals occupying space, which continues to pressure rents and occupancy across most real estate sectors
- ▶ Renewed Focus on Income as Primary Driver of Total Real Estate Returns
 - ▶ Recovery expected to be slow and bumpy, with a renewed focus on income as the primary driver of return
 - ▶ With a new appreciation for risk, investors are increasing allocations to core real estate, and many funds have gone from having redemption queues to entry queues
 - ▶ Yield-driven investors are showing renewed interest in real estate, given current spreads to Treasury yields and renewed concerns about longer-term inflation



Real Estate Fundamentals

Some Stabilization Seen in Core Real Estate Markets

- ▶ Real estate fundamentals remain challenged, but recent quarters have shown some stabilization in both vacancy rates and rental rates
- ▶ Unemployment remains elevated, and though a jobs recovery is expected to be slow and bumpy, recent months have shown some positive job creation, boding well for real estate fundamentals



Source: Cushman and Wakefield, as provided by Bloomberg. Data represents CBD office buildings for the Top 10 metropolitan statistical areas

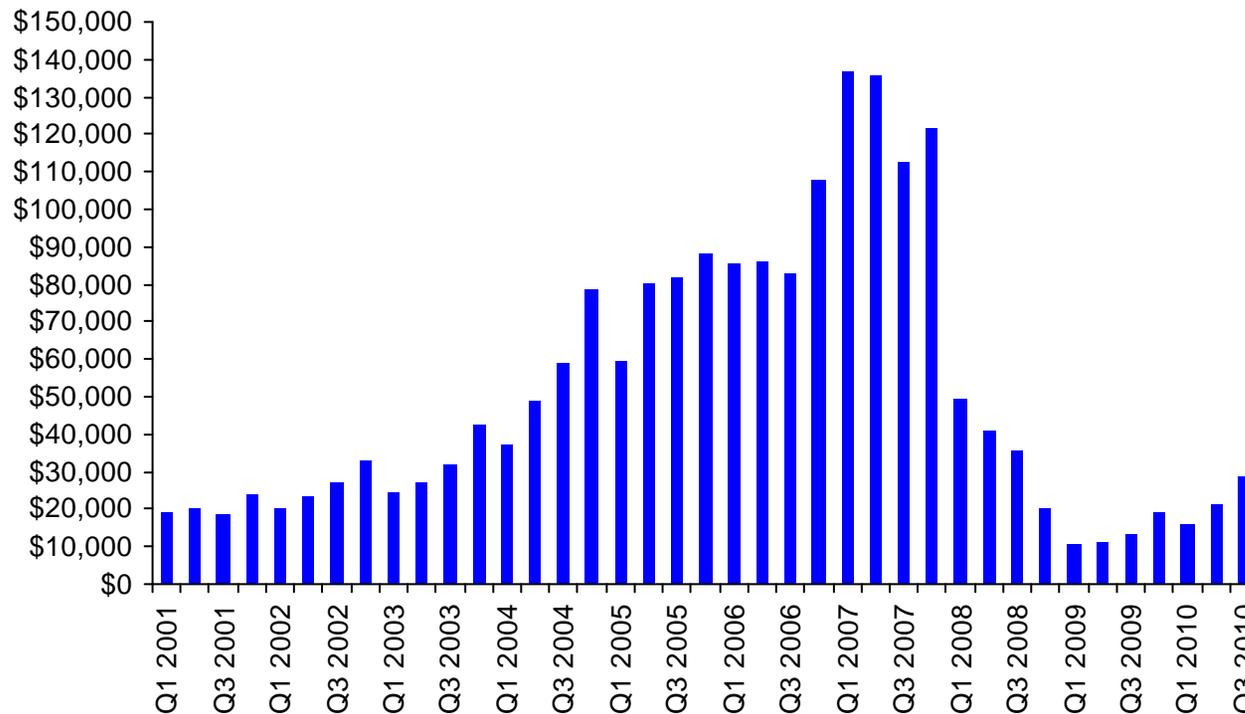


Real Estate Transaction Activity

Modest Uptick in Real Estate Transactions Over the Past Year

- ▶ Transaction activity remains well below the boom experienced during the 2006-2008 period, although though volumes have shown consistent improvement in recent quarters, which may indicate improved liquidity and demand conditions

Real Estate Transaction Volume (\$MM), 2001 - 2010



Source: Real Capital Analytics

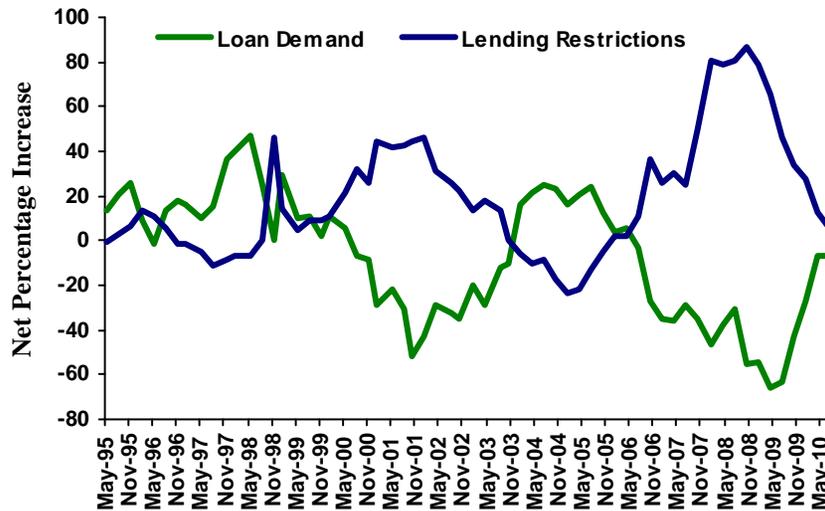


Debt Market Conditions

Real Estate Debt Markets Stabilizing

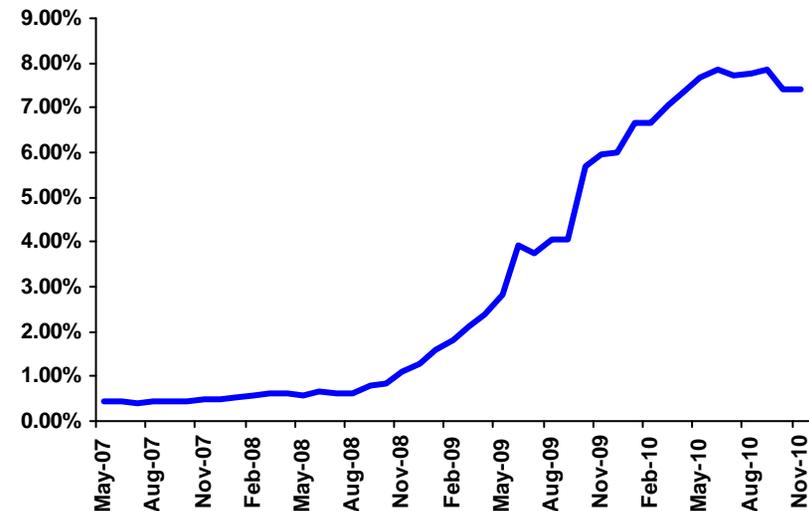
- ▶ Transaction activity is heavily dependent upon debt market conditions
- ▶ Recent quarters have shown some signs of stabilizing default rates in CMBS and lending availability, particularly for core properties, appears to be improving
- ▶ This, combined with historically low interest rates, has increased demand for commercial real estate loans

Federal Reserve Lending Survey for Commercial Real Estate



Source: Bloomberg

CMBS 30 Day Delinquency, 2007 - 2010

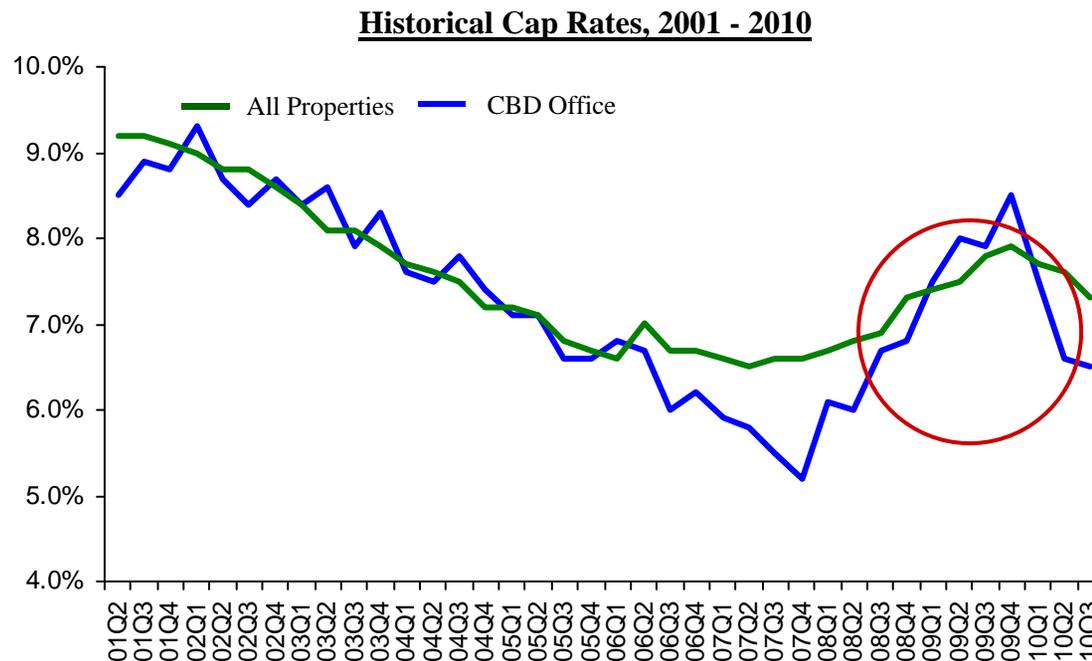




Real Estate Cap Rates

Core Cap Rates Stabilizing More Quickly Than Non-Core Cap Rates

- ▶ Capitalization rates (“cap rates”) are a widely-utilized gauge of private real estate values
- ▶ Cap rates can be thought of as the inverse of the price-earnings ratio for stocks and are calculated by taking the net operating income from a property, divided by its sales price
- ▶ Though cap rates expanded significantly through 2009, recent transaction activity indicates that cap rates are compressing and assets are beginning to trade at higher price points (i.e., lower cap rates)



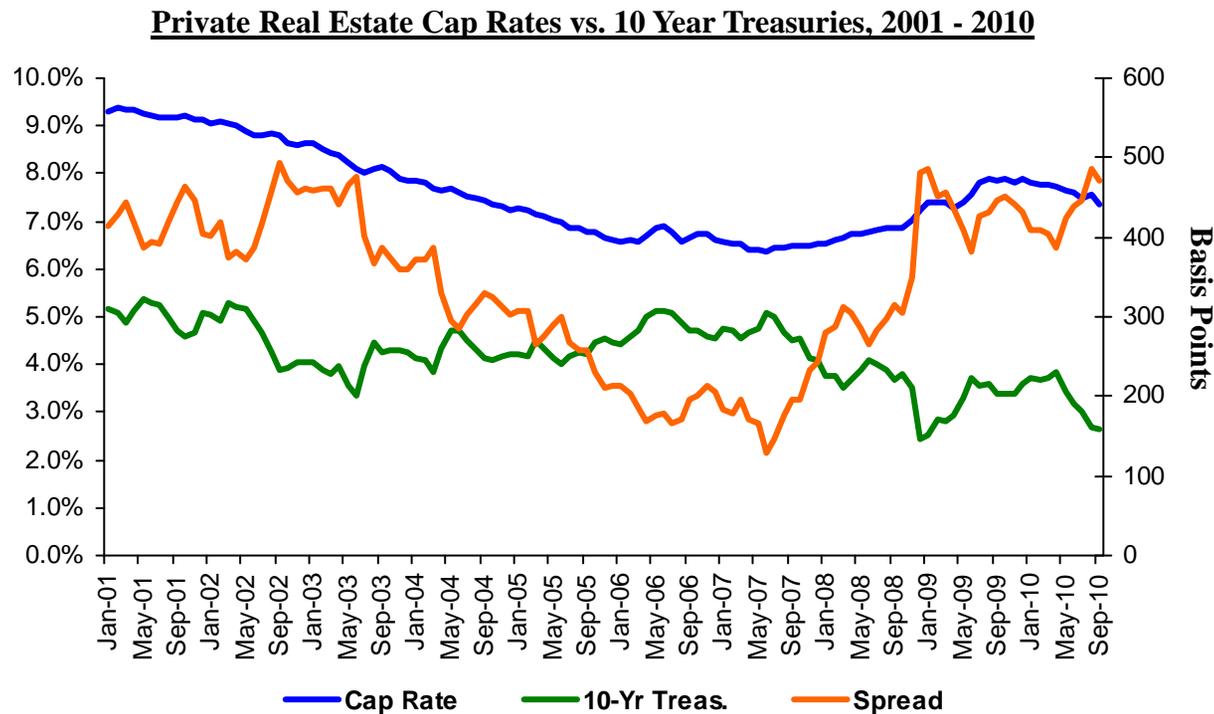
Source: Real Capital Analytics



Real Estate Cap Rates vs. Treasury Rates

Real Estate Cap Rates Offer a Significant Spread to Treasury Rates, Albeit With Risk of Loss

- ▶ Cap rates can also be thought of as the unlevered yield earned on a real estate asset
- ▶ Consequently, yield-hungry investors are likely to flock to assets that pay risk-adjusted yield spreads over Treasury rates
- ▶ Currently, yields earned in private real estate represent substantial spreads over Treasury rates, which bodes positive for overall demand for real estate assets



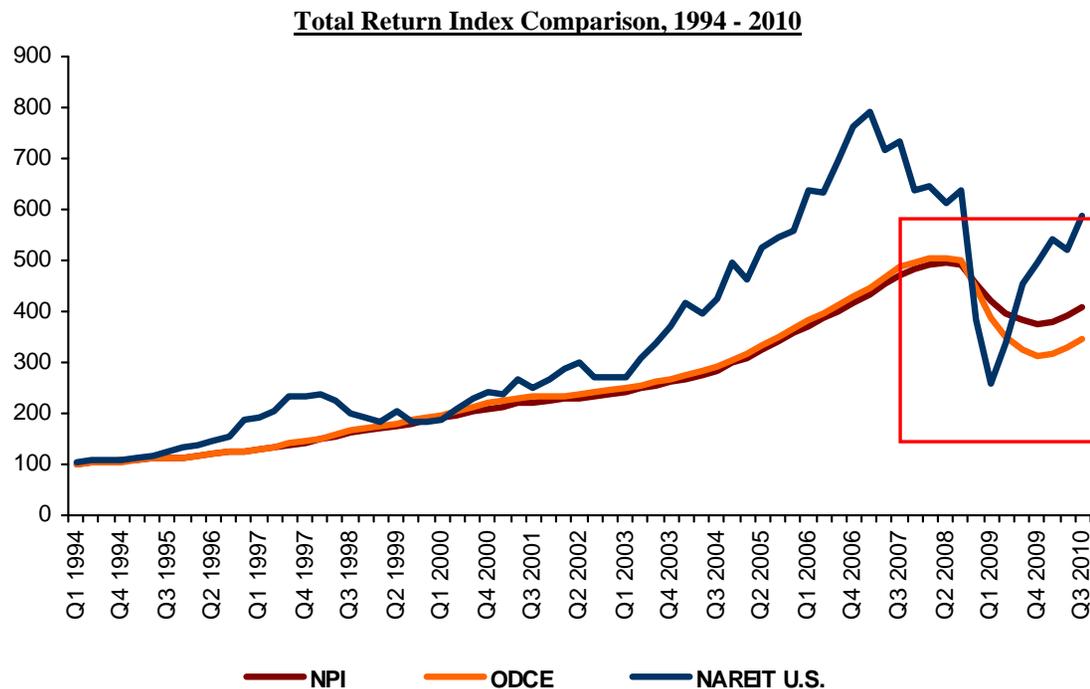
Source: Real Capital Analytics



Private vs. Public Real Estate Performance

Public Real Estate Is Considered to Lead Private Real Estate

- ▶ REIT indexes are often viewed as a leading indicator for private real estate returns, as they tend to adjust more quickly to changing market dynamics.
- ▶ Relative to REITs, private real estate indices remain suppressed despite recent strength
- ▶ In the chart below, “NAREIT U.S.” is an index of public REITs, while “NPI” and “ODCE” are private real estate indices:



Source: MIT Center for Real Estate, National Council of Real Estate Investment Fiduciaries



Real Estate Investment Rationale

RVK Real Estate Consulting Group 2011 Investment Thesis

- ▶ Arbitrage Opportunity
 - ▶ The imbalance between public and private pricing as well as trophy and non-trophy assets is creating arbitrage opportunities within private real estate
 - ▶ Bifurcation exists between “trophy” assets in first-tier markets with clean balance sheets (which is the focus of core real estate funds) and “the rest”
- ▶ Need to Remain Vigilant
 - ▶ However, even with government intervention, the economic recovery is slow, so investors in private real estate need to remain cautious
 - ▶ While there has been a resurgence in CMBS issuance (\$11.6 billion in 2010 and expected \$45-60 billion in 2011), this is still a small fraction compared to the peak issuance (\$229 billion in 2007)
- ▶ Debt and Equity Opportunities Available
 - ▶ Real estate debt maturities are expected to reach \$300 billion per year for each of 2011, 2012, and 2013
 - ▶ While some of this debt will be refinanced, a significant amount of new debt and equity capital will be necessary to deal with these maturities, providing opportunity for BWC
 - ▶ At the same time, improving fundamentals and stabilizing lender balance sheets will stimulate more real estate sales, providing BWC investment opportunities on the real estate equity side



RVK Real Estate Consulting Group Biographies



RVK Real Estate Consulting Group Biographies

Dainius (“Dan”) A. Krivinskas, JD – Consultant, Director of Real Estate Consulting, Principal

Dan is a Consultant and Director of Real Estate Consulting with R.V. Kuhns & Associates, Inc. and is located in our Chicago office. He has twelve years of experience with governmental organizations and in real estate, private equity, and merger & acquisitions transactions. Dan started his career with the United Nations Development Programme and the Government of Lithuania, focusing on transition economics. Dan’s consulting experience has focused on reviewing and negotiating complex real estate and infrastructure transactions, first as an associate with Jones Day and then as general counsel and consultant with Courtland Partners, Ltd., a specialty real estate consulting firm. Dan has extensive relationships with corporations, endowments, and public pension programs. Dan’s experience includes developing investment policy statements, structuring pooled fund and joint venture investments, conducting manager searches, and reviewing client portfolios.

A licensed attorney, Dan earned his A.B., summa cum laude, in Economics and Public Policy from Duke University and a J.D. from the University of Michigan. Dan is a shareholder of the firm.

Roman Nemtsov – Consultant

Roman joined R.V. Kuhns & Associates, Inc. in 2008 as an Associate Consultant and is located in our Chicago office. He has six years of experience in private and public equity real estate. Roman’s consulting experience has focused on assisting in review and negotiation of private equity real estate and infrastructure transactions as a senior analyst with Courtland Partners, Ltd., a specialty real estate consulting firm. Roman’s experience includes developing investment policy statements, conducting manager searches, and reviewing client portfolios. As a member of Courtland’s performance measurement team, Roman monitored performance of public and Taft-Hartley pension funds. Roman’s previous experience includes financial analysis and internal auditing positions with MeadWestvaco Corp., a Fortune 500 company.

Roman earned a B.S., cum laude, in Business Administration from Wright State University, with a concentration in Finance.



RVK Real Estate Consulting Group Biographies

Brent Burnett – Associate Consultant

Brent joined R.V. Kuhns & Associates in 2009. Prior to joining RVK, Brent was an Associate in the Development and Investment group of Trammell Crow Company, where he assisted in the financial modeling, market analysis and structuring of real estate acquisition and development opportunities in the Western US. Prior to Trammell Crow, Brent worked as an Investment Associate for FLAG Capital Management, where he evaluated and monitored new and existing investments in real estate, natural resource, and private equity fund managers. Brent started his career with The Monitor Group, where he worked as a Consultant and Module Leader on corporate strategy engagements for clients in the technology, pharmaceutical, and medical device sectors.

Brent graduated with a B.S. in Accounting and a B.A. in Economics from Brigham Young University in 2005.

Jennifer E. Nichols, CFA – Manager Research Consultant

Jennifer joined R.V. Kuhns & Associates, Inc. in 2002 as a member of the Analyst Group. In 2003, she moved full time to the Investment Manager Research Department where she is responsible for meeting with the investment management community, working with clients on manager research projects, as well as being involved in manager research among various asset classes. She focuses on both international equity as well as core real estate. Jennifer graduated Cum Laude with a B.A. in Business Administration with an emphasis in Finance from the University of San Diego. She is a CFA charterholder and a member of the CFA Society of Portland.



RVK Real Estate Consulting Group Biographies

Mark Bartmann – Real Estate Investment Associate

Mark joined RVK in 2009 and is located in our Chicago office. His current responsibilities include performing due diligence analysis on private equity real estate managers, underwriting real estate investments and creating performance measurement reports for clients. Prior to joining RVK, Mark worked as a Project Manager & Financial Analyst for Ridge Property Trust. Within that role he developed financial analysis models, performed due diligence on various real estate investments, and assisted in property management activities.

Mark graduated from the University of Wisconsin-Madison with a bachelor of Business Administration in 2007, majoring in Real Estate and Finance.

Jennifer Sandberg - Senior Investment Analyst

Jennifer joined RVK in 2006 following graduation from Haworth College of Business, Western Michigan University. In addition to earning a Bachelor of Business Administration with a major in Finance and a minor in General Business from WMU, she has previous customer service experience in the banking industry.

DATE: April 18, 2011

TO: BWC Investment Committee
BWC Board of Directors

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Chief Investment Officer Investment Policy Recommendation
Real Estate Asset Class Strategy
State Insurance Fund**

BACKGROUND

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

During calendar year 2010 beginning in May and continuing in September, the CIO has provided recommendations for discussion to the Investment Committee regarding certain specific existing asset class mandates of the State Insurance Fund (SIF) portfolio that would be suitable for active investment management as well as recommendations to consider several new strategies (MWBE manager-of-managers; real estate; cash overlay) that have the objectives of both enhancing portfolio returns on a risk-adjusted basis and achieving more diversification of asset classes and investment managers.

With regards to real estate as an asset class, the Investment Committee received helpful information from Mercer and had discussions on commercial real estate led by Mercer at both its August and September, 2010 meetings. These discussions included the various types of investment choices public funds have in gaining exposure to commercial real estate which includes private real estate funds (both open-end and closed-end), publicly-traded real estate securities such as real estate investment trusts (REITs) and direct ownership of real estate properties.

In the second phase interview sessions that were conducted by the Investment Consultant RFP Evaluation Committee with each of the four chosen finalist candidate investment consulting firms on February 24-25, 2011, each firm without exception indicated that real estate as an asset class would be appropriate and attractive for BWC to add to its investment portfolio. The reasons for the appeal of real estate assets to be included in the SIF portfolio will be mentioned in this memorandum of recommendation.

REAL ESTATE STRATEGY RECOMMENDATION AND RATIONALE

Real Estate is a very appealing asset class for the SIF portfolio, in the opinion of the CIO. Real Estate as an asset class will provide further asset class diversification to the SIF portfolio with a relatively low correlation to the returns of the other bond and stock asset classes of SIF. In fact, the asset class returns correlation matrix updated by BWC investment consulting firm R.V. Kuhns (RVK) at the end of 2010 indicates a positive returns correlation between private Core Real Estate and both Broad U.S. Equity and Broad International Equity asset classes of a modest 0.31 and 0.36, respectively, and an actual slight negative returns correlation of -0.04 and -0.01 for intermediate duration Fixed Income and long duration Fixed Income assets, respectively. This means that privately-owned real estate returns are based on a different economic and market cycle compared to publicly traded stocks and bonds and tend to lag economic activity both on the downside and upside due to existing property rental leasing contracts. In contrast, publicly traded REIT equities have a high positive 0.70 and 0.80 returns correlation with Broad U.S. Equity assets and Broad International Equity assets, respectively, and a positive 0.21 returns correlation with long duration Fixed Income assets. The addition of a modest allocation to private real estate asset classes will therefore result in a somewhat smoothing out of quarter-to-quarter overall SIF portfolio returns.

Another appeal of private commercial real estate assets for the SIF portfolio is in serving as an inflation hedge and having a positive correlation with inflation rates. Commercial real estate properties that most private institutional real estate funds concentrate on owning and managing such as office buildings, retail centers, apartments and industrial buildings, have tenant leases where rental rates can be adjusted higher with inflation and demand. Property owners structure leases so that contracts expire on a rolling basis with lease payments typically adjusted upward with inflation, creating more property income and consequent property value for property owners. Real estate is a physical asset that can retain and increase in value with inflation as opposed to most monetary assets that lose value as inflation rises. Commercial real estate assets are not immune to a recessionary environment, but well leased and managed higher quality properties continue to provide good cash flow in economic downturns from tenant lease contract obligations that are generally 3 to 10 years or more in duration from inception. An increase in leasing vacancies will typically lag in timing in a declining economy, which again supports the assertion that commercial real estate values generally lag economic activity in both directions.

The CIO recommends that a well-managed private core real estate fund strategy should be the primary initial real estate strategy focus for SIF. The CIO also recommends that an investment allocation towards value-added private real estate funds with higher return objectives than core real estate funds be made but emphasized less during the first 12-18 months of selecting an appropriate group of professionally managed private real estate funds. As a result, the CIO recommends a **6%** initial total asset allocation target to private real estate funds for the SIF portfolio divided between **4.5%** targeted towards U.S. concentrated **private core real estate funds** and **1.5%** targeted towards U.S. concentrated **private value-added real estate funds**. In the opinion of the CIO, this 3/1 weighting favoring more conservative core real estate funds represents a good balance between moderate risk, lower expected return core real estate funds and medium to higher risk value-added real estate funds offering higher expected returns through higher potential capital gains per dollar invested.

Private core real estate funds are large commingled funds (typically ranging from \$500 million to several over \$10 billion) organized as trusts, limited liability corporations or limited partnerships that are managed by experienced real estate management firms with proven track records. These core real estate funds are typically open-ended in structure (permitting investors to move in and out periodically) with investors typically being institutions, many of which are public funds. These core real estate funds typically do not have a limited term of existence. Core real estate fund portfolios consist largely of existing (fully developed) high quality, well-leased commercial real estate diversified by property type and geographic location. Core real estate fund portfolios are considered to have a moderate risk level in that these funds do not involve themselves in real estate development or construction risk and typically own stabilized, income-producing properties located within metropolitan areas of the U.S. with strong site attributes and features that appeal to tenants over long periods of time. Most core private real estate funds own properties with intentionally low leverage in that the debt balances on properties in the portfolios typically range from 0-35% of the appraised value of the property. If the interest rate cost of debt is sufficiently low, the projected return on a property can be higher to its equity owner than if there is no leverage so that astute core real estate funds will carefully add a controlled amount of leverage to a property if property loan market conditions are favorable.

An attractive characteristic of private core real estate funds for the SIF portfolio is the higher income yield offered compared to investment-grade bonds. The estimated ten-year annual return of core real estate funds provided by RVK in their recent annually updated asset class return projections is 7% net of fund management fees which were represented by Mercer to be around 90-120 basis points per annum on capital invested. Approximately 75-85% of the total return of core real estate funds on average is derived from income provided to investors from tenant lease rentals, with the remaining 15-25% of total return being from property value appreciation upon sale. As a result, investors in many well-managed core real estate funds can expect to receive initial income on capital invested after fees in excess of 6% currently which compares favorably to bond yields. Such income can also increase with inflation and favorable market conditions as leases roll over at higher rent levels.

There are approximately 20 private open-end core real estate funds currently active in the marketplace. Their asset sizes range from \$500 million to more than \$10 billion. It has been represented by both Mercer and RVK that most of these funds are receptive to receiving additional capital contributions for property investments. It is the expectation of the CIO that the targeted 4.5% SIF investment allocation (approximately \$850 million based on current invested assets) recommended for core real estate funds would be achieved over a one-to-two year period from the time of issuance of a RFP through the selection of a group of well-managed open-end funds evolving from a RFP search process. The RVK real estate consulting group based in Chicago would assist the BWC investment staff in selecting the core real estate funds recommended for investment to be approved by the BWC Investment Committee and Board of Directors.

The CIO is also recommending a 1.5% SIF asset allocation (approximately \$285 million based on current invested assets) in private value-added commingled real estate funds oriented towards institutional investors including public funds. Value-added real estate funds offer higher expected returns than core real estate funds in that a higher portion of their returns

are attained through market value appreciation of properties purchased at lower prices per square foot of space than those properties suitable for core real estate funds. These value-added fund properties typically have higher leasing vacancies compared to core fund real estate properties and are in need of more intense property management than core fund properties and require renovation and other capital improvements. With proper management and leasing strategies, these properties can achieve appreciable capital gains at disposition over a shorter holding period compared to core real estate fund properties but give off lower cash flow income to investors during their holding period. These value-added real estate funds are typically closed-end with a defined capital raising period, then a typical investment and holding period of properties of 3-5 years and then a capital distribution period as property disposals occur. In contrast to open-end core real estate funds, closed-end value-added funds typically have a finite term of existence between 7-10 years. The value-added real estate fund management firm may have higher debt leverage on properties of up to 65% of appraised value in order to purchase more properties and achieve more property diversification with the capital raised by the closed-end fund as well as to achieve higher expected returns for the fund. Expected annual returns after management fees of value-added funds are suggested to be 9% over the long-term by RVK based on historical experience, even though RVK has a projected annual rate of return of 9.75% currently for value-added funds due to attractive low commercial property value acquisition opportunities available for value-added funds in the current market environment. The investment risk levels necessary to achieve such projected value-added fund returns are higher than for core funds.

Investments made towards closed-end value-added real estate funds are opportunistic as to timing and similar to private equity partnerships with a defined capital raising period that eventually closes for new investors, unlike open-end core real estate funds. As a result, the CIO anticipates a heavy dependence and reliance on the RVK real estate consulting group to seek out in the market appropriate value-added real estate funds in the market for capital for investment consideration by the BWC investment staff and ultimate approval by the BWC Investment Committee and Board. It is expected to take a longer period of three-to-five years for BWC to become fully invested in a diversified group of value-added real estate funds that can complement its portfolio of core real estate funds in terms of exposure by property type and geography. Closed-end value-added real estate funds are also less liquid than open-end core real estate funds in terms of ability to sell investor units owned in the secondary market. RVK has indicated that value-added funds range in size of capital committed from less than \$50 million on the low end to \$500 million on the high end with a typical size being in the \$100-350 million range.

The transparency of portfolio information available to investors for both types of real estate funds recommended for investment by the CIO has improved significantly in recent years. Most real estate funds now obtain independent outside appraisals of each portfolio property on at least an annual basis and provide an internal appraisal quarterly which enables more timely and accurate unit net asset fund values for investors to review and report on their financial statements. Leasing revenue income and tenant lists for each portfolio property as well as property expenses are also generally made available to fund investors by the fund manager.

INVESTMENT POLICY RECOMMENDATION

The CIO recommends that a targeted 6% of total SIF investment assets by market value be allocated to U.S. concentrated private real estate investment funds, divided between a targeted 4.5% of total SIF investment assets directed towards U.S. concentrated private core real estate funds and a targeted 1.5% of total SIF investment assets directed towards U.S. concentrated private value-added real estate funds.

In order to fund this new Real Estate asset class for the SIF investment portfolio, the CIO recommends that the current target asset allocations directed towards Indexed Long Duration U.S. Government Bonds and Indexed Treasury Inflation Protected Securities (TIPS) each be reduced by 3%. This will result in (i) the new SIF target asset allocation for Indexed Long Duration U.S. Government Bonds to be 6% compared to its current 9% target and (ii) the new SIF target asset allocation for Indexed TIPS to be 14% compared to its current 17% target. The permissible ownership ranges for these targeted asset classes affected would be adjusted accordingly as presented in the redlined SIF IPS asset allocation table reflected herein.

It is recommended by the CIO that the SIF real estate asset class funding strategy concentrate on funding the first 3% of new invested real estate assets from the Indexed Long Duration Government Bonds asset class and on funding the remaining 3% of new invested real estate assets from the Indexed TIPS asset class. It would be expected that the 4.5% recommended asset allocation targeted towards core real estate funds could be largely achieved within a two-year period from time of RFP issuance which is currently projected to be later in 2011. The remaining 1.5% asset allocation targeted towards value-added real estate funds will likely take upwards of three years or more to achieve given the staged capital contribution takedowns typical of closed-end funds.

In the updated year-end 2010 RVK estimated annual future rate of return projections for various asset classes, Long Duration U.S. Government Bonds and TIPS have a projected annual 4.50% and 4.25% return, respectively. This compares to the previously mentioned RVK projected future long-term returns after management fees of 7.00% for private core real estate funds and 9.00% for private non-core real estate value-added funds. Given the recommended 3/1 or 75%/25% weighting allocation towards core versus value-added real estate, the blended long-term RVK return assumption for targeted SIF real estate investments would be 7.50% compared to the blended 4.38% long-term return from the recommended reduction in U.S. Government bonds. On a theoretical basis, the recommended 6% asset allocation shift of the SIF portfolio (representing approximately \$1.15 billion based on current portfolio value) over the long-term would be projected to add an incremental 3.1% return on this targeted 6% of assets which represents approximately \$35 million in average annual incremental investment income for SIF after becoming fully invested.

Attached at the end of this memorandum of recommendation are specific proposed revisions to the BWC Statement of Investment Policy and Guidelines (IPS) relevant to accomplishing the addition of Real Estate as a new SIF asset class. These modifications are reflected in red. In addition to the recommendations introduced earlier in this memorandum, additional modifications recommended for the IPS include the investment goal of Real Estate as an asset

class, diversification guidelines by each real estate fund investment and the introduction of the recommended benchmark index.

Proposed revisions of **Section IV.C.i** of the IPS pertaining to diversification guidelines provides proposed maximum investments at cost of \$250 million in any one core real estate fund and \$50 million in any one value-added real estate fund. Given a 4.5% SIF target allocation recommended for core real estate funds in the aggregate representing approximately \$850 million based on current SIF portfolio market value, the CIO anticipates an estimated 5-7 different core real estate funds selected for initial investment over a projected 1-½ to 2 year period from time of RFP responses received and an estimated 7-10 different value-added real estate funds to fulfill a 1.5% targeted mandate (representing approximately \$285 million) over an estimated 3-5 year funding period from the present time.

Proposed new **Section IV.C.y** of the IPS describes the investment goal of Real Estate as a new investment class in general and distinguishes investment goals between private core real estate funds and private value-added real estate funds. The respective rate of return expectations of these two real estate fund strategies recommended differ and reflect the respective risk-reward dynamic of these strategies. Whereas core real estate funds are typically sufficiently diversified both geographically and by the four major commercial property types (office, retail, industrial, apartments), many value-added funds specialize in one or two property types as well as in a geographic region where the managers of the fund have special market knowledge and skills and can successfully source property acquisition opportunities through local and regional relationship networks. As a result, imposing broad diversification requirements for value-added funds may be counterproductive and restrict investing in attractive closed-end fund opportunities.

Proposed revisions of **Section VI.A** of the IPS pertaining to the SIF asset allocation table reflects the addition of the recommended respective allocation of 4.5% for core real estate funds and 1.5% for value-added real estate funds as well as the two-phased 3.0% targeted allocation reduction of each of Indexed Long Duration U.S. Government Bonds (first priority) and U.S. TIPS (second priority) to fund the total initial 6% allocation towards Real Estate Assets. This revised asset allocation table also introduces the new Real Estate asset class proposed benchmark index. This benchmark index is the NCREIF Fund Index – Open End Diversified Core Equity index or NCREIF–ODCE index for short. The NCREIF–ODCE is the standard benchmark index used in the private open-end core fund real estate industry and is an index of investment returns reporting the performance results of currently 26 open-end commingled real estate funds pursuing a core investment strategy, some funds of which have performance history dating back to the 1970's. Virtually all performance results of active institutional quality U.S. private real estate core funds outstanding in the market are including in this benchmark index. R.V. Kuhns endorses the choice of the NCREIF–ODCE index as the benchmark measurement for both core real estate and value-added real estate private commingled funds that will be included in the recommended real estate investment portfolio for SIF. This benchmark index return is sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) which is a not-for-profit trade association based in Chicago that serves its membership of institutional real estate professionals who have a significant involvement in institutional real estate investments.

More information about NCREIF and the eligibility criteria for a private core open-end real estate commingled fund to be included in the proposed NCREIF–ODCE benchmark index follows in Appendix A and Appendix B of this memorandum. The information provided in these two appendices was obtained from the NCREIF website. It is expected by the CIO that any private core real estate fund chosen for investment by BWC will meet the criteria for eligibility for inclusion in the NCREIF–ODCE index as provided in Appendix B.

The proposed revised Appendix A of the IPS adds as listed benchmark **VIII** the definition of the NCREIF–ODCE index recommended to serve as the benchmark index for both private open-end core real estate commingled funds and private value-added real estate commingled funds.

Exhibit A

About NCREIF

NCREIF was established to serve the institutional real estate investment community as a non-partisan collector, processor, validator and disseminator of real estate performance information.

NCREIF's Mission Statement

NCREIF is a not-for-profit trade association that serves its membership, and the academic and Investment community's need for improved commercial real estate data, performance investment measurement, investment analysis, information standards, education, and peer group interaction by:

- Collecting, processing and reporting data in a secure environment;
- Producing performance measurement indices;
- Encouraging academic and member use of NCREIF data for objective research;
- Providing forums with strong educational content to address industry issues;
- Publishing informed industry related articles and reports; and
- Contributing to the development of Real Estate Information Standards.

What is NCREIF?

The National Council of Real Estate Investment Fiduciaries (NCREIF) is an association of institutional real estate professionals who share a common interest in their industry.

They are investment managers, plan sponsors, academicians, consultants, appraisers, CPA's and other service providers who have a significant involvement in institutional real estate investments.

They come together to address vital industry issues and to promote research.

The membership is comprised of:

- **Data Contributing Members:**
 - Investment managers and plan sponsors who own or manage real estate in a fiduciary setting.
- **Affiliated Data Contributing Members:**
 - Investment managers or other corporations who own or manage real estate in a fiduciary setting but who do not currently qualify as Data Contributing Members.
- **Academic Members:**
 - Full-time professors of real estate.

NCREIF produces several quarterly indices that show real estate performance returns using data submitted to us by our Data Contributing Members.

Source: NCREIF website www.ncreif.org

About the NCREIF ODCE Fund Index Data

The universe of funds comprising the NCREIF-ODCE employ, or did employ in the case of liquidated funds, a generally acknowledged investment style or strategy known in the business as "core" investing. Every fund included in the Index as well as any existing funds or those in the planning stages that aspire to be included in the Index must meet the following inclusion criteria.

A fund must market itself as an open-end commingled fund pursuing a diversified core investment strategy, primarily investing in private equity real estate with the following guidelines.

Net Assets Criteria

- Real Estate - at least 80% of the market value of net assets must be invested in real estate with no more than 20% invested in cash or equivalents.

Real Estate Net Assets Criteria

- Investment - at least 80% of the market value of real estate net assets must be invested in private equity real estate properties [no more than 20% of such assets may be invested in, but not limited to, property debt, public company, equity/debt or private company (operating business) equity/debt].
- Domain - at least 95% of market value of real estate net assets must be invested in US markets.
- Property Types - at least 80% of market value of real estate net assets must be invested in office, industrial, apartment and retail property types.
- Life Cycle - at least 80% of market value of real estate net assets must be invested in operating properties [no more than 20% of such assets may be invested in, but not limited to, (pre)development/redevelopment or initial leasing/lease-up cycles].
- Diversification - no more than 70% (\pm for market forces) of market value of real estate net assets may be invested in one property type or one region as defined by the NPI.

Total Assets Criteria

- Leverage - no more than 40% leverage. Leverage is defined as the ratio of total debt, grossed-up for ownership share of off-balance sheet debt, to the fund's total assets, also which are grossed-up for such off-balance sheet debt.

The fund must comply with the NCREIF Real Estate Information Standards, including annual audits, quarterly valuations and time-weighted returns. Further, the fund must submit information in accordance with the NCREIF Fund Data Collection and Reporting Manual. Timely, accurate and industry compliant data is required.

Source: NCREIF website www.ncreif.org

The Ohio Bureau of Workers' Compensation



Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: March 25, 2011

Amends Adoption of: September 24, 2010

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

- i. Provide independent and unbiased information to the Board, the Administrator and the CIO.
- ii. Assist in the development and amendment of this Investment Policy.
- iii. Assist in the establishment of strategic asset allocation targets.
- iv. Assist in the development of performance measurement standards.
- v. Report the quarterly investment performance results and quarterly risk characteristics of the Funds to the Board.
- vi. Monitor and evaluate Investment Manager performance on an ongoing basis.
- vii. Conduct due diligence on the Funds' current and prospective Investment Managers.
- viii. Confirm a procedural due diligence search process to include criteria and procedures to be utilized for the selection of all Investment Managers.
- ix. Provide the CIO with the firm's most recent Form ADV on an annual basis.
- x. Provide any other advice or services that the Board or the Administrator and Chief Investment Officer determine from time to time is necessary, useful or appropriate to fulfill the objectives of this Investment Policy in accordance with the Investment Consulting Agreement.

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.

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

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.

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

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.
 - 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; but shall exclude the real estate asset class which will be governed by its own specific diversification guidelines that follow.
 - The amount of the Fund's assets invested at cost in any one Core real estate fund cannot exceed \$250 million. The amount of the Fund's assets invested at cost in any one Value-Added real estate fund cannot exceed \$50 million. On a prospective basis, the amount of the Fund's assets invested in any real estate fund (either Core or Value-Added) cannot exceed more than one-third of the total assets of such real estate fund.

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

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 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.

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

v. Real Estate

The investment goal of the real estate investments is to offer the State Insurance Fund a broad exposure to the return opportunities, portfolio diversification effects, inflation protection features and investment characteristics associated with the institutional quality U.S. commercial real estate market. Eligible real estate investments will consist of U.S. concentrated private open-end Core real estate funds and U.S. concentrated private Value-Added real estate funds.

Core real estate funds are to have the following complementary objectives:

- Emphasizing the careful acquisition of high quality, well-leased commercial real estate properties sufficiently diversified by number, property type and geographical location and the subsequent effective professional management of such properties until such time as determination is made by the fund manager to dispose of such properties at acceptable market value.
- Achieving acceptable risk-adjusted portfolio returns by meeting or exceeding the benchmark index returns per annum gross of management fees over the trailing three-year period within acceptable returns tracking error.

Value –Added real estate funds are to have the following complementary objectives:

- Emphasizing the careful acquisition of commercial real estate properties sufficiently diversified by number at sufficiently low and attractive prices that have the potential for increases in tenant occupancy rates and leasing income attained from capital improvements and effective property management to provide the fund targeted expected rates of return for investors over the projected holding period.
- Achieving acceptable risk-adjusted portfolio returns by exceeding the benchmark index return gross of management fees by at least 200 basis points per annum over the trailing three-year period within acceptable tracking error.

vi. Cash Equivalents

Cash equivalents may be held to meet each Fund's short term cash flow needs.

vii. Securities Lending

Securities lending shall be engaged by the Funds or their Investment Managers as determined and approved by the Board.

viii. Derivatives

A derivative is broadly defined as a contract whose value is based on the performance of an underlying financial asset, index or other investment. The most common forms of derivatives are futures, options, swaps and forwards.

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The use of derivatives by the Funds or their Investment Managers is prohibited unless specifically approved by the Board. Specific approvals include:

1. Permission is granted to passive indexed investment managers to use futures on financial contracts in the management of commingled investment funds. The Board anticipates that this use of financial futures may be initiated by investment managers for specific risk-control purposes such as the facilitation of the investment of a large inflow of new money into the commingled fund.

The Board also recognizes that the language of the policies of some commingled funds permits other financial derivatives such as options and swaps. The Board has a very low tolerance for the use of other financial derivatives in commingled funds. On the infrequent occasions when financial derivatives such as options and swaps are used in commingled funds, the Board requires the investment staff of the BWC to report the use of the derivatives to the Board at the next scheduled meeting after the derivatives position has been initiated so that the Board may judge the appropriateness of the risks of the derivatives position. The Board will carefully evaluate whether remaining invested in that commingled fund is appropriate.

2. Permission is granted to investment transition managers to use futures on financial contracts, forward currency contracts, and Exchange Traded Funds in the management of portfolio transitions and in the management of portfolio rebalancing activity. The use of these instruments by investment transition managers for these purposes will typically begin and end in short periods of time.
3. Other derivatives that are generally approved for use include: collateralized mortgage obligations (CMOs), asset backed securities (ABS), and TBA mortgaged-backed securities in accordance with the restrictions stated in the definitions outlined below. Other broad classes of derivatives may be added in the future as deemed necessary and desirable by the Board.

CMOs are mortgage-backed bonds that separate mortgage pools into different maturity classes. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government-guaranteed or other top-grade mortgages. Interest-only (IOs) and principal-only (POs) instruments are prohibited.

ABS are bonds or notes backed by loan paper on accounts receivable originated by banks, credit card companies or other providers of credit and often "enhanced" by a bank letter of credit or by insurance coverage provided by an institution other than the issuer.

TBA ("to be announced") pools are mortgage-backed securities in which the specific underlying mortgage pools are not identified at the time of commitment to purchase, but which share defined characteristics such as coupon and term to stated maturity. TBA pools are sometimes either sold before settlement or extended in settlement from original settlement date to a future settlement date that is typically in the next month. To qualify for investment by the Funds, TBA pools must be issued by Freddie Mac, Federal National Mortgage Association (Fannie Mae), or Government National Mortgage Association (Ginnie Mae).

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~~viii~~.ix. **Commission Recapture / Directed Brokerage**

The Funds shall not engage in commission recapture or directed brokerage programs.

~~ix~~.x. **General Prohibitions**

The following activities or investments are expressly prohibited within the Funds:

- a. Short selling with the exception of selling futures contracts for risk-control purposes.
- b. The use of all forms of leverage or the purchase of securities with borrowed money is prohibited, except that the Board recognizes that financial futures are generally purchased on margin and this is permitted.
- c. Coins, artwork, horses, jewelry, gems, stamps, antiques, artifacts, collectibles, and memorabilia.
- d. Direct or indirect investments in vehicles that target specified assets, which includes unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity and that lack readily determinable valuation.

V. PERFORMANCE OBJECTIVES

A. Total Fund

The primary performance objective for each Fund is to achieve an aggregate rate of return that equals or exceeds the return of each Fund's Performance Benchmark on a consistent basis. Each Fund's Performance Benchmark combines designated market and/or custom indexes for Investment Category asset classes, weighted by asset-allocation target percentages. The Performance Benchmarks for each Fund are named in Section VI. The investment category Performance Benchmarks are described in Appendix A.

B. Asset Class Composites

Each asset class shall be measured relative to its designated market and/or custom index. It is expected that any active management of individual asset classes will provide an investment return in excess of the index, net of expenses, on a consistent basis.

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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 following](#) 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.

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APPENDIX A – Investment Category Performance Benchmarks

I. Barclays Capital U.S. Aggregate Index

The Barclays Capital U.S. Aggregate Index consists of taxable fixed income securities that are SEC-registered and U.S. dollar denominated. The index covers the broad U.S. investment grade fixed coupon rate bond market with index components for government and corporate securities, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. Government and corporate securities include non-U.S. issuers, although non-U.S. issuers represent only a small portion of the index. Each security in the index must have at least one year to final maturity regardless of call features. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between three and five years which is considered to be intermediate-term in duration.

II. Barclays Capital U.S. Long Government/Credit Index

The Barclays Capital U.S. Long Government/Credit Index consists of taxable fixed income securities that are publicly issued and U.S. dollar denominated. The index includes fixed coupon rate U.S. treasury securities, U.S. federal agency securities, U.S. municipal securities, non-U.S. government securities and both U.S. and non-U.S. corporate securities. Non-U.S. issuers represent only a small portion of the index. Each security in the index must have a final maturity of at least ten years. The index is a component of the broad Barclays Capital U.S. Aggregate Index. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between ten and twelve years which is considered to be long-term in duration.

III. Barclays Capital U.S. Intermediate Government/Credit Index

The Barclays Capital U.S. Intermediate Government/Credit Index consists of taxable fixed income securities that are publicly issued and U.S. dollar denominated. The index includes fixed coupon rate U.S. treasury securities, U.S. federal agency securities, U.S. municipal securities, non-U.S. government securities and both U.S. and non-U.S. corporate securities. Non-U.S. issuers represent only a small portion of the index. Each security in the index must have a final maturity of at least one year and less than ten years. The index is a component of the broad Barclays Capital U.S. Aggregate Index. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between three and five years which is considered to be intermediate-term in duration.

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IV. Barclays Capital U.S. Treasury: U.S. TIPS Index

The Barclays Capital U.S. Treasury: U.S. TIPS Index consists of all publicly issued U.S. dollar denominated Inflation-Protection securities (TIPS) issued by the U.S. Treasury that have at least one year to final maturity. The principal value of a TIPS increases with inflation and decreases with deflation, as measured by changes in the urban, non-seasonally adjusted consumer price index (CPI-U) calculated by the Bureau of Labor Statistics. The CPI-U index is a measure of the average change in prices paid by urban consumers for a fixed basket of goods and services. The principal value of a TIPS security is adjusted by a published index ratio reflecting the changes in the reference CPI-U index. TIPS securities have a stated fixed coupon rate of interest payable semi-annually that is applied to the inflation-adjusted principal value. Over the past several years, approximately one-third of the weighted market value of the index has been represented by issues in each of the maturity ranges of one-to-five years, five-to-ten years, and in excess of ten years. The index is considered to be intermediate-term in duration.

V. S&P 500 Index

The S&P 500 Index is a market capitalization weighted equity index maintained by Standard & Poors that seeks to be a benchmark of the U.S. large cap universe of stocks. S&P first identifies important industry categories and allocates a representative sample of stocks to each group. The companies chosen to be in the S&P 500 generally have the largest market values within their industry group. The industry categories are grouped into ten sectors: consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, telecommunication services, and utilities. It is calculated on a total return basis with all dividends reinvested.

VI. Russell 3000 Index

The Russell 3000 Index is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S., and represents 98% of the U.S. equity market. The Russell 3000 is comprised of stocks within the Russell 1000 and Russell 2000 Indices. Furthermore, the Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. It is calculated on a total return basis with all dividends reinvested.

VII. MSCI All Country World Index Ex U.S.

The MSCI All Country World Index Ex U.S. is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World Index Ex U.S. includes both developed and emerging markets. The index attempts to replicate the industry composition of each local market and includes representative sampling of large, medium, and small capitalization companies. The index is calculated with net dividends reinvested in U.S. dollars.

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VIII. NCREIF - ODCE Index

The NCREIF - ODCE (Open End Diversified Core Equity) index is a market-capitalization-weighted index of investment returns before management fees of virtually all existing institutional quality private open-end commingled real estate funds emphasizing a diversified core investment strategy in the U.S. commercial real estate property market. The index is maintained by the not-for-profit National Council of Real Estate Investment Fiduciaries (NCREIF) institutional real estate trade association which calculates time-weighted rates of return of each core real estate fund comprising the index in order to calculate and publish the overall aggregate index return on a calendar quarterly basis.

12-month Investment Committee Calendar

Date	April	Notes
4/28/2011	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 1. Investment Consultant Performance Report 1Q11 2. Real Estate class IPS revision, second review, possible vote 3. Expanded use of derivatives, first review 	
Date	June	
6/15/2011	<ol style="list-style-type: none"> 1. Real Estate manager RFP issuance approval, vote 2. Expanded use of derivatives, second review, possible vote 3. Active investment manager governance process, first review 	
Date	July	
7/28/2011	<ol style="list-style-type: none"> 1. MWBE MoM RFP Finalist(s) recommendation, possible vote 2. Derivatives usage IPS changes, possible vote 3. Active investment manager governance process, 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	<ol style="list-style-type: none"> 1. MWBE MoM RFP Finalists(s) recommendation, possible vote 2. Investment Consultant Performance Report 2Q11 3. BWC Investment Division Goals Fiscal Year 2012 4. Investment Consultant education session, U.S. Small/Mid Cap Equity active management, second review 	
Date	September	
9/29/2011	<ol style="list-style-type: none"> 1. Brokerage Activity Fiscal Year 2011 summary report 2. U.S. Small/Mid Cap Equity active management IPS revision, first review 3. Cash Overlay strategy education, first review 4. Investment Consultant education session, Non-U.S. Equity active management, first review 	

12-month Investment Committee Calendar

Date	October	Notes
10/27/2011	<ol style="list-style-type: none"> 1. Investment class performance/value annual report [ORC4121.12(F)(12)] 2. Annual Review Committee Charter (1st read) 3. U.S. Small/Mid Cap Equity active management IPS revision, second review, possible vote 4. Cash Overlay strategy education, second review 5. Long Credit active manager RFP Finalist(s) recommendations, possible vote 6. Investment Consultant education session, Non-U.S. Equity active management, second review 	
Date	November	
11/17/2011	<ol style="list-style-type: none"> 1. Annual Review Committee Charter (2nd read), possible vote 2. U.S. Small/Mid Cap Equity active manager RFP issuance approval, vote 3. Investment Consultant Performance Report 3Q11 4. Cash Overlay strategy IPS change, first review, possible vote 5. Long Credit active manager RFP Finalist(s) recommendations, possible vote 6. Non-U.S. Equity active management IPS revision, first review 	
Date	December	
12/14/2011	<ol style="list-style-type: none"> 1. Cash Overlay strategy manager RFP issuance approval, vote 2. Non-U.S. Equity active management IPS revision, second review, possible vote 3. Core Real Estate RFP Finalists recommendation, possible vote 4. Investment Consultant education session, U.S. Aggregate Fixed Income active management, first review 	
Date	January	
1/2012	<ol style="list-style-type: none"> 1. Non-U.S. Equity active manager RFP issuance approval, vote 2. Core Real Estate RFP Finalists recommendations, possible vote 3. Investment Consultant education session, U.S. Aggregate Fixed Income active management, second review 	
Date	February	
2/2012	<ol style="list-style-type: none"> 1. Investment Consultant Performance Report 4Q11 2. U.S. Aggregate Fixed Income active management IPS revision, first review 	
Date	March	
3/2012	<ol style="list-style-type: none"> 1. Cash Overlay Strategy manager RFP Finalist recommendation, possible vote 2. U.S. Aggregate Fixed Income active management IPS revision, second review, possible vote 	

BWC Invested Assets
 Estimated and Unaudited
 As of April 27, 2011

Apr2011 MTD MV Increase Bonds..... + \$ 183 million (+1.3% return)
 Apr2011 MTD MV Increase Equities..... + \$ 179 million (+2.6% return)

Apr2011 MTD MV Increase Bonds+Equities.... + \$ 362 million
 (+1.7% Apr11 MTD portfolio return including Cash)

BWC Asset Allocation MV 4/27/2011

Bonds*.....	\$13,881 million	65.8%
Equities*.....	6,960 million	33.0%
Cash.....	<u>254 million</u>	<u>1.2%</u>
TOTAL.....	\$21,095 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-Mar11+ 10.0% (+\$1,919 million net inv. income)

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