INVESTMENT COMMITTEE
Agenda

Date: **January 25, 2007**
Time: **9:00 am**
Location: **William Green Building, Second Floor, Room 2**

Workers Compensation
Oversight
Commission

Investment Committee

Michael C. Koetters, Chairman
Retired Chief Investment Officer,
WellPoint Inc.

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives LLC

Denise M. Farkas, CFA
Senior Vice President,
Spero Smith Investment Advisers

Opening remarks

Chairman's comments .... Mike Koetters

Old business

Approval of December 14, 2006 meeting minutes .... Mike Koetters

Review Schedule of Projects .... Mike Koetters

New business

1. Portfolio performance – Nov. 2006 and Dec. 2006
   Wilshire monthly flash performance reports ....Mark Brubaker

2. Manage portfolio transition to approved asset allocation:

   Transition Strategy overview
   Recommend Strategy revisions
   Pert/Gant chart timelines
   Custodian contract renewal..Bruce Dunn

3. Passive Index Manager Recommendations:

   Long Duration fixed income mandate, *vote to recommend approval to the WCOC* ....Bruce Dunn and Mark Brubaker

4. Investment Policy recommendations:
   a. Asset Allocation variances revisions, *motion to amend* Appendix X.A, X.B, X.D. of the BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker
   b. Credit Quality and Sector Allocation revisions, *motion to amend* IV.C.ii of the BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker
   c. Non-U.S. Equity benchmark revisions, *motion to amend* V.A. of the BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker
   d. Non-U.S. Equity Asset Allocation revision, *motion to amend* Appendix X1.A.V111 of the BWC Investment Policy Guidelines ....Bruce Dunn and Mark Brubaker

5. Cash Management process summary.................................Bruce Dunn

The next WCOC
Investment Committee meeting is scheduled for:

Date: Feb.22, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

Workers' Compensation
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The next WCOC
Investment Committee meeting is scheduled for:

Date: Feb. 22, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

INVESTMENT COMMITTEE

Agenda

Date: **January 25, 2007**
Time: **9:00 am**
Location: **William Green Building, Second Floor, Room 2**

Report Updates

6. CIO report and compliance

7. Index Managers RFP

8. Private Equity sale
.... Bruce Dunn

9. Actuarial RFP *(update)*...Liz Bravender

Adjourn..Mike Koetters

Note: Written reports provided - *no prepared presentation*

JP Morgan Nov. and Dec. 2006 Monthly Performance Reports

Investment expenses – manager and operation fees

Investment Division department budget

Investment Policy dated - September 28, 2006

WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

THURSDAY DECEMBER 14, 2006, 9:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Michael Koetters, Chairman
Denise Farkas
Edwin McCausland
Bill Sopko

Other Oversight Commission Members Present:
Mary Beth Carroll
Charles Kranstuber

Members Absent: None

Others in attendance at the invitation of the Committee:

William Mabe, Administrator
Bruce Dunn, Chief Investment Officer
John Williams, Esq., Assistant Attorney General
James Barnes, Esq., Chief Legal Officer
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting
Mark E. Brubaker, Wilshire Consulting
Michal Patalsky, Wilshire Consulting
James Thorsen, State Street Global Advisors
James Mauro, State Street Global Advisors
John Kirby, State Street Global Advisors

Public Meeting – Others in attendance not recorded

ROLL CALL/OPENING REMARKS

Mr. Koetters called the meeting to order and the roll call was taken.

OLD BUSINESS

MINUTES OF SEPTEMBER 28, 2006

Mr. McCausland moved that the minutes of September 28, 2006, be approved. Ms. Farkas seconded and the motion was approved by unanimous voice vote.

MINUTES OF NOVEMBER 16, 2006

Mr. McCausland moved that the minutes of November 16, 2006, be approved. Ms. Farkas seconded and the motion was approved by unanimous voice vote.

SCHEDULE OF PROJECTS

Mr. Koetters requested that the Schedule of Projects as prepared by the recording secretary be distributed and included in today's meeting materials and those of future meetings.

NEW BUSINESS

WILSHIRE OCTOBER 2006 MONTHLY PERFORMANCE FLASH REPORT

Mark Brubaker, Wilshire Consulting, reported on the performance of the BWC Total Fund (TF), State Insurance Fund (SIF), and ancillary fund (AF) investments for the month and year-to-date periods ending October, 31, 2006. For the year-to-date period, Mr. Brubaker indicated that the TF had increased 5.52%, 0.32% greater than its benchmark; the SIF had increased 5.64%, 0.44% greater than its benchmark; and that the AF composite had increased 4.26%, 0.52% greater than its benchmark.

MANAGE PORTFOLIO TRANSITION TO APPROVED ASSET ALLOCATION

Bruce Dunn, Chief Investment Officer, provided an overview of his written report summarizing the BWC Investment Asset Allocation Transition Strategy. Mr. Dunn indicated that using passive indexing management exclusively initially will accelerate the transition to achieve the major asset allocation targets by sometime in February 2007.

Mr. Koetters endorsed the strategy and timetables explained in the report. The asset allocation targets for equities and Treasury Inflation Protected Securities (TIPS) have the most immediate priority in the transition.

Mr. McCausland noted that cash is managed internally at BWC. He requested a report on why and if there is a cheaper alternative.

With respect to the custodian, Mr. Dunn reported that when moving to a single account at JPMorgan Chase, the State Insurance Fund and the four ancillary accounts must be separately segregated and managed. This is on advice of James Barnes, Chief Legal Officer and Tracy Valentino, Chief Financial Officer. There will be difficulty in moving assets in custody from State Street to JPMorgan Chase because of the number of securities, time, and expense. Thus, the movement of securities from the five funds will be staggered over a period of time in early 2007. The focus will be on the SIF first, then the ancillary funds. This custodian transfer strategy has been endorsed by the Treasurer of State.

Accordingly, Mr. Dunn recommends delay of the commingling structure and concentration on movement of the State Insurance Fund. As new accounts are created, portions of the securities at State Street are moved to the transition account at JPMorgan and JPMorgan does its reconciliation. This will lead to acceleration of transfer of assets of the State Insurance Fund in January 2007.

Mr. Koetters endorsed the plan for transition because it enhances accuracy of transfer.

Ms. Farkas asked if adherence to the Lehman Aggregate remains intact during the transition. Mr. Dunn replied that since the investments mirror the Lehman Aggregate Index in a common trust fund structure (CTF), the assets remaining in the CTF would adhere to the Index.

Mr. McCausland asked if a date has been set to complete the transition of custody of assets. Mr. Dunn replied that there is no specific date, but likely completion could be in the first quarter of 2007.

PASSIVE INDEX MANAGER RECOMMENDATIONS

Mr. Dunn reported on the Requests for Proposal for the Treasury Inflation Protected Securities (TIPS) manager and the managers for the Long Duration Fixed Income (LDFI) portfolio. For the TIPS manager, there were five applicants and BWC recommended State Street because of its fees, experience, and compatibility. Mr. Brubaker stated Wilshire had recommended State Street because of its critical mass, management capability, fee schedule, and low tracking error of its performance to the benchmarks of the Lehman TIPS Index.

Mr. Brubaker reported that after the allocation of TIPS to State Street, the BWC TIPS investment will comprise 40% of the total State Street TIPS portfolio. The BWC Investment Policy Statement (IPS) restricts BWC's investment in any one manager to no more than 5% of that manager's total portfolio for the asset class under management, unless warranted by the circumstances.

Mr. Dunn indicated that the pertinent language to fund any one manager for a specific management style strategy is in the IPS on page 9, section 4(C)(i).

Mr. Brubaker added that these circumstances warrant consideration of an allocation greater than 5% because of the relatively new and small size of the TIPS market and the managers in it.

Mr. McCausland stated that making an exception to the percentage limit in the policy is appropriate. The limit is not a capacity restraint, but a manager restraint. Later, during the BWC allocation of assets to the active management portion of the portfolio, BWC may wish to make a similar exception to allocations for small managers. Mr. Brubaker stated that a larger percentage would be appropriate for a newly incorporated management firm composed of veteran managers from established firms.

Mr. Koetters stated that when all managers were terminated in 2005 without prejudice, it was anticipation of re-engaging some of them at a later time on their merits. He requested that BWC regularly evaluate new managers with regard to exceeding the 5% restriction and that this item be added to the schedule of projects.

Ms. Farkas stated that Senator Stivers had expressed reservations at the September 28 meeting of the Oversight Commission about putting such a large single investment in the TIPS market. For the record, the Oversight Commission and the Investment Committee have examined the issue carefully and are comfortable with this strategy.

Mr. Koetters asked if there was consistency in scoring by both the BWC team and the Wilshire team. Mr. Brubaker replied that there was a consensus between BWC and Wilshire in the choice of State Street.

James Thorsen, Relationship Manager for BWC, State Street, and James Mauro, TIPS Portfolio Manager, State Street, reported on management of TIPS by State Street.

Ms. Farkas moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that the Commission approve the selection of State Street Global Advisors (SSGA) to serve as the U. S. Treasury Inflation Protected Securities (TIPS) passive index manager for BWC, upon such terms as are outlined in SSGA’s response to the request for proposals issued September 18, 2006, and such other terms as are favorable to BWC. Mr. Sopko seconded and the motion was approved by unanimous voice vote.

<u>LONG DURATION FIXED INCOME MANDATE</u>

Mr. Dunn reported that there were six responses to the RFP for the managers of the Long Duration Fixed Income (LDFI). BWC is unable to discuss candidates because the RFP is not complete. BWC was not comfortable recommending just one manager and a second candidate will be presented to the Oversight Commission at the January meeting. When appropriate, the transition manager will oversee the transition of assets to the target portfolio. BWC has identified

$4.4 billion of fixed income assets to move soon under the LDFI mandate. The duration of these assets will be consistent with the duration of BWC liabilities.

Mr. Dunn recommended selection of State Street as one of the managers because of its very large passive LDFI portfolio, experience, service and performance to BWC in the past year, existing government client-base, and other factors. State Street has designated John Kirby as the LDFI manager.

Mr. Brubaker also recommended State Street on the basis of size, experience, and fees. When transition is complete, the BWC investment will constitute 26% of the State Street LDFI portfolio. Wilshire is comfortable because of the overall size of State Street. State Street also has an excellent record in tracking with the benchmarks of the Lehman Government/Credit Long-Term Index. Wilshire also endorses State Street because of the excellent transition it managed from the other investment situations of BWC; because State Street created a custom commingled fund for BWC when requested; and has been very accommodating to BWC, while still being able to point out concerns in some BWC proposals.

Mr. Dunn reported that the LDFI RFP is still open because BWC needs to complete due diligence with respect to selection of another manager.

Mr. Thorson and John Kirby, LDFI Portfolio Manager, State Street, reported on the State Street management of LDFI passive investments.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve the selection of State Street Global Advisors (SSGA) to serve as a Long Duration Fixed Income Passive Index Manager for BWC, upon such terms as are outlined in SSGA's response to the Request for Proposals issued September 18, 2006, and such other terms as are favorable to BWC. Ms. Farkas seconded and the motion was approved by unanimous voice vote.

PRIVATE EQUITY SALE REPORT

Mr. Dunn reported that the sale of the private equities is now at the marketing stage. BWC is still obtaining consent agreements from some of the general partners. In January, BWC will have a better idea who the buyers will be.

Mr. Koetters asked if there is a change in the sale timetable. Mr. Dunn responded that BWC anticipates sale will be complete in the second quarter. Mr. Koetters asked if the attorney client privilege applies in this situation. Mr. Barnes responded that the privilege does apply and advised that disclosure of certain communication between UBS and Special Counsel, to the Oversight Commission, would constitute waiver of the privilege. Assistant Attorney General John Williams reported that he has undertaken discussions with Wilshire and special counsel at Benesch Friedlander concerning the fiduciary duty of the Oversight Commission. There is an ongoing discussion to develop appropriate communication to the Oversight Commission to comply with its fiduciary duty. The goal is provide meaningful and timely communication. Mr.

Barnes advised that involving the Oversight Commission in all day-to-day decisions might also compromise the fiduciary duty of the Oversight Commission. There is a distinction between the decision-making responsibility of BWC and the advice and consent authority of the Oversight Commission.

Mr. Koetters requested that the communication to the WCOC regarding the private equity sale be added to the schedule of projects and that AAG Williams continue with efforts to open-up communication between the Oversight Commission and BWC.

ADJOURNMENT

Mr. Koetters tabled other items on the agenda. He thanked Mr. Dunn and his staff in the Investment Department for the work they had done in preparation of these reports.

There was a motion by Mr. Sopko for adjournment, second by Ms. Farkas, and the meeting was adjourned.

Prepared by: Larry Rhodebeck, BWC Attorney
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January 17, 2007

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

Table of Contents

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

I. INVESTMENT OBJECTIVES

The primary investment objective is to manage the reserve to preserve the ability of Funds to pay all disability benefits and expense obligations when due. Meeting this objective necessitates prudent risk-taking with the Funds' investments. An additional objective is to earn sufficient returns to grow the surplus over time and to keep premium payments as reasonable and predictable as possible for the benefit of the injured workers and employers of Ohio.

II. BACKGROUND

A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and Ancillary Funds ("the Funds"). The Oversight Commission ("WCOC") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the surplus and reserves of the Funds.

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

B. Fiduciary Standard

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

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

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the Ohio Revised Code Section 4123.44 and any other applicable statutory or administrative rules. A copy of the Ohio Revised Code Section 4123.44, as amended, is attached to this Investment Policy and all aspects of this Investment Policy shall be construed and interpreted in a manner consistent with Section 4123.44.

III. ROLES AND RESPONSIBILITIES

A. WCOC Responsibilities

The WCOC is the primary body charged with overseeing investment activities relating to the Funds. Its oversight functions include the duties specified below:

i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.

ii. Permit the Administrator to invest in an investment class only after the WCOC, by majority vote, opens the class in question.

iii. Close any class of investments when it deems prudent.

iv. Monitor and review the investment performance of the Funds on a quarterly (February, May, August and November) basis to determine achievement of goals and compliance with this Investment Policy.

v. Advise and consent to the Administrator's hiring of the CIO.

vi. Advise and consent to the OBWC's employment of an internal auditor, who shall report directly to the WCOC on investment matters.

vii. Approve the selection and termination of all Investment Consultants.

viii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.

ix. Approve the final selection and funding and termination of all Investment Managers and General Partners.

x. Approve the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

xi. Prohibit on a prospective basis any specific investment that the WCOC finds to be contrary to the Investment Objectives of the Funds. In the event that the WCOC determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the WCOC shall direct the Administrator to take the appropriate corrective action.

xii. Submit a report annually on the performance and the value of each investment class to the governor, the president and minority leader of the senate, and the speaker and the minority leader of the house of representatives.

xiii. Advise the Administrator of the WCOC's criteria for approving proposed dividends submitted to it pursuant to R.C. 4123.32 and Ohio Admin. Code 4123-17-10.

The WCOC may appoint members to an Investment Committee for the express purpose of assisting the WCOC to carry out any of the responsibilities enumerated here.

B. OBWC Staff Responsibilities

The Chief Investment Officer shall be employed by the Administrator, with the advice and consent of the WCOC, and shall be a senior member of the OBWC staff with the primary responsibility for implementing the Investment Policy. Subject to the supervision and control of the Administrator, the Chief Investment Officer shall:

i. Consult with and receive approval from the WCOC regarding the appropriate strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving relevant facts or situations.

ii. Recommend permissible asset classes for investment to the WCOC.

iii. Monitor and review the investment performance of the Funds on a monthly basis to determine achievement of goals and compliance with Investment Policy

iv. Consult with and receive approval from the WCOC on the selection and termination of all Investment Consultants.

v. Consult with and receive approval from the WCOC on the selection and termination of all Investment Managers and General Partners.

vi. Consult with and receive approval from the WCOC on the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

vii. Implement the directives of the WCOC.

viii. Supervise the management of each Fund's assets in accordance with this Investment Policy and the objectives and guidelines set forth herein.

ix. Consult with and receive approval from the WCOC regarding criteria and procedures to be utilized to select Investment Managers and General Partners

x. Monitor all managed assets to insure compliance with the guidelines set forth in this Investment Policy and report same to the WCOC on a monthly basis.

xi. Monitor manager trade execution.

xii. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds set forth herein. The CIO may retain a third party proxy voting service or direct investment managers to vote the proxies related to securities held in their respective portfolios.

xiii. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory obligations related thereto.

xiv. Report to the WCOC on at least a quarterly basis regarding the performance of the portfolio and brokerage information for various time periods.

xv. Consult with the Funds' Investment Managers on at least a quarterly basis to discuss account performance and other material information.

xvi. Collect and review the current Form ADV of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the WCOC.

C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

x. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as Appendix XIV, on a quarterly basis.

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

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

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

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

D. General Partners' Responsibilities

Each General Partner shall:

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

ii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Partnership and/or Subscription Agreement and the specific portfolio guidelines contained therein.

iii. Provide the CIO with quarterly financial statements and an audited annual financial statement for each partnership or fund to which the Ohio BWC has made a commitment.

iv. Provide the CIO with an annual Valuation Certification attesting to the value of the Ohio BWC's holdings in each partnership or fund.

v. Provide the CIO with the firm's Ethics Policy and annual confirmation of its compliance with said policy (for agreements entered into after January 1, 2006 only).

vi. Promptly provide the CIO with a detailed report of all capital calls and/or distributions for each partnership or fund.

vii. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as XIV, on an annual basis (for agreements entered into after January 1, 2006 only).

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

i. Provide independent and unbiased information to the WCOC, 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 monthly investment results and quarterly risk characteristics of the Funds to the WCOC.

vi. Monitor and evaluate Investment Manager performance on an ongoing basis.

vii. Conduct due diligence on the Funds' current and prospective Investment Managers.

viii. Establish a procedural due diligence search process.

ix. Assist in the development of criteria and procedures to be utilized for the selection of all Investment Managers.

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

xi. Provide any other advice or services that the WCOC 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. 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 annually, or more frequently if conditions warrant.

The WCOC has adopted a long-term asset allocation policy for each Fund that identifies the strategic target weights to each of the major asset classes. These policies are detailed in Appendix X.

B. Rebalancing Policy

The asset allocation targets represent a long-term strategy. Short-term market activity will cause the asset mix to drift from the specific allocation targets. A **Rebalancing Policy** is designed to provide a disciplined approach to control the risk exposure of each Fund to the investment categories that have deviated from the established target policy weights. The WCOC has adopted a policy of range rebalancing. Under range rebalancing, asset rebalancing will be triggered only when actual weightings fall outside of the ranges specified above. The WCOC expects range rebalancing to produce a superior return/risk tradeoff as compared to time rebalancing because turnover occurs only when necessary.

The Funds' asset allocations are to be monitored quarterly, or more frequently if market conditions warrant. Should the actual asset allocations for a particular class of investments deviate from the indicated range for a particular asset class, the Administrator and Chief Investment Officer will make the necessary adjustments to satisfy the asset allocation guidelines established by this Investment Policy. 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.

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 investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The WCOC, 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 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 specific strategy, style or partnership, at the time it is hired, unless unique circumstances – such as the need to hire a manager in a capacity-constrained asset class such as high yield or small cap U.S. equity - warrant an exception.

ii. **Fixed Income Investments**

The investment goal of the fixed income investments is to protect the Funds against adverse changes in the value of the Funds' assets relative to their liabilities. The WCOC has adopted a policy to invest each Fund's fixed income portfolio in a manner that will approximate the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow the surplus.

Average Weighted Credit Quality
The minimum average weighted quality of the total fixed income portfolio shall be A, as measured by the lower of the Moody's or Standard & Poors (S&P) rating.

Duration
The duration of the fixed income portfolio in aggregate shall be maintained within a range of +/- 5% of each Fund's fixed income benchmark.

Diversification

The fixed income portfolio shall be diversified as specified below[1] to minimize the risk of losses:

By Sector:

Sector Allocation	**Max. % of Fund**
U.S. Governments:	***100%***
Treasuries	100%
Agencies	100%
Mortgages	***40%***
Agencies	40%
Non-Agency	10%
Collateralized Mortgage Obligations (CMOs) (must be rated AA or better)	10%
Commercial Mortgage Backed Securities (CMBS) and Project Loans	10%
Floating Rate Mortgages	10%
Investment Grade Credit	***70%***
Finance	35%
Industrial	35%
Transportation	35%
Utilities	35%
Yankees	10%
Asset Backed Securities (ABS) (must be rated AA or better)	10%
Foreign Governments	***0%***
Below Investment Grade Credit	***5%***

[1] Percentages represent a maximum allocation and will not sum to 100%

By Credit Quality:

Credit Quality	**Max. % of Fund**	**Individual Security Max %**
Government	100%	N.A.
Aaa/AAA	50%	1.00%
Aa/AA	25%	1.00%
A/A	20%	0.75%
Baa/BBB	10%	0.50%
Ba/BB	5%	0.25%
B/B	2%	0.10%
CCC	1%	0.05%
Below CCC	0%	0.00%

Maximums refer to the allocation at the time of purchase. In the event that downgraded securities result in a violation of these constraints, the WCOC shall grant an exemption that would allow an Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the WCOC. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the guidelines in their next quarterly report to the WCOC.

The Funds may invest in Rule 144A and private placement securities subject to the sector and credit constraints specified above.

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.

Diversification
The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's U.S. Equity benchmark.

- No single holding shall account for more than 5% of each Fund's total U.S. equity portfolio at market.

- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

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.

Diversification
The Non-U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's Non-U.S. Equity benchmark.
- Investments will be diversified by geographic region and sector, so as to optimize the relationship of expected return to expected risk after taking into consideration the asset allocation of each Fund.
- No single holding shall account for more than 5% of each Fund's total Non-U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

v. **Alternative Investments**

The SIF has allocated a portion of its investment portfolio to private equity securities, limited partnerships and funds of funds subject to all applicable legal requirements and limits set forth in this Investment Policy. The purpose of investing in private equity securities, partnerships or funds is to enhance the overall investment returns of the Funds.

Future investments in Alternative Investments are not presently anticipated.

vi. **Cash Equivalents**

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

vii. **Securities Lending**

Securities lending has been permitted in the past and is presently being utilized within the Funds in accordance with the commingled trust fund (CTF) agreement between the BWC and State Street Global Advisors.

(The WCOC will be reviewing the appropriateness of the Funds' securities lending activities and expects to make a final decision on its continued use by January 2007.)

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.

The use of derivatives by the Funds or their Investment Managers is expressly prohibited, with the exception of collateralized mortgage obligations (CMOs) and asset backed securities (ABS), and TBA mortgage-backed securities in accordance with the restrictions outlined below and in Section IV.C.ii above.

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. To qualify for investment by the Funds, CMOs must be rated AA or better and not be levered. 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. To qualify for investment by the Funds, ABS must be rated AA or better.

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).

ix. **Commission Recapture / Directed Brokerage**

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

x. **General Prohibitions**

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

a. Short selling in any form.
b. All forms of leverage, including, but not limited to, purchasing securities on margin, treasury rolls and reverse repurchase agreements.
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 exceeds the return of each Fund's Performance Benchmark on a consistent basis. The Benchmark combines designated market and/or custom indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are:

Asset Class	Benchmark
Total Fixed Income:	***N/A***
Long Duration	Lehman Long Government/Credit
High Yield	Merrill Lynch High Yield Master II
Inflation-Protected Securities	Lehman U.S. TIPS
U.S. Equity	***Wilshire 5000***
Large Cap	S&P 500
Small/Mid Cap	Wilshire 4500 / Russell 2500
Alternative Investments	Wilshire 5000 + 5%
Non-U.S. Equity	***MSCI All Country World Index (ex-U.S.)***
Cash Equivalents	***90-Day T-Bill***

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.

C. Investment Managers

On a timely basis, but not less that four times a year, the Chief Investment Officer will meet with the Investment Consultants to:

- Evaluate the performance of each Investment Manager.
- Review each Investment Manager's adherence to this Investment Policy.
- Analyze any material changes in the Investment Manager's organization, investment strategies or personnel.
- Review each Investment Manager's performance relative to appropriate indices and peer groups.

Each Investment Manager's performance shall be evaluated relative to an appropriate benchmark index and a relative peer group of managers as indicated below. They are expected to (1) rank above median versus their respective peer groups and (2) earn investment returns, net of expenses, that equal or exceed their respective benchmark index.

The performance of each Investment Manager will be monitored on an ongoing basis and the Administrator and the Chief Investment Office shall take any appropriate corrective action, including, subject to approval by the WCOC, the termination and replacement of an Investment Manager. Factors that may lead to terminating a manager relationship include:

- Performance below median (50th percentile) of their peer group.
- Realization of investment returns, net of expenses, that lag their respective benchmark index.
- Failure to adhere to this Policy or the portfolio's Investment Guidelines.
- Failure to comply with the Ethics Policy of the firm or the WCOC.
- Violation of any law.
- Style drift.
- Organizational changes including:
    - Change in professional staff
    - Significant loss of clients
    - Significant growth of new business
    - Change in ownership

VI. COMMUNICATIONS

- Each Investment Manager will provide written reports at least monthly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Private Equity General Partner will provide written reports at least quarterly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Investment Manager will provide all reporting required under Section III. C. of this Policy.
- Each Investment Manager is expected to meet with the Administrator and/or the Chief Investment Officer at least annually at OBWC offices.
- Frequent and regular communication with the OBWC by all Investment Managers is encouraged.

VII. REVIEW PROCEDURES

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

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

VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

The WCOC desires that Staff and the Investment Consultant identify, research and evaluate qualified Ohio managers, minority managers and women-owned managers and that Investment Managers give consideration to such managers and brokers in their efforts to fulfill the Funds' investment objectives, but only in compliance with their respective fiduciary duties to the Funds.

Qualified Ohio Managers - Criteria

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

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

Minority Managers – Criteria

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

Additionally, Investment Managers who are majority-owned by women are included in this Policy

In addition to the requirements above, any qualified Ohio manager, and any minority or women-owned Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940. Any Broker must be properly licensed.

It is the WCOC's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the WCOC is not obligated to hire any qualified Ohio manager, minority or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders.

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

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

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Appendix IX: Asset Allocation Criteria

In the event that the Administrator of OBWC proposes to the WCOC, pursuant to R.C. (A) and Ohio Admin. Code 4123-17-10, to return excess surplus in the OBWC State Insurance Fund (SIF) to employers in either the form of cash refunds or a reduction of premiums, the WCOC shall ask the Investment Committee to recommend approval or non-approval. The Investment Committee will recommend a set of guidelines in conjunction with the independent actuarial consultant, which would be used to preserve the integrity of the asset allocation from the impact of the proposed return of excess surplus. These criteria will be approved on or before the April 2007 WCOC meeting.

Appendix X.A: State Insurance Fund (SIF)

The State Insurance Fund's ("the Fund's") 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 GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on July 20, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target[1]
Total Fixed Income:	***79%***
Long Duration	54%
High Yield	5%
Inflation-Protected Securities	20%
Cash Equivalents	***1%***
Total Equity	***20%***
U.S. Equity	
Large Cap	12%
Small/Mid Cap	3%
Alternative Investments	0%
Non-U.S. Equity	5%

[1] Alternative Investments includes private equity and the coin fund. This asset class targets will be combined with that of Small/Mid Cap U.S. Equity until a final determination has been made regarding the potential liquidation of these assets

Appendix X.B: Coal Workers' Pneumoconiosis Fund (CWPF)

The Coal Workers' Pneumoconiosis Fund ("CWPF") provides benefits for injured workers under the Federal Coal Mine Health and Safety Act of 1969. The CWPF provides voluntary coverage to employers who have employees who are exposed to coal dust, as required by federal law.

These liabilities are long-term in nature, with an approximate duration of 11 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

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Asset Class	Policy Target
Total Fixed Income:	***79%***
Long Duration	54%
High Yield	5%
Inflation-Protected Securities	20%
Cash Equivalents	***1%***
Total Equity	***20%***
U.S. Equity	15%
Large Cap	12%
Small/Mid Cap	3%
Non-U.S. Equity	5%

Appendix X.C: Marine Industry Fund (MIF)

The Marine Industry Fund ("MIF") provides voluntary coverage to employers who have employees who work on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[1] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%
Cash Equivalents	***1%***
Total Equity	***0%***

[1] Expected to be implemented by December 31, 2006

Appendix X.D: Disabled Workers' Relief Fund (DWRF)

The Disabled Workers' Relief Fund ("DWRF") provides supplementary payments to workers whose combined Permanent and Total Disabled plus Social Security disability benefits are lower than the DWRF entitlement amount.

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. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

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The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	**Policy Target**
Total Fixed Income:	***79%***
Long Duration	54%
High Yield	5%
Inflation-Protected Securities	20%
Cash Equivalents	***1%***
Total Equity	***20%***
U.S. Equity	15%
Large Cap	12%
Small/Mid Cap	3%
Non-U.S. Equity	5%

Appendix X.E: Public Work-Relief Fund Employees' Fund (PWRF)

The Public Work-Relief Employees' Fund ("PWRE") provides benefits for "work-relief employees" who are engaged in any public relief employment and receiving "work-relief" in the form of public funds or goods in exchange for any service or labor rendered in connection with any public relief employment.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	**Policy Target**
Total Fixed Income:	***99%***
Intermediate Duration	99%
Cash Equivalents	***1%***
Total Equity	***0%***

Appendix X.F: Self Insured Employers Guarantee Fund (SIEGF)

The Self Insured Employers Guarantee Fund ("SIEGF")/Surety Bond Fund ("SBF") provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	**Policy Target**
Total Fixed Income:	***0%***
Cash Equivalents	***100%***
Total Equity	***0%***

Appendix XI

OBWC State Insurance Fund Asset-Liability Valuation – Final

WCOC Presentation

July 20, 2006

Mark E. Brubaker, CFA
Managing Director

Julia Bonafede, CFA
Senior Managing Director

Agenda

I. Recommended Asset Mix

Recommendation

- **The following factors lead Wilshire to recommend that the OBWC maintain a long-term orientation and adopt the asset mix below:**
  - The Obligations of the State Insurance Fund are long-term in nature, with a duration of approximately 10.4 years
  - The Fund has minimal short term cash needs as current premiums are approximately equal to current claims and are expected to ultimately exceed claims
  - There is no asset allocation that can eliminate risk due to the relatively weak capital structure of the Fund and the medical inflation risk embedded in the claims of the Fund
  - The OBWC is a monopoly and is not subject to competition, therefore, future premiums are relatively predictable
  - Premiums are currently based on discounted (at 5.25%) expected future claims, thereby setting a “hurdle rate” of return on investments for the Fund
  - OBWC views itself as an ongoing entity
- **Recommended Mix (as compared to an “immunized” mix):**

	Portfolio Weights	
	"Immunized"	***Recommended***
Asset Class	***0% Equity***	***20% Equity***
U.S. Equity (including Private Equity)	0	15
Non-U.S. Equity	0	5
Total Equity	***0***	***20***
Fixed Income - Core	0	0
Fixed Income - Long Duration/Dedicated	99	54
Fixed Income - High Yield	0	5
Fixed Income - Inflation Protected	0	20
Total Fixed Income	***99***	***79***
Cash Equivalents	1	1
Return	**5.23**	**6.07**
Risk	**6.93**	**6.13**

- **This mix provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons**

II. Legislative Background and Purpose

Legislative Background: OBWC Purpose and WCOC Duties

- **The OBWC was established by the Ohio Constitution, Article II, Section 35:**
  - "For the purpose of providing compensation to workmen and their dependents, for death, injuries or occupational disease, occasioned in the course of such workmen's employment, laws may be passed establishing a state fund to be created by compulsory contribution thereto by employers, and administered by the state…"

- **Ohio Revised Code Section 4123.44**
  - "The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with (the Ohio Revised Code) and the investment objectives, policies and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund."
  - "The administrator and other fiduciaries shall discharge their duties with respect to the funds with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

- **Ohio Revised Code Section 4123.34:**
  - "The administrator of workers' compensation, in the exercise of the powers and discretion conferred upon him in section 4123.29 of the Revised Code, shall fix and maintain, with the advice and consent of the workers' compensation oversight commission…***the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund and the creation and maintenance of a reasonable surplus***…" (emphasis added)

Definitions

- **Solvent:**
  - Able to pay all reasonable debts (source: Webster's Dictionary)
- **Surplus:**
  - Surplus is an accounting concept
  - Generally defined as net assets (i.e. assets minus liabilities)
    - Under the Government Accounting Standards Board ("GASB") standards:
      - Assets are generally measured at current market value
      - Liabilities may be discounted (OBWC's current discount rate is 5.25%)
    - Under the statutory accounting standards that govern private workers' compensation funds, liabilities are usually not discounted, which makes industry-wide comparisons difficult
- **"Reasonable" Surplus:**
  - This concept is not defined in the Ohio Revised Code
  - Generally, a reasonable surplus should, at a minimum, be adequate to ensure a high probability of paying all benefit claims when due

What is Ohio Bureau of Workers' Compensation?

- **Insurance Company**
  - OBWC's primary role is to pay compensation and medical expenses for injured workers, but…
    - It is not subject to statutory accounting standards and capital requirements
    - It is not subject to regulation by the state insurance department
    - It incurs longer-tailed liabilities than typical workers' compensation insurance company
    - It is run solely for the benefit of Ohio employers and employees – there is no profit motive
- **Other?**
  - 10.4 year duration of claims stream comparable to the benefit stream of pension funds, which typically have a duration of 11-13 years
  - Medical claims and indemnity claims each account for roughly 50% of the discounted loss reserves

III. Asset-Liability Valuation Background

What is Asset Allocation?

- Wilshire believes that the core business of a workers' compensation insurance fund is to provide the benefits promised to injured workers.

- Asset Allocation is the process of selecting a policy portfolio - allocating a portfolio's assets among asset classes that have the potential to serve the financial objectives of the fund.

- Asset allocation is one tool to manage the risk to the fund's core business. Other risk controls include rate making, expense control, underwriting guidelines, operational profitability and surplus adequacy.

- The goal of asset allocation is to maximize the safety of promised benefits at a minimum cost (premiums).

A Multitude of Risks

- Workers' compensation funds face a multitude of risks. Prioritizing those risks is crucial in determining a proper methodology for selection of the policy portfolio.

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

Example 2 - Risk of Mismatch Between Assets and "Accounting" Liabilities

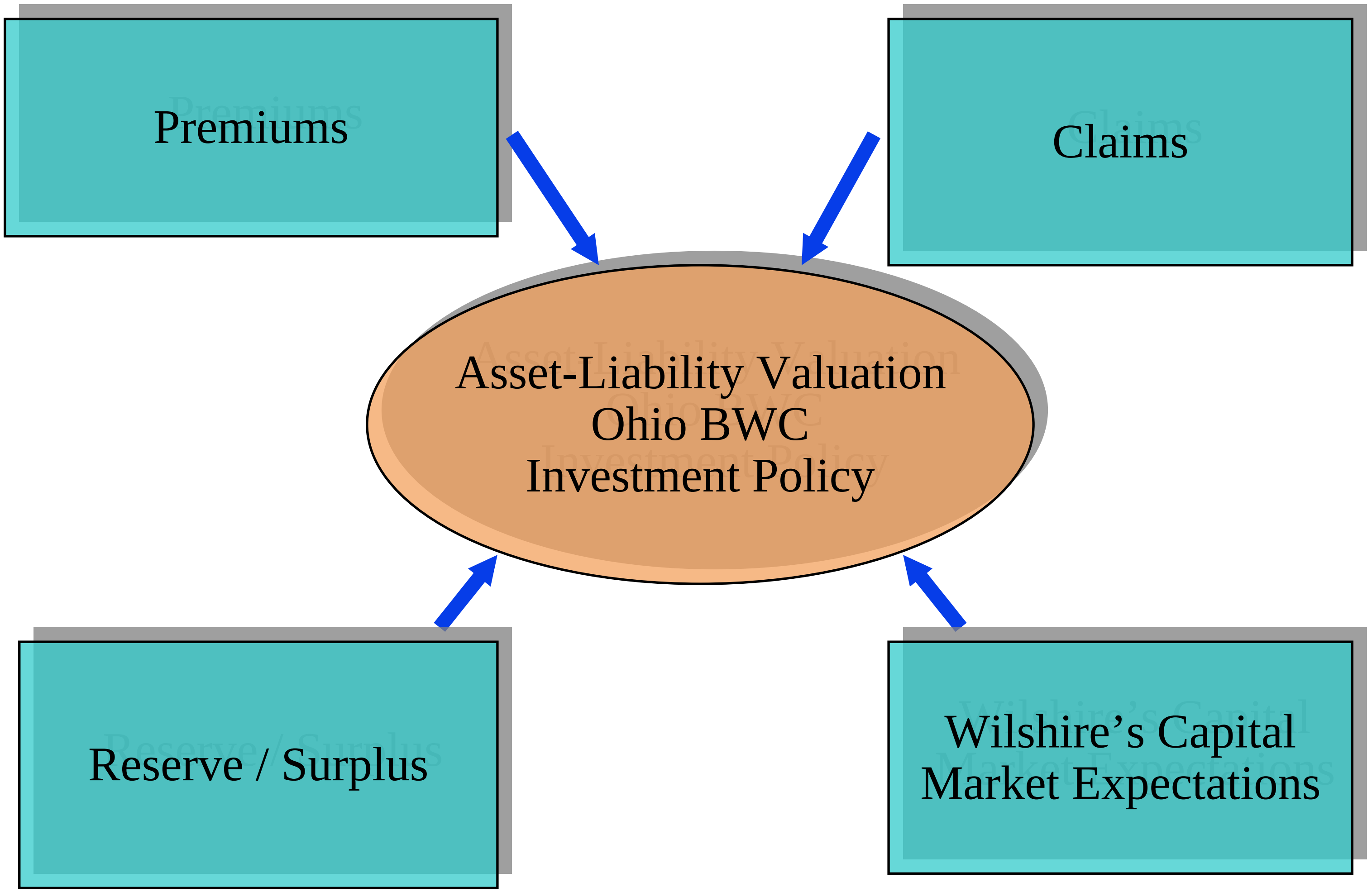
- It is undesirable to have a negative surplus as defined by GASB accounting standards.

Example 3 - Insufficient Asset Risk

- It is undesirable to have insufficient assets to pay benefits promised to injured workers.
- Wilshire believes this is the primary risk.
- This risk is directly related to the Fund's core business.
- One tool to manage the risk of the investment portfolio is Asset Liability Valuation. Additional tools include rate making, expense control, underwriting guidelines, operational profitability and maintenance of an adequate surplus. This report primarily focuses on Asset Liability Valuation and the maintenance of an adequate surplus.

Asset-Liability Valuation Methodology

- **Wilshire's Asset-Liability Model integrates key economic and accounting data**



Current BWC Accounting Status

- **As of March 2006, the BWC reported a surplus of $870 million**

Assets ($ mm)	
Total Cash and Investments	16,458.00
Accrued Premiums	1,981.00
Other Accounts Receivable	349.00
Investment Receivables	2.00
Other Assets	128.00
Total Assets	18,918.00

Liabilities ($ mm)	
Reserve	17,308.00
Accounts Payable	39.00
Investment Payables	-
Other Liabilities	701.00
Total Liabilities	18,048.00

Net Assets ($ mm)	870.00

- **Slide 21 provides a simulation of potential future surplus and/or deficit under different asset allocation scenarios.**

Source: BWC Financial and Operational Report – March 2006

IV. Capital Markets Expectations and Efficient Frontier

A Long Term Capital Market Perspective

	1802-2005	1926-2005	*High Inflation* 1970-1979	*Bull Market* 1980-1999	*Wilshire* Forecast
Total Returns					
Stocks	8.2%	10.4%	5.9%	17.8%	8.3%
Bonds	4.9	5.7	7.2	10.0	5.0
T-Bills	4.3	3.8	6.4	7.2	3.0
Inflation	1.4	3.0	7.4	4.0	2.3
Real Returns					
Stocks	6.8	7.4	-1.5	13.8	6.0
Bonds	3.5	2.7	-0.2	6.0	2.8
T-Bills	2.9	0.8	-1.0	3.2	0.8
Risk (Std. Dev.)					
Stocks		19.3	16.0	15.0	17.0
Bonds		5.2	6.4	6.6	5.0
T-Bills		1.0	0.6	1.0	1.0
Stocks minus Bonds	3.3	4.7	-1.3	7.8	3.3

Wilshire's 10-Year Capital Market Assumptions

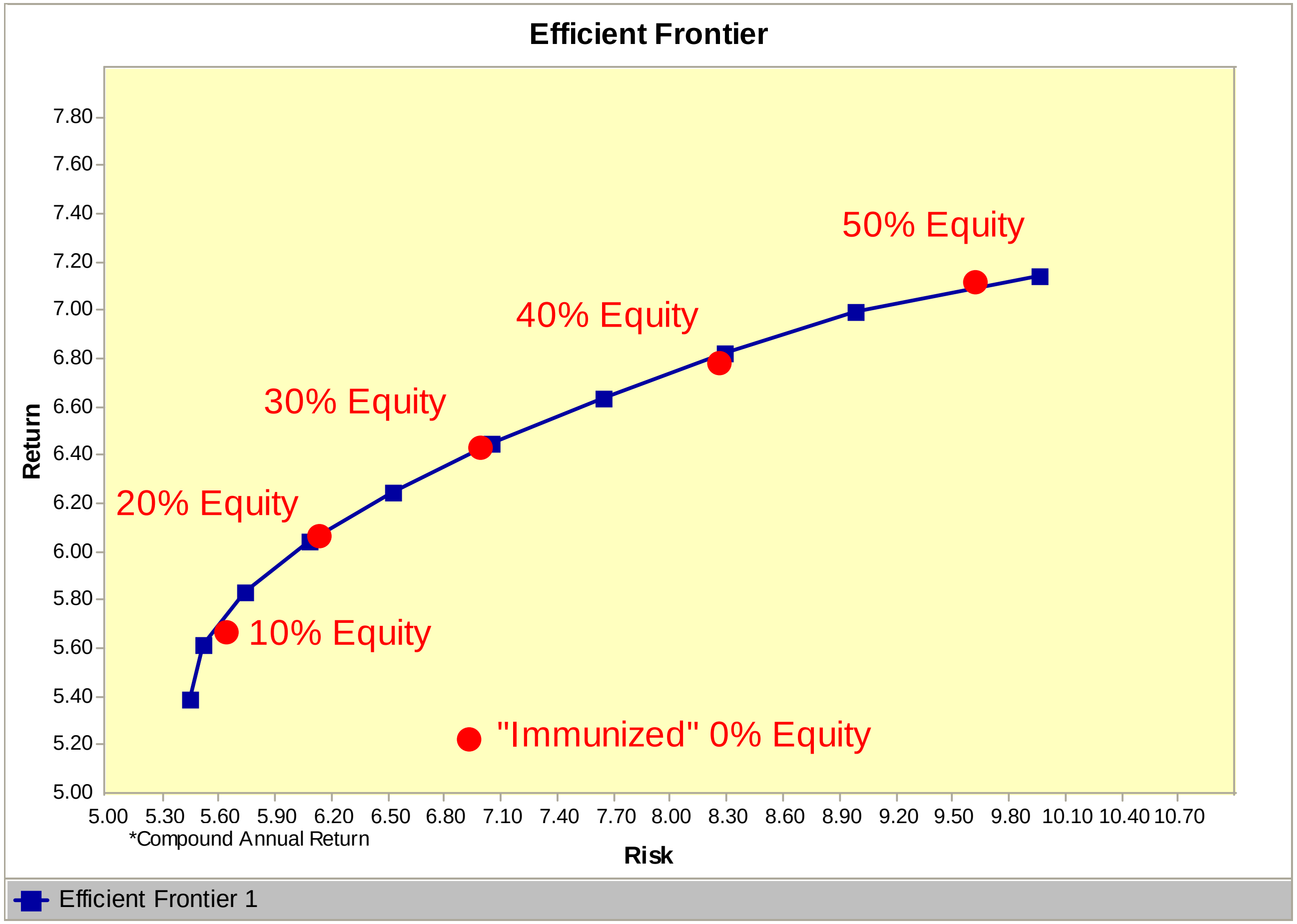
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00
Correlations							
U.S. Equity	1.00						
Non-U.S. Equity	0.78	1.00					
Fixed Income - Core	0.29	0.08	1.00				
Fixed Income - Long Duration/Dedicated	0.34	0.09	0.95	1.00			
Fixed Income - High Yield	0.48	0.29	0.39	0.40	1.00		
Fixed Income - Inflation Protected	0.00	0.10	-0.01	0.00	0.01	1.00	
Cash Equivalents	0.00	-0.10	0.10	0.10	0.00	0.25	1.00

- **The above figures represent Wilshire's 10-year forward-looking risk, return and correlation assumptions.**
  - Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset class is expected to produce returns that are within +/- one standard deviation of the expected return.

Source: Wilshire Consulting: 2006 Asset Allocation Return and Risk Assumptions

Efficient Frontier

- **The efficient frontier is comprised of portfolios that generate the highest level of expected return for a given level of risk in *asset-only space* – SIF liabilities are not considered in this exhibit:**



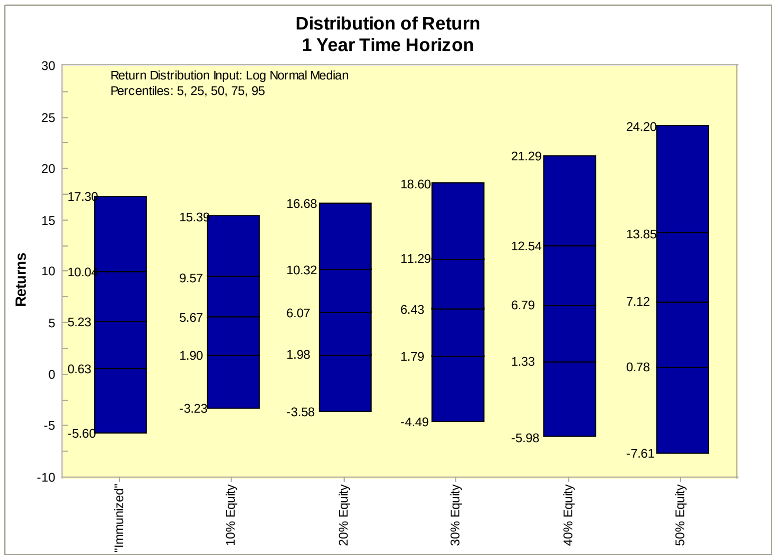
Efficient Portfolios

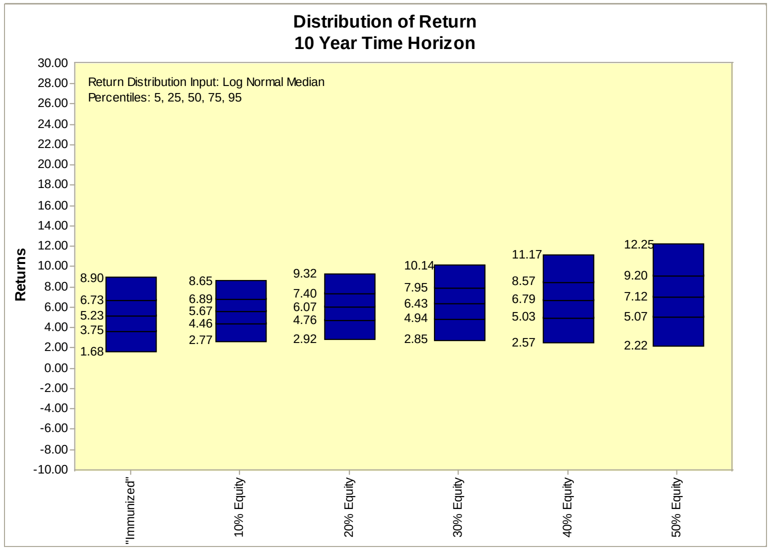
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income - Core	0	0	0	0	0	0
Fixed Income - Long Duration/Dedicated	99	65	54	44	39	34
Fixed Income - High Yield	0	4	5	5	5	5
Fixed Income - Inflation Protected	0	20	20	20	15	10
Total Fixed Income	***99***	***89***	***79***	***69***	***59***	***49***
Cash Equivalents	1	1	1	1	1	1
Return	**5.23**	**5.67**	**6.07**	**6.43**	**6.79**	**7.12**
Risk	**6.93**	**5.64**	**6.13**	**6.99**	**8.25**	**9.62**

- **Constraints:**
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- **Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.**
- **Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset mix is expected to produce returns that are within +/- one standard deviation of the expected return.**

1 and 10-Year Distribution of Expected Returns

- **Distributions of returns are quite wide for any one year period…**
- **…but they narrow considerably over a 10-year period**





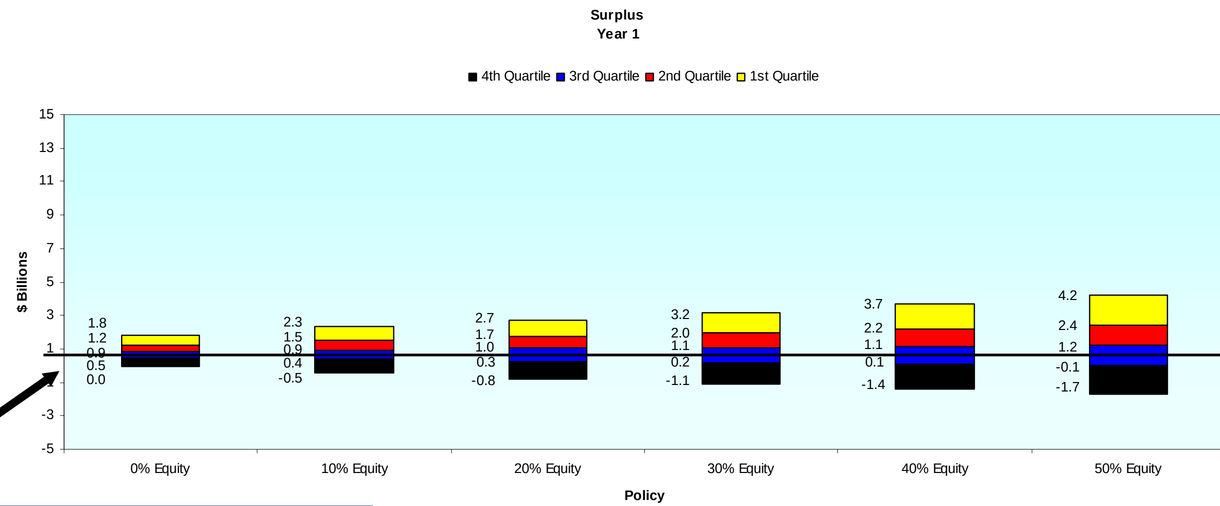
	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
1 Year	Top 5%	17.3	15.4	16.7	18.6	21.3	24.2
	Top Quartile	10.0	9.6	10.3	11.3	12.5	13.9
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	0.6	1.9	2.0	1.8	1.3	0.8
	Bottom 5%	-5.6	-3.2	-3.6	-4.5	-6.0	-7.6

	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
10 Years	Top 5%	8.9	8.7	9.3	10.1	11.2	12.3
	Top Quartile	6.7	6.9	7.4	8.0	8.6	9.2
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	3.8	4.5	4.8	4.9	5.0	5.1
	Bottom 5%	1.7	2.8	2.9	2.9	2.6	2.2

V. Asset-Liability Modeling

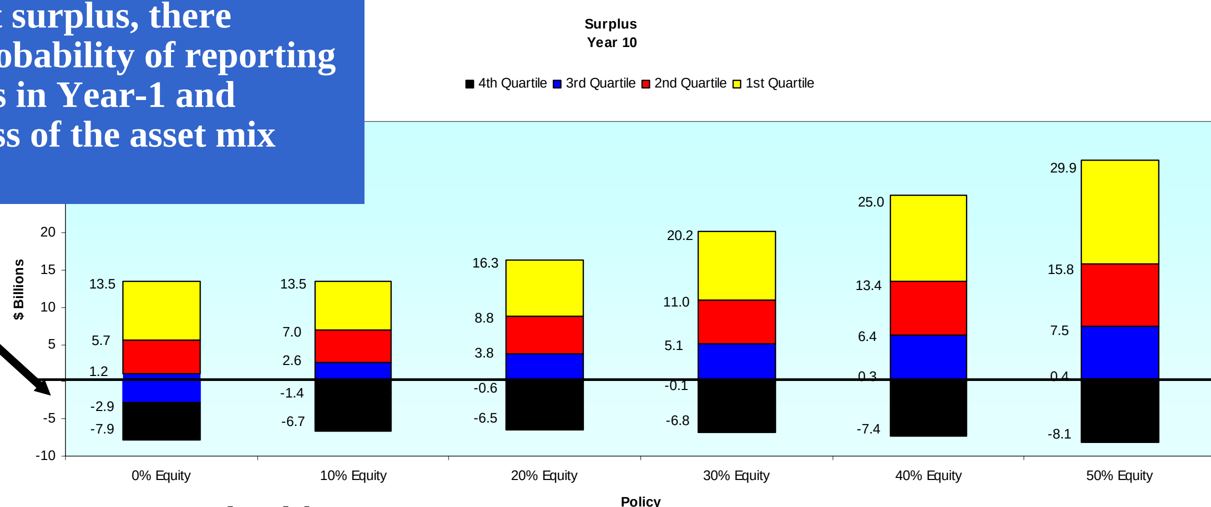
Stochastic Simulation of Surplus: Year 1 and Year 10

- **The floating bar charts incorporate a stochastic simulation of assets, premiums, claims and reserves under potential interest rate, inflation and capital market environments and illustrate the potential SIF surplus under various asset mixes over short and long-term time horizons:**



Current Surplus

Given the current surplus, there is a fairly high probability of reporting a negative surplus in Year-1 and Year-10 regardless of the asset mix selected



Current Surplus

Source: Mercer and Wilshire

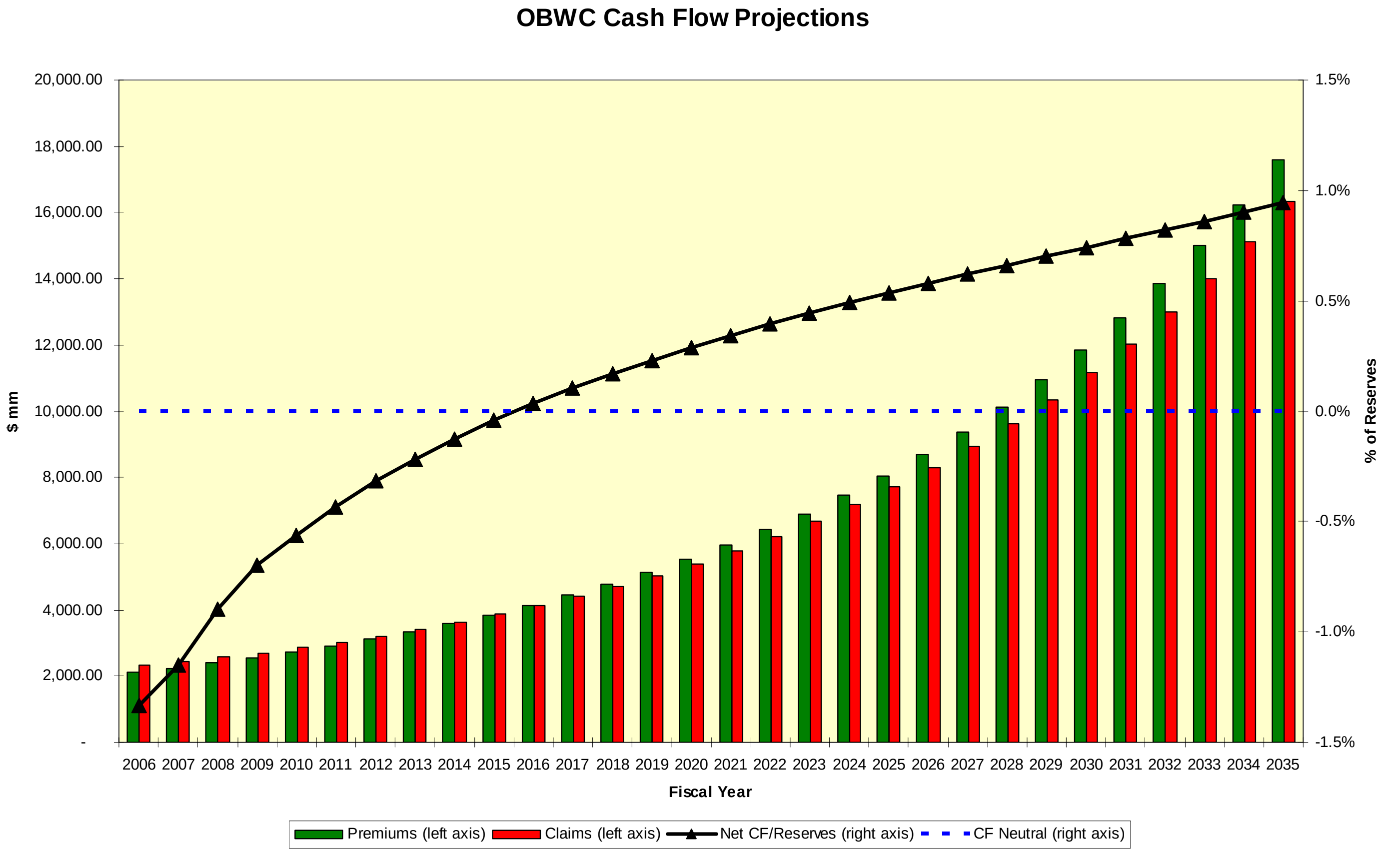
Potential Outcomes: Surplus

➢ **The data table below illustrates the impact on possible market environments on surplus over a 5-year time horizon:**

	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
1 Year	Top 5%	1.8	2.3	2.7	3.2	3.7	4.2
	Top Quartile	1.2	1.5	1.7	2.0	2.2	2.4
	Median	0.9	0.9	1.0	1.1	1.1	1.2
	Bottom Quartile	0.5	0.4	0.3	0.2	0.1	-0.1
	Bottom 5%	0.0	-0.5	-0.8	-1.1	-1.4	-1.7
2 Years	Top 5%	2.6	3.1	3.8	4.6	5.4	6.4
	Top Quartile	1.5	1.9	2.3	2.7	3.2	3.6
	Median	0.9	1.0	1.2	1.3	1.5	1.6
	Bottom Quartile	0.3	0.2	0.1	0.0	-0.2	-0.3
	Bottom 5%	-0.6	-1.1	-1.5	-1.9	-2.3	-2.7
3 Years	Top 5%	3.2	3.9	4.8	5.9	7.1	8.4
	Top Quartile	1.8	2.3	2.9	3.4	4.0	4.6
	Median	0.9	1.2	1.4	1.6	1.9	2.0
	Bottom Quartile	0.1	0.1	0.0	-0.1	-0.2	-0.3
	Bottom 5%	-1.1	-1.6	-2.0	-2.4	-2.9	-3.3
4 Years	Top 5%	4.0	4.6	5.9	7.3	8.9	10.6
	Top Quartile	2.2	2.7	3.4	4.1	4.9	5.7
	Median	1.0	1.3	1.6	2.0	2.3	2.6
	Bottom Quartile	-0.2	0.0	0.0	-0.1	-0.1	-0.3
	Bottom 5%	-1.8	-1.9	-2.4	-3.0	-3.7	-4.1
5 Years	Top 5%	5.0	5.6	7.0	8.6	10.6	12.8
	Top Quartile	2.5	3.2	4.1	5.0	5.9	6.8
	Median	1.0	1.4	1.9	2.3	2.7	3.1
	Bottom Quartile	-0.5	-0.2	-0.1	-0.2	-0.3	-0.4
	Bottom 5%	-2.5	-2.5	-3.0	-3.5	-4.2	-4.8

OBWC Cash Flow Projections

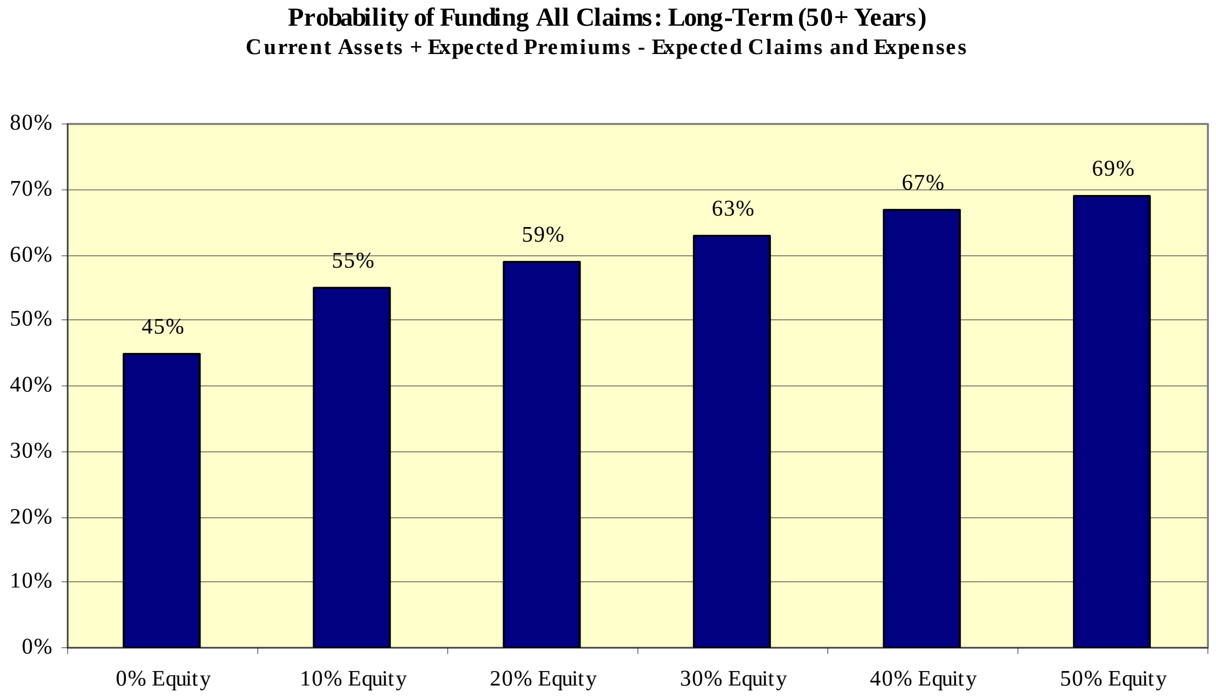
- **Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows**
- **This illustration excludes expected investment income**



Source: Mercer Oliver Wyman Projections

Probability of Success

- **The graph below illustrates the probability of OBWC funding all future expected claims and expenses given current assets, expected premiums and assessments and investment returns over a long-term (50+ years) horizon:**



Observations

- **The optimal asset mix is highly dependent on the Fund's ultimate objective and time horizon:**
  - If minimizing short term volatility of the accounting surplus is the sole objective, then the "Immunized" fixed income portfolio is optimal
  - If minimizing the long-term (10-year) downside risk of the accounting surplus is the objective, then a 20% equity allocation is optimal
  - If maximizing the safety of benefit claims is the objective (and the Fund can withstand downside risk to the accounting surplus), then an equity allocation greater than 20% may be justified
- **The immunized bond portfolio will not likely preserve the surplus in periods when medical and/or wage inflation exceed current expectations**
  - There is no financial instrument that can effectively hedge this inflation risk
- **Regardless of the asset mix selected, Wilshire recommends that OBWC build a larger surplus before considering future premium refunds to employers**
  - Given the current level of surplus, under any asset allocation policy mix, there exists the probability of a shortfall in the future
  - Because of the positive cash flow characteristics of the SIF, any shortfall would likely not be an issue until well into the future

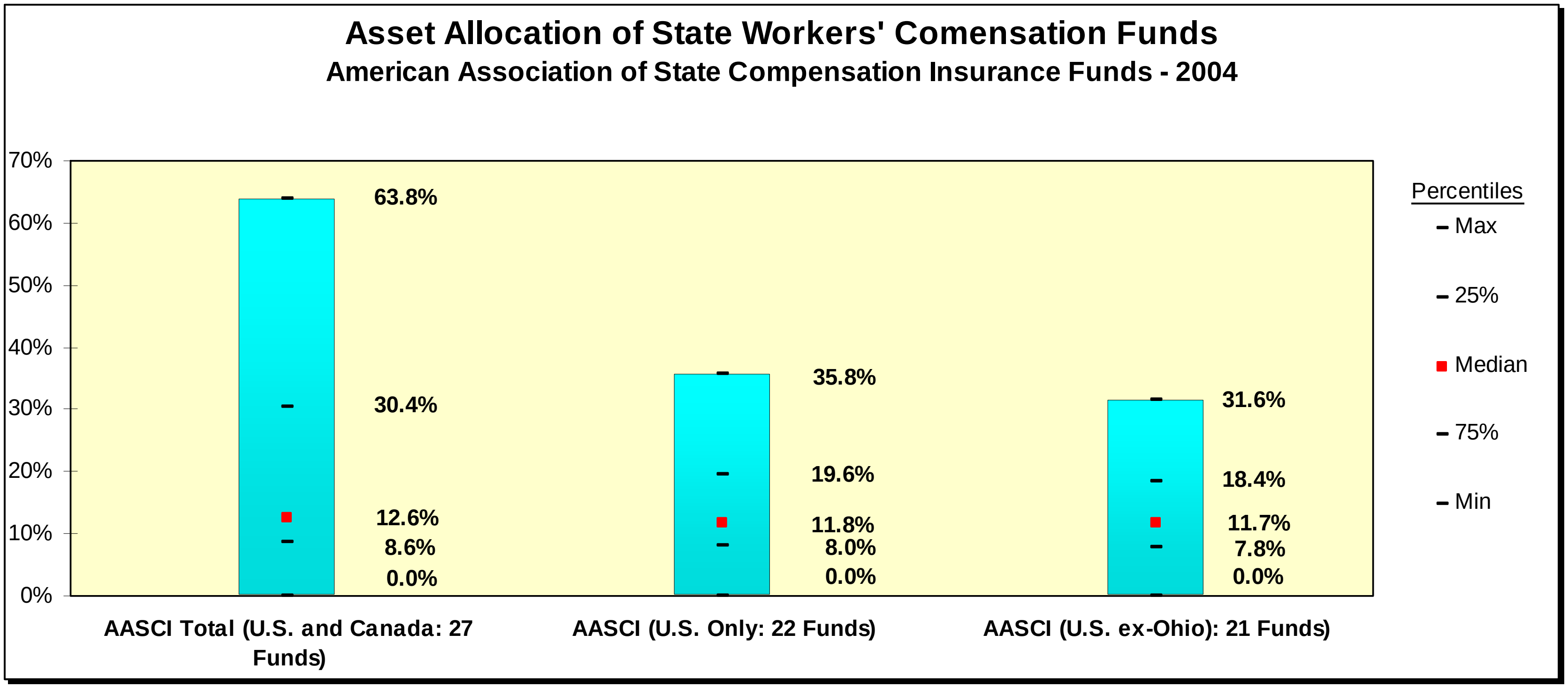
VI. Industry Peer Comparisons

Legislative Background: Industry Standards

- **Ohio Revised Code § 4121.125**
  - (A) The Workers' Compensation Oversight Commission may contract with one or more other actuarial firms and other professional persons as the Oversight Commission determines necessary, to assist the Oversight Commission in measuring the performance of Ohio Workers' Compensation System to other state and private workers' compensation systems. The Oversight Commission, actuarial firms or firms, and professional persons shall make such measurements and comparisons using accepted insurance industry standards, including, but not limited to, standards promulgated by the National Council on Compensation Insurance.

Industry Comparison

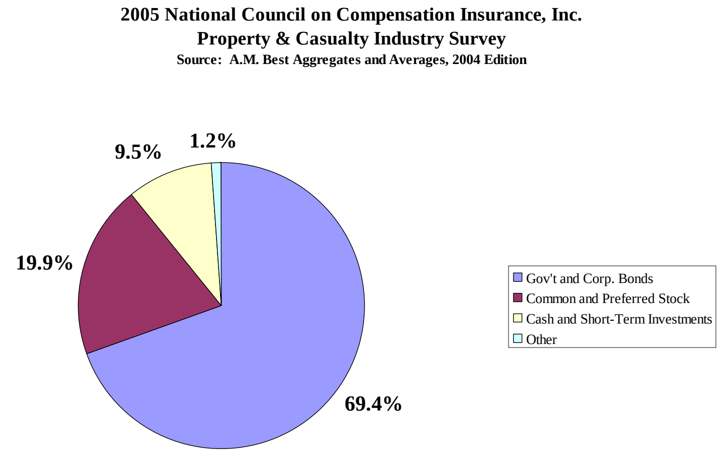
- The American Association of State Workers' Compensation Funds 2005 Survey (based on year-end 2004 data) provides the range of equity allocations of 27 U.S. and Canadian State and Province-run funds:



- The median equity allocation of all funds was 12.6% at year end 2004
- The equal-weighted average equity allocation for this group was 22%.

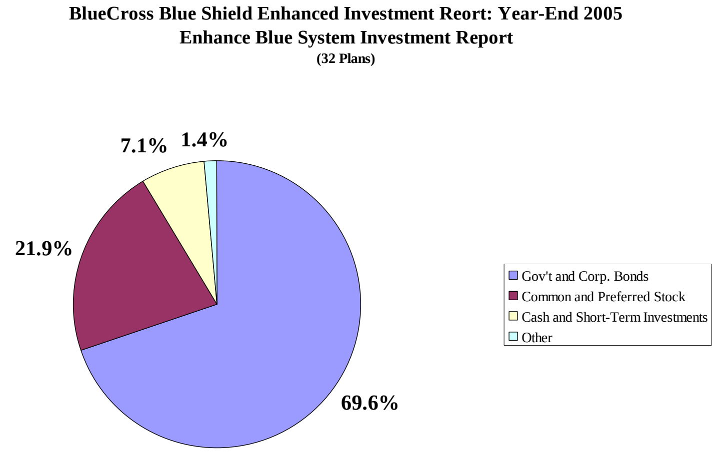
Industry Comparison

- **The chart below highlights the average asset allocation of Property & Casualty carriers as measured by the National Council on Compensation Insurance, Inc.:**



- **The average equity allocation was 19.9% as of December 31, 2003**

- **This chart displays the average asset allocation of 32 BlueCross BlueShield Plans' investment portfolios in the healthcare insurance industry (not a direct industry comparison):**



- **The average equity allocation was 21.9% as of December 31, 2005**

Peer Comparison: State Monopoly Funds

American Association of State Workers' Compensation Funds - 2004						
Fund	Assets	Reserves	Surplus	Discount Rate	Equity Allocation	
					% of Investments	% of Surplus
North Dakota	1,442,415	977,119	465,296	5.00%	24%	74%
Ohio	21,331,936	20,471,166	860,770	5.25%	36%	892%
Washington	9,334,583	8,546,394	788,189	4.60%	19%	225%
West Virginia	1,312,627	4,277,696	(2,965,069)	1.96%	5%	N.A.
Wyoming[1]	490,000	629,000	(139,000)	5.00%	No Data Provided	

Source: AASCIF 2005 Survey except Wyoming, which is based on Mercer estimates

- **This AASCIF survey from 2004 provides comparative data vs. other state monopoly workers' compensation funds.**
- **OBWC's equity as a percent of surplus was significantly higher than peers (ex. West Virginia) that reported.**
  - Two factors contributed to this status:
    - Premium refunds exceeding $5 billion over the past 7 years
    - Negative equity market returns during 2000-2002
- **Even at a 20% equity allocation, equities as a percent of surplus would be approximately 500%**

VII. Proposed Dividend / Adequate Surplus Policy

Ohio Revised Code: Dividends

- **Ohio Revised Code § 4123.32**

  The administrator of workers' compensation, with the advice and consent of the Workers' Compensation Oversight Commission, shall adopt rules with respect to the collection, maintenance, and disbursements of the state insurance fund including all of the following:

  - (A) A rule providing that in the event there is developed as of any given rate revision date a surplus of earned premium over all losses which in the judgment of the administrator, is larger than is necessary adequately to safeguard the solvency of the fund, the administrator may return such excess surplus to the subscriber to the fund in either the form of cash refunds or a reduction of premiums, regardless of when the premium obligations have accrued

- **Wilshire's recommended asset allocation assumes that the OBWC will grow and maintain an adequate surplus**

  - An equity allocation requires that the Fund maintain a sufficient surplus to protect the Fund in times of poor equity returns
  - The Fund's current thin surplus (approx. $870 million) is primarily the result of dividends (or premium refunds) that totaled over $5 billion in the past six years

VIII. Asset Class Structure and Implementation

Investment Structure

➢ **Wilshire recommends the following investment structure for implementing the asset allocation policy:**

	SIF Allocation		
Asset Class	***%***	***$ mm***	***Benchmark***
U.S. Equity	**15**	**2,265**	**Wilshire 5000**
Large Cap	*12*	*1,812*	*S&P 500*
Active (0%)	0	-	
Passive (100%)	12	1,812	
Small/Mid Cap	*3*	*453*	*Wilshire 4500 / Russell 2500*
Active (100%)	3	453	
Passive (0%)	0	-	
Non-U.S. Equity	**5**	**755**	**MSCI ACWI ex-U.S.**
Active (80%)	4	604	
Passsive (20%)	1	151	
Fixed Income - Long Duration	**54**	**8,153**	**Lehman Long Government/Credit**
Active (50%)	27	4,076	
Passive (50%)	27	4,076	
High Yield	**5**	**755**	**Merrill Lynch High Yield Master II**
Active (100%)	5	755	
Passive (0%)	0	-	
Inflation-Protected Securities	**20**	**3,020**	**Lehman U.S. TIPS**
Active (0%)	0	-	
Passive (100%)	20	3,020	
Cash Equivalents	**1**	**151**	**90-Day T-Bill**

Please refer to the following page for an analysis of the long-duration fixed income benchmark.

Illustrative Transition Timeline

Jun-06
Present asset allocation recommendation to WCOC
Present revised Investment Policy Statement to WCOC for approval
Issue RFPs for transition management and index managers

Jul-06
Issue RFPs for long-duration fixed income active managers

Aug-06
Evaluate RFP responses for transition management and index managers
Issue RFP for non-U.S. equity active managers

Sep-06
Evaluate RFP responses for transition management and index managers
Evaluate RFP responses for active long-duration fixed income managers
Issue RFP for small cap U.S. equity active managers

Oct-06
Present transition management and index manager recommendations to WCOC
Commence allocating assets to U.S. equity, non-U.S. equity, fixed income and TIPS index manager(s) (6 months)
Evaluate RFP responses for active long-duration fixed income managers
Evaluate RFP responses for non-U.S. equity active managers

The above calendar is for illustrative purposes only. Actual implementation may differ due to a variety of factors. Expected completion during Q2 2007.

Illustrative Transition Timeline

Nov-06
Present long-duration fixed income active manager recommendations to WCOC
Commence implementing active long-duration fixed income allocation (4 months)
Evaluate RFP responses for non-U.S. equity active managers
Evaluate small cap U.S. equity active managers
Issue RFP for high yield active managers

Dec-06
Present non-U.S. equity active manager recommendations to WCOC
Commence implementing non-U.S. equity active manager allocation (4 months)
Evaluate small cap U.S. equity active managers
Evaluate high yield active managers

Jan-07
Present small cap U.S. equity active manager recommendations to WCOC
Commence implementing small cap U.S. equity allocation (3 months)
Evaluate high yield active managers

Feb-07
Present high yield active manager recommendations to WCOC
Commence implementing high yield allocation (3 months)

The above calendar is for illustrative purposes only. Actual implementation may differ due to a variety of factors. Expected completion during Q2 2007.

<u>Julia K. Bonafede, CFA</u>
Senior Managing Director and Principal

Julia joined Wilshire in 1991 initially as a member of the Consulting Division. She moved to the Analytics Division in 1993 and, in 1996, started Wilshire's European Analytics business in London. Beginning in 1999, Julia headed the Analytics Division's U.S.-based client service group, a staff of 30, located in Wilshire's New York and Santa Monica offices. Currently Julia directs Wilshire's Consulting Division.

Julia has a B.A. in Marketing from the University of Colorado and an M.B.A. in Finance and Entrepreneurship from the Marshall School of Business at the University of Southern California. She is a member of the Association for Investment Management and Research and is a founding member of the United Kingdom Society of Investment Professionals. Her publications include, "The Wilshire 5000 Total Market Index: The Logistics Behind Managing Broad-Based Indexes", *Journal of Indexes*, 3rd Quarter 2003; and "A Multi-Period Linking Algorithm that Has Stood the Test of Time", *The Journal of Performance Measurement*, Volume 7: Number 1.

<u>Mark E. Brubaker, CFA</u>
Managing Director

Mark joined the Pittsburgh, PA office of Wilshire Associates as a Senior Consultant in 1997. Mark works with a broad range of fund sponsors including public and corporate pensions, endowments and foundations and insurance companies. In addition to his client responsibilities, he serves on Wilshire's investment committee and chairs Wilshire's small cap value and growth manager research committees. He is a frequent speaker on investment-related topics including asset/liability management, alternative investments and emerging markets.

Mark earned a B.A. from Yale University and an MBA from Carnegie Mellon University with a concentration in finance. Before joining Wilshire, Mark worked at Westinghouse Electric Corporation, where he was responsible for over $9 billion in defined benefit, defined contribution and foundation assets and at PNC Bank where he managed pension client relationships for the Investment Management and Trust Division.

He holds the Chartered Financial Analyst designation and is a member of the CFA Institute and Pittsburgh Society of Financial Analysts.

Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

Title XLI. Labor and Industry
Chapter 4123. Workers' Compensation (Refs & Annos)
Funds and Premiums
4123.44 Investment powers of administrator

The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with sections 4121.126 and 4121.127 of the Revised Code and the investment objectives, policies, and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund.

The administrator shall not invest in any type of investment specified in divisions (G)(6)(a) to (j) of section 4121.12 of the Revised Code.

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

To facilitate investment of the funds, the administrator may establish a partnership, trust, limited liability company, corporation, including a corporation exempt from taxation under the Internal Revenue Code, 100 Stat. 2085, 26 U.S.C. 1, as amended, or any other legal entity authorized to transact business in this state.

When reporting on the performance of investments, the administrator shall comply with the performance presentation standards established by the association for investment management and research.

All investments shall be purchased at current market prices and the evidences of title to the investments shall be placed in the custody of the treasurer of state, who is hereby designated as custodian, or in the custody of the treasurer of state's authorized agent. Evidences of title of the investments so purchased may be deposited by the treasurer of state for safekeeping with an authorized agent selected by the treasurer of state who is a qualified trustee under section 135.18 of the Revised Code. The treasurer of state or the agent shall collect the principal, dividends, distributions, and interest as they become due and payable and place them when collected into the state insurance fund.

The treasurer of state shall pay for investments purchased by the administrator on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the purchase, and pending receipt of the evidence of title of the investment by the treasurer of state or the treasurer of state's authorized agent. The administrator may sell investments held by the administrator, and the treasurer of state or the treasurer of state's authorized agent shall accept payment from the purchaser and deliver evidence of title of the investment to the purchaser, on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the sale, and pending receipt of the moneys for the investments. The amount received shall be placed in the state insurance fund. The administrator and the treasurer of state may enter into agreements to establish procedures for the purchase and sale of investments under this division and the custody of the investments.

No purchase or sale of any investment shall be made under this section, except as authorized by the administrator.

Any statement of financial position distributed by the administrator shall include the fair value, as of the statement date, of all investments held by the administrator under this section.

When in the judgment of the administrator it is necessary to provide available funds for the payment of compensation or benefits under this chapter, the administrator may borrow money from any available source and pledge as security a sufficient amount of bonds or other securities in which the state insurance fund is invested. The aggregate unpaid amount of loans existing at any one time for money so borrowed shall not exceed ten million dollars. The bonds or other securities so pledged as security for such loans to the administrator shall be the sole security for the payment of the principal and interest of any such loan. The administrator shall not be personally liable for the payment of the principal or the interest of any such loan. No such loan shall be made for a longer period of time than one year. Such loans may be renewed but no one renewal shall be for a period in excess of one year. Such loans shall bear such rate of interest as the administrator determines and in negotiating the loans, the administrator shall endeavor to secure as favorable interest rates and terms as circumstances will permit.

The treasurer of state may deliver to the person or governmental agency making such loan, the bonds or other securities which are to be pledged by the administrator as security for such loan, upon receipt by the treasurer of state of an order of the administrator authorizing such loan. Upon payment of any such loan by the administrator, the bonds or other securities pledged as security therefor shall be returned to the treasurer of state as custodian of such bonds.

The administrator may pledge with the treasurer of state such amount of bonds or other securities in which the state insurance fund is invested as is reasonably necessary as security for any certificates issued, or paid out, by the treasurer of state upon any warrants drawn by the administrator.

The administrator may secure investment information services, consulting services, and other like services to facilitate investment of the surplus and reserve belonging to the state insurance fund. The administrator shall pay the expense of securing such services from the state insurance fund.

(2005 H 66, eff. 9-29-05; 1996 S 82, eff. 3-7-97; 1995 H 7, eff. 9- 1-95; 1994 S 179, eff. 3-10-95; 1993 H 107, eff. 10-20-93; 1989 H 222; 1986 H 562; 1985 H 201; 1984 H 469; 1976 S 545; 1975 H 1; 1974 S 129; 1973 H 406; 1969 S 176; 131 v S 58; 129 v 582; 128 v 1206; 1953 H 1; GC 1465-58)

HISTORICAL AND STATUTORY NOTES

Pre-1953 H 1 Amendments: 118 v 324, § 1; 117 v 469, § 1; 115 v 79; 111 v 51, 218; 109 v 525; 103 v 76, § 11; 102 v 528

Amendment Note: 2005 H 66 added first sentence; inserted "sections 4121.126 and 4121.127 of the Revised Code and" and ", and in consultation with the bureau of workers' compensation chief investment officer" in the first paragraph; added the second paragraph; and inserted "of state" after the second occurrence of "treasurer" in the second sentence of the sixth paragraph.

Amendment Note: 1996 S 82 rewrote this section. See Baldwin's Ohio Legislative Service, 1996, p 12/L-4356, or the OH-LEGIS or OH-LEGIS-OLD database on WESTLAW, for prior version of this section.

Amendment Note: 1995 H 7 added ", in accordance with the investment policy established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code," to division (A).

Amendment Note: 1994 S 179 inserted "the international finance corporation or by" and "; however, the administrator may invest not more than the aggregate of fifteen per cent of the value of the funds described in division (A) of this section in such obligations" in division (A)(6).

Amendment Note: 1993 H 107 deleted ", with the approval of the workers' compensation board and the industrial commission," prior to "may invest" in the first paragraph of division (A); added division (A)(1)(d); substituted "four" for "three" and "fourth" for "third", respectively, in divisions (A)(2)(f)(iv), (A)(3)(a)(iv), and (A)(4)(a); substituted "A-2 or higher quality according to the Standard and Poor's rating service and P-2 or higher quality according to the Moody's rating service, or an equivalent rating according to" for "prime by" and inserted "other" prior to "standard rating services" in division (A)(4)(b); inserted "and section 4123.441 of the Revised Code" in, and deleted a reference to section 4123.442 from the last sentence of, division (B); and added division (G).

CROSS REFERENCES

Bureau of workers' compensation, duties of administrator, 4121.121
Coal-workers pneumoconiosis fund established, investments, 4131.03
Safety and hygiene fund, investment powers of administrator, 4121.37
Self-insuring employers' surety bond fund, investments, 4123.351
State administrative procedure, exceptions to application, 119.01

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

Westlaw Topic No. 413.
C.J.S. Workmen's Compensation § 358.
Baldwin's Ohio Legislative Service, 1989 Laws of Ohio, H 222--LSC Analysis, p 5-832
Baldwin's Ohio Legislative Service, 1993 Laws of Ohio, H 107--LSC Analysis, p 5-941

RESEARCH REFERENCES

Encyclopedias

OH Jur. 3d Administrative Law § 6, Ohio Administrative Procedure Act (Ohio Apa)--Agency and Rulemaking Agency Defined and Exempted by Ohio Apa.

OH Jur. 3d Administrative Law § 67, Filing With Joint Committee on Agency Rule Review--Exceptions.

OH Jur. 3d Workers' Compensation § 51, Rulemaking Powers; Rules Generally.

OH Jur. 3d Workers' Compensation § 427, State Insurance Fund and Surplus; Successors in Interest.

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

In general 2
Constitutional issues 1
Disbursements; investments 3
Effective date 5
Fiduciary obligations 4

1. Constitutional issues

The transfer of state insurance fund investment income to the disabled workers' relief fund, pursuant to RC 4123.411, violates neither O Const Art II §28 nor 35. Thompson v. Industrial Com'n of Ohio (Ohio 1982) 1 Ohio St.3d 244, 438 N.E.2d 1167, 1 O.B.R. 265. Workers' Compensation 1049

Unconstitutional in its attempt to require taxing districts before advertising a bond issue for sale to offer same to the industrial commission of Ohio at less than market value. State ex rel. City of Cleveland Heights v. Frazine (Ohio 1924) 110 Ohio St. 523, 144 N.E. 289, 2 Ohio Law Abs. 407, 22 Ohio Law Rep. 177.

Workmen's compensation fund can be raised only by contributions levied on employers. To divert the premium on bonds, which belongs to a taxing district, is to burden such district as compared with a district not issuing bonds or whose bonds are not accepted by the commission, and hence amounts to a tax without uniformity. State ex rel. City of Cleveland Heights v. Frazine (Ohio 1924) 110 Ohio St. 523, 144 N.E. 289, 2 Ohio Law Abs. 407, 22 Ohio Law Rep. 177.

2. In general

If the assessment levied against employers pursuant to RC 4123.411 is insufficient to carry out the provisions of RC 4123.412 to 4123.418 then the additional amount necessary must be provided from the income produced as a result of investments made pursuant to RC 4123.44. OAG 76-039.

Responsibility of the state treasurer for collection of installments of interest and principal of so-called FHA insured mortgages bought by state retirement boards or state industrial commission, begins when, under the terms of the accompanying contract for the servicing of said mortgages, the proceeds of these payments are remitted by the servicer or the servicing agent to the investors; the title to notes and the mortgage securing the same, representing the investment, vests in the retirement board of the industrial commission making the investment. 1940 OAG 1723.

3. Disbursements; investments

The formation of a partnership by the administrator of workers' compensation and a private corporation for the purpose of investing a portion of the surplus or reserve of the state insurance fund in a project to construct and operate a parking garage does not violate O Const Art VIII §4, provided that no moneys belonging to the state will ever be obligated for the purpose of reimbursing the state insurance fund for any losses it incurs as a result of such investment. OAG 99-002.

Pursuant to RC 4123.44, the administrator of workers' compensation may form a partnership with a private corporation for the purpose of investing a portion of the surplus or reserve of the state insurance fund in a project to construct and operate a parking garage, provided such investment is in accordance with the investment objectives, policies, and criteria established by the workers' compensation oversight commission. However, in making such an investment, the administrator must discharge his investment duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. OAG 99- 002.

Neither the administrator of the bureau of workers' compensation nor the industrial commission has the authority to invest moneys of the safety and hygiene fund not needed for current operations. Such moneys may, however, be invested by the treasurer of state in accordance with RC Ch 135. OAG 79-110.

The department of administrative services and industrial commission have no authority to create a rotary fund in the state insurance fund for payment of administrative costs of managing investments made pursuant to RC 4123.44, and disbursements from the state insurance fund for payment of such administrative costs are limited to those provided for in the appropriations act and RC 4123.341 and 4123.342. OAG 74-067.

Neither the workmen's compensation fund nor the teachers' retirement fund can lawfully be used for the purpose of erecting a state building. 1927 OAG 110.

4. Fiduciary obligations

The industrial commission has a fiduciary responsibility to preserve and safeguard the financial integrity and solvency of the state insurance fund, including an obligation to adhere to certain standards of judgment and care when taking actions such as approving the sale of industrial rehabilitation centers for prices less than their construction and development costs, modifying or renegotiating the terms of the lease agreements for such centers, or agreeing to a reduction in the rent paid under such lease agreements. OAG 89-033.

5. Effective date

Any section of a law which changes the permanent law of the state is subject to referendum under the powers reserved to the people by O Const Art II § 1, even though the law also contains a section providing for an appropriation for the current expenses of the state government and state institutions, which under O Const Art II § 1d becomes immediately effective; thus, the nonappropriation provisions of 1993 Am.Sub.H.B. 107 are stayed for ninety days, during which period relators may undertake to petition for a referendum on the provisions of such act that change the permanent law of the state. State ex rel. Ohio AFL-CIO v. Voinovich (Ohio, 04-08-1994) 69 Ohio St.3d 225, 631 N.E.2d 582, 1994-Ohio-1, opinion clarified 69 Ohio St.3d 1208, 632 N.E.2d 907.

R.C. § 4123.44, OH ST § 4123.44

Current through 2005 File 63 and 2006 File 64 of the 126th GA (2005-2006) apv. by 1/30/06, and filed with the Secretary of State by 1/31/06.

Appendix XIII: Legal Requirements Summary

This section of the Statement of Investment Policy and Guidelines contains the Ohio Revised Code citations that form the legal basis for the duties and requirements of the Workers' Compensation Oversight Commission, the Administrator, and the Chief Investment Officer relating to Bureau of Workers' Compensation investments. The text of relevant statutory provisions that form the basis of the Statement of Investment Policy and Guidelines is included in this section for reference. This section does not include all Revised Code sections relating to the WCOC, Administrator, BWC, and Chief Investment Officer, but only those Revised Code sections that relate to the Investment Policy.

Am. Sub. H.B. 66, the General Revenue budget bill for the operation of state government, amended or enacted many of these statutes affecting BWC investments. The provisions of Sub. H.B. 66 were effective September 29, 2005.

I. General Investment Authority and Criteria

R.C. 4123.44 contains the chief authority for the investment of the State Insurance Fund. The statute establishes the "prudent person" standard for investment decisions. The statute cross references R.C. 4121.12(G)(6)(a) to (j) for prohibited investments, cited below in the section on "Workers' Compensation Oversight Commission duties."

> 4123.44: The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with sections 4121.126 and 4121.127 of the Revised Code and the investment objectives, policies, and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund.
>
> The administrator shall not invest in any type of investment specified in divisions (G)(6)(a) to (j) of section 4121.12 of the Revised Code.
>
> The administrator and other fiduciaries shall discharge their duties with respect to the funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
>
> To facilitate investment of the funds, the administrator may establish a partnership, trust, limited liability company, corporation, including a corporation exempt from taxation under the Internal Revenue Code, 100 Stat. 2085, 26 U.S.C. 1, as amended, or any other legal entity authorized to transact business in this state.
>
> When reporting on the performance of investments, the administrator shall comply with the performance presentation standards established by the association for investment management and research.

All investments shall be purchased at current market prices and the evidences of title to the investments shall be placed in the custody of the treasurer of state, who is hereby designated as custodian, or in the custody of the treasurer of state's authorized agent. Evidences of title of the investments so purchased may be deposited by the treasurer of state for safekeeping with an authorized agent selected by the treasurer of state who is a qualified trustee under section 135.18 of the Revised Code. The treasurer of state or the agent shall collect the principal, dividends, distributions, and interest as they become due and payable and place them when collected into the state insurance fund.

The treasurer of state shall pay for investments purchased by the administrator on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the purchase, and pending receipt of the evidence of title of the investment by the treasurer of state or the treasurer of state's authorized agent. The administrator may sell investments held by the administrator, and the treasurer of state or the treasurer of state's authorized agent shall accept payment from the purchaser and deliver evidence of title of the investment to the purchaser, on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the sale, and pending receipt of the moneys for the investments. The amount received shall be placed in the state insurance fund. The administrator and the treasurer of state may enter into agreements to establish procedures for the purchase and sale of investments under this division and the custody of the investments.

No purchase or sale of any investment shall be made under this section, except as authorized by the administrator.

Any statement of financial position distributed by the administrator shall include the fair value, as of the statement date, of all investments held by the administrator under this section.

When in the judgment of the administrator it is necessary to provide available funds for the payment of compensation or benefits under this chapter, the administrator may borrow money from any available source and pledge as security a sufficient amount of bonds or other securities in which the state insurance fund is invested. The aggregate unpaid amount of loans existing at any one time for money so borrowed shall not exceed ten million dollars. The bonds or other securities so pledged as security for such loans to the administrator shall be the sole security for the payment of the principal and interest of any such loan. The administrator shall not be personally liable for the payment of the principal or the interest of any such loan. No such loan shall be made for a longer period of time than one year. Such loans may be renewed but no one renewal shall be for a period in excess of one year. Such loans shall bear such rate of interest as the administrator determines and in negotiating the loans, the administrator shall endeavor to secure as favorable interest rates and terms as circumstances will permit.

The treasurer of state may deliver to the person or governmental agency making such loan, the bonds or other securities which are to be pledged by the administrator as security for such loan, upon receipt by the treasurer of state of an order of the administrator authorizing such loan. Upon payment of any such loan by the administrator, the bonds or other securities pledged as security therefor shall be returned to the treasurer of state as custodian of such bonds.

The administrator may pledge with the treasurer of state such amount of bonds or other securities in which the state insurance fund is invested as is reasonably necessary as security for any certificates issued, or paid out, by the treasurer of state upon any warrants drawn by the administrator.

The administrator may secure investment information services, consulting services, and other like services to facilitate investment of the surplus and reserve belonging to the state insurance fund. The administrator shall pay the expense of securing such services from the state insurance fund.

II. Workers' Compensation Oversight Commission Investment Duties

R.C. 4121.12(G)(6) requires the WCOC to establish an investment policy with certain criteria, and to monitor the Administrator's progress in investments. The WCOC shall review the investment policy annually. The WCOC shall prohibit BWC from investing in certain specified assets.

> 4121.12(G): The commission shall . . . (6) Establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. The commission shall review and publish the objectives, policies, and criteria no less than annually and shall make copies available to interested parties. The commission shall prohibit, on a prospective basis, any specific investment it finds to be contrary to its investment objectives, policies, and criteria.
>
> The objectives, policies, and criteria adopted by the commission for the operation of the investment program shall prohibit investing assets of funds, directly or indirectly, in vehicles that target any of the following:
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> (a) Coins;
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> (b) Artwork;
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> (c) Horses;
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> (d) Jewelry or gems;
>
> (e) Stamps;
>
> (f) Antiques;
>
> (g) Artifacts;
>
> (h) Collectibles;
>
> (i) Memorabilia;
>
> (j) Similar unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity, and that lack readily determinable valuation.

R.C. 4121.12(G)(7) requires the WCOC to specify in the investment policy that the Administrator is permitted to invest in an investment class only if the WCOC opens that class. The WCOC shall adopt rules establishing due diligence standards for BWC employees to follow when investing in that class. The WCOC shall establish policies and procedures to monitor and review the performance and value of each investment class. The WCOC shall report annually on the performance and value of each investment class.

> 4121.12(G): The commission shall . . . (7) Specify in the objectives, policies, and criteria for the investment program that the administrator is permitted to invest in an investment class only if the commission, by a majority vote, opens that class. After the commission opens a class but prior to the administrator investing in that class, the commission shall adopt rules establishing due diligence standards for employees' of the bureau to follow when investing in that class and shall establish policies and procedures to review and monitor the performance and value of each investment class. The commission shall submit a report annually on the performance and value of each investment class to the governor, the president and minority

leader of the senate, and the speaker and minority leader of the house of representatives. The commission may vote to close any investment class.

III. Administrator's Investment Duties

R.C. 4121.121(B)(7) states the general power for the Administrator to invest, prohibits the Administrator from investing in prohibited investment classes, and requires the Administrator to make investments in consultation with the Chief Investment Officer.

R.C. 4121.121: (B) The administrator is responsible for the management of the bureau of workers' compensation and for the discharge of all administrative duties imposed upon the administrator in this chapter and Chapters 4123., 4127., 4131., and 4167. of the Revised Code, and in the discharge thereof shall do all of the following: . . .

(7) Exercise the investment powers vested in the administrator by section 4123.44 of the Revised Code in accordance with the investment objectives, policies, and criteria established by the oversight commission pursuant to section 4121.12 of the Revised Code and in consultation with the chief investment officer of the bureau of workers' compensation. The administrator shall not engage in any prohibited investment activity specified by the oversight commission pursuant to division (G)(6) of section 4121.12 of the Revised Code and shall not invest in any type of investment specified in division (G)(6)(a) to (j) of that section. All business shall be transacted, all funds invested, all warrants for money drawn and payments made, and all cash and securities and other property held, in the name of the bureau, or in the name of its nominee, provided that nominees are authorized by the administrator solely for the purpose of facilitating the transfer of securities, and restricted to the administrator and designated employees.

IV. Chief Investment Officer Duties

R.C. 4123.441 requires BWC, with the advice and consent of the WCOC, to employ a licensed BWC chief investment officer and who is a chartered financial analyst. The chief investment officer shall reasonably supervise BWC employees who handle investments to prevent specified securities and investment violations. The chief investment officer shall establish a policy to monitor and evaluate the effectiveness of BWC investments.

R.C. 4123.441: (A) The bureau of workers' compensation, with the advice and consent of the workers' compensation oversight commission shall employ a person or designate an employee of the bureau who is designated as a chartered financial analyst by the CFA institute and who is licensed by the division of securities in the department of commerce as a bureau of workers' compensation chief investment officer to be the chief investment officer for the bureau of workers' compensation. After ninety days after the effective date of this section, the bureau of workers' compensation may not employ a bureau of workers' compensation chief investment officer, as defined in section 1707.01 of the Revised Code, who does not hold a valid bureau of workers' compensation chief investment officer license issued by the division of securities in the department of commerce. The oversight commission shall notify the division of securities of the department of commerce in writing of its designation and of any change in its designation within ten calendar days after the designation or change.

(B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

For purposes of this division, no bureau of workers' compensation chief investment officer shall be considered to have failed to satisfy the officer's duty of reasonable supervision if the officer has done all of the following:

(1) Adopted and implemented written procedures, and a system for applying the procedures, that would reasonably be expected to prevent and detect, insofar as practicable, any violation by employees handling investments of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code;

(2) Reasonably discharged the duties and obligations incumbent on the bureau of workers' compensation chief investment officer by reason of the established procedures and the system for applying the procedures when the officer had no reasonable cause to believe that there was a failure to comply with the procedures and systems;

(3) Reviewed, at least annually, the adequacy of the policies and procedures established pursuant to this section and the effectiveness of their implementation.

(C) The bureau of workers' compensation chief investment officer shall establish and maintain a policy to monitor and evaluate the effectiveness of securities transactions executed on behalf of the bureau.

R.C. 1707.164 and R.C. 1707.165 provide that the BWC Chief Investment Officer shall be licensed by the Division of Securities in the Department of Commerce.

R.C. 1707.164: (A) No person shall act as a bureau of workers' compensation chief investment officer unless the person is licensed as a bureau of workers' compensation chief investment officer by the division of securities.

(B) No bureau of workers' compensation chief investment officer shall act as a dealer, salesperson, investment advisor, or investment advisor representative.

R.C. 1707.165: (A) Application for a bureau of workers' compensation chief investment officer's license shall be made in accordance with this section by filing with the division of securities the information, materials, and forms specified in rules adopted by the division.

(B) The division may investigate any applicant for a license and may require any additional information as it considers necessary to determine the applicant's business repute and qualifications to act as a chief investment officer. If the application for a bureau of workers' compensation chief investment officer's license involves investigation outside of this state, the applicant may be required by the division to advance sufficient funds to pay any of the actual expenses of the investigation. The division shall furnish the applicant with an itemized statement of the expenses the applicant is required to pay.

(C) The division shall by rule require an applicant for a bureau of workers' compensation chief investment officer's license to pass an examination designated by the division or achieve a specified professional designation unless the applicant meets both of the following requirements:

(1) Acts as a bureau of workers' compensation chief investment officer on the effective date of this section;

(2) Has experience or education acceptable to the division.

(D) If the division finds that the applicant is of good business repute, appears to be qualified to act as a bureau of workers' compensation chief investment officer, and has complied with this chapter and rules adopted by the division under this chapter, the division, upon receipt of the fees prescribed by division (B) of section 1707.17 of the Revised Code, shall issue to the applicant a license authorizing the applicant to act as a bureau of workers' compensation chief investment officer.

V. Investment Manager Requirements

R.C. 4123.444 and R.C. 4123.445 require the Administrator, prior to awarding a contract to an investment manager, to have criminal background checks conducted on the investment manager's employees who will be investing BWC funds. The statutes prohibit BWC from entering into a contract with an investment manager if any employee of that manager who will be investing assets of BWC funds has been convicted of or pleaded guilty to a financial or investment crime.

R.C. 4123.444: (A) As used in this section and section 4123.445 of the Revised Code:

(1) "Bureau of workers' compensation funds" means any fund specified in Chapter 4121., 4123., 4127., or 4131. of the Revised Code that the administrator of workers' compensation has the authority to invest, in accordance with the administrator's investment authority under section 4123.44 of the Revised Code.

(2) "Investment manager" means any person with whom the administrator of workers' compensation contracts pursuant to section 4123.44 of the Revised Code to facilitate the investment of assets of bureau of workers' compensation funds.

(3) "Business entity" means any person with whom an investment manager contracts for the investment of assets of bureau of workers' compensation funds.

(4) "Financial or investment crime" means any criminal offense involving theft, receiving stolen property, embezzlement, forgery, fraud, passing bad checks, money laundering, drug trafficking, or any criminal offense involving money or securities, as set forth in Chapters 2909., 2911., 2913., 2915., 2921., 2923., and 2925. of the Revised Code or other law of this state, or the laws of any other state or the United States that are substantially equivalent to those offenses.

(B)(1) Before entering into a contract with an investment manager to invest bureau of workers' compensation funds, the administrator shall do both of the following:

(a) Request from any investment manager with whom the administrator wishes to contract for those investments a list of all employees who will be investing assets of bureau of workers' compensation funds. The list shall specify each employee's state of residence for the five years prior to the date of the administrator's request.

(b) Request that the superintendent of the bureau of criminal investigation and identification conduct a criminal records check in accordance with this section and section 109.579 of the Revised Code with respect to every employee the investment manager names in that list.

(2) After an investment manager enters into a contract with the administrator to invest bureau of workers' compensation funds and before an investment manager enters into a contract with a business entity to facilitate those investments, the investment manager shall request from any business entity with whom the investment manager wishes to contract to make those investments a list of all employees who will be

investing assets of the bureau of workers' compensation funds. The list shall specify each employee's state of residence for the five years prior to the investment manager's request. The investment manager shall forward to the administrator the list received from the business entity. The administrator shall request the superintendent to conduct a criminal records check in accordance with this section and section 109.579 of the Revised Code with respect to every employee the business entity names in that list. Upon receipt of the results of the criminal records check, the administrator shall forward a copy of those results to the investment manager.

(3) If, after a contract has been entered into between the administrator and an investment manager or between an investment manager and a business entity for the investment of assets of bureau of workers' compensation funds, the investment manager or business entity wishes to have an employee who was not the subject of a criminal records check under division (B)(1) or (B)(2) of this section invest assets of the bureau of workers' compensation funds, that employee shall be the subject of a criminal records check pursuant to this section and section 109.579 of the Revised Code prior to handling the investment of assets of those funds. The investment manager shall submit to the administrator the name of that employee along with the employee's state of residence for the five years prior to the date in which the administrator requests the criminal records check. The administrator shall request that the superintendent conduct a criminal records check on that employee pursuant to this section and section 109.579 of the Revised Code.

(C)(1) If an employee who is the subject of a criminal records check pursuant to division (B) of this section has not been a resident of this state for the five-year period immediately prior to the time the criminal records check is requested or does not provide evidence that within that five-year period the superintendent has requested information about the employee from the federal bureau of investigation in a criminal records check, the administrator shall request that the superintendent obtain information from the federal bureau of investigation as a part of the criminal records check for the employee. If the employee has been a resident of this state for at least that five-year period, the administrator may, but is not required to, request that the superintendent request and include in the criminal records check information about that employee from the federal bureau of investigation.

(2) The administrator shall provide to an investment manager a copy of the form prescribed pursuant to division (C)(1) of section 109.579 of the Revised Code and a standard impression sheet for each employee for whom a criminal records check must be performed, to obtain fingerprint impressions as prescribed pursuant to division (C)(2) of section 109.579 of the Revised Code. The investment manager shall obtain the completed form and impression sheet either directly from each employee or from a business entity and shall forward the completed form and sheet to the administrator, who shall forward these forms and sheets to the superintendent.

(3) Any employee who receives a copy of the form and the impression sheet pursuant to division (C)(2) of this section and who is requested to complete the form and provide a set of fingerprint impressions shall complete the form or provide all the information necessary to complete the form and shall complete the impression sheets in the manner prescribed in division (C)(2) of section 109.579 of the Revised Code.

(D) For each criminal records check the administrator requests under this section, at the time the administrator makes a request the administrator shall pay to the superintendent the fee the superintendent prescribes pursuant to division (E) of section 109.579 of the Revised Code.

R.C. 4123.445: (A) The administrator of workers' compensation shall not enter into a contract with an investment manager for the investment of assets of the bureau of workers' compensation funds if any employee of that investment manager who will be investing assets of bureau of workers' compensation funds has been convicted of or pleaded guilty to a financial or investment crime.

(B) An investment manager who has entered into a contract with the bureau of workers' compensation for the investment of assets of bureau of workers' compensation funds shall not contract with a business entity for the investment of those assets if any employee of that business manager who will be investing assets of bureau of workers' compensation funds has been convicted of or pleaded guilty to a financial or investment crime.

(C) The administrator shall not enter into a contract with an investment manager who refuses to submit the list of the investment manager's employees required under division (B) of section 4123.444 of the Revised Code. An investment manager shall not enter into a contract with a business entity that refuses to submit the list of the business entity's employees required under division (B) of section 4123.444 of the Revised Code.

(D) If, after a contract has been awarded to an investment manager or business entity for the investment of assets of bureau of workers' compensation funds, the investment manager or business entity discovers that an employee who is handling the investment of those assets has been convicted of or pleaded guilty to a financial or investment crime, the investment manager or business entity immediately shall notify the administrator.

R.C. 3517.13(Y) and (Z) prohibits the BWC from conducting business with or awarding a contract, other than by competitive bidding, for goods or services costing more than $500 entities who, within the two previous calendar years, have made contributions totaling more than $1,000 to the campaign committees of the Governor or Lieutenant Governor or candidates for those offices.

R.C. 3517.13: (Y) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if the individual has made, or the individual's spouse has made, or any partner, shareholder, administrator, executor, or trustee, or the spouses of any of those individuals has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

(Z) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if an owner of more than twenty per cent of the corporation or business trust, or the spouse of the owner, has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of such period, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

VI. Fiduciary Requirements

R.C. 4121.126 prohibits BWC employees and WCOC members from having any interest in any investment made by the Administrator or receiving any pay for the employee's or member's services. The statute prohibits any member or person connected with the BWC from borrowing any of its funds or using the funds except to make necessary payments authorized by the Administrator. The Administrator shall not make investments or purchases from or do any business with an entity that is owned or controlled by a person who within the preceding three years was employed by BWC or was a WCOC member, or was employed by or was an officer holding a fiduciary position in which the person was involved in decisions affecting the investment policy of BWC.

R.C. 4121.126: Except as provided in this chapter, no member of the workers' compensation oversight commission or employee of the bureau of workers' compensation shall have any direct or indirect interest in the gains or profits of any investment made by the administrator of workers' compensation or shall receive directly or indirectly any pay or emolument for the member's or employee's services. No member or person connected with the bureau directly or indirectly, for self or as an agent or partner of others, shall borrow any of its funds or deposits or in any manner use the funds or deposits except to make current and necessary payments that are authorized by the administrator. No member of the oversight commission or employee of the bureau shall become an indorser or surety or become in any manner an obligor for moneys loaned by or borrowed from the bureau.

The administrator shall make no investments through or purchases from, or otherwise do any business with, any individual who is, or any partnership, association, or corporation that is owned or controlled by, a person who within the preceding three years was employed by the bureau, a board member of, or an officer of the oversight commission, or a person who within the preceding three years was employed by or was an officer holding a fiduciary, administrative, supervisory, or trust position, or any other position in which such person would be involved, on behalf of the person's employer, in decisions or recommendations affecting the investment policy of the bureau, and in which such person would benefit by any monetary gain.

R.C. 4121.127 prohibits a BWC fiduciary from engaging in a transaction if the fiduciary knows that the transaction constitutes a prohibited activity, prohibits a fiduciary from engaging in certain activities concerning the fiduciary acting with the fiduciary's own interest, and specifies circumstances in which a fiduciary will be liable to the BWC for a breach of fiduciary duty.

R.C. 4121.127: (A) Except as provided in division (B) of this section, a fiduciary shall not cause the bureau of workers' compensation to engage in a transaction, if the fiduciary knows or should know that such transaction constitutes any of the following, whether directly or indirectly:

(1) The sale, exchange, or leasing of any property between the bureau and a party in interest;

(2) Lending of money or other extension of credit between the bureau and a party in interest;

(3) Furnishing of goods, services, or facilities between the bureau and a party in interest;

(4) Transfer to, or use by or for the benefit of a party in interest, of any assets of the bureau;

(5) Acquisition, on behalf of the bureau, of any employer security or employer real property.

(B) Nothing in this section shall prohibit any transaction between the bureau and any fiduciary or party in interest if both of the following occur:

(1) All the terms and conditions of the transaction are comparable to the terms and conditions that might reasonably be expected in a similar transaction between similar parties who are not parties in interest.

(2) The transaction is consistent with fiduciary duties under this chapter and Chapters 4123., 4127., and 4131. of the Revised Code.

(C) A fiduciary shall not do any of the following:

(1) Deal with the assets of the bureau in the fiduciary's own interest or for the fiduciary's own account;

(2) In the fiduciary's individual capacity or in any other capacity, act in any transaction involving the bureau on behalf of a party, or represent a party, whose interests are adverse to the interests of the bureau or to the injured employees served by the bureau;

(3) Receive any consideration for the fiduciary's own personal account from any party dealing with the bureau in connection with a transaction involving the assets of the bureau.

(D) In addition to any liability that a fiduciary may have under any other provision, a fiduciary, with respect to bureau, shall be liable for a breach of fiduciary responsibility in any the following circumstances:

(1) If the fiduciary knowingly participates in or knowingly undertakes to conceal an act or omission of another fiduciary, knowing such act or omission is a breach;

(2) If, by the fiduciary's failure to comply with this chapter or Chapter 4123., 4127., or 4131. of the Revised Code, the fiduciary has enabled another fiduciary to commit a breach;

(3) If the fiduciary has knowledge of a breach by another fiduciary of that fiduciary's duties under this chapter and Chapters 4123., 4127., and 4131. of the Revised Code, unless the fiduciary makes reasonable efforts under the circumstances to remedy the breach.

(E) Every fiduciary of the bureau shall be bonded or insured for an amount of not less than one million dollars for loss by reason of acts of fraud or dishonesty.

(F) As used in this section, "fiduciary" means a person who does any of the following:

(1) Exercises discretionary authority or control with respect to the management of the bureau or with respect to the management or disposition of its assets;

(2) Renders investment advice for a fee, directly or indirectly, with respect to money or property of the bureau;

(3) Has discretionary authority or responsibility in the administration of the bureau.

R.C. 109.981 authorizes the Attorney General to maintain a civil action against a voting member of the WCOC who breaches the member's fiduciary duty to the BWC for harm resulting from that breach, and allows the WCOC to retain independent legal counsel if informed of an allegation that the entire WCOC has breached its fiduciary duty to the BWC.

If a voting member of workers' compensation oversight commission breaches the member's fiduciary duty to the bureau of workers' compensation, the attorney general may maintain a civil action against the board member for harm resulting from that breach. Notwithstanding section 4121.128 of the Revised Code, after being informed of an allegation that the entire oversight commission has breached its fiduciary duty, the oversight commission may retain independent legal counsel, including legal counsel provided by the oversight commission's fiduciary insurance carrier, to advise the board and to represent the board. The attorney general may recover damages or be granted injunctive relief, which shall include the enjoinment of specified activities and the removal of the member from the board. Any damages awarded shall be paid to the bureau. The authority to maintain a civil action created by this section is in addition to any authority the attorney general possesses under any other provision of the Revised Code.

Legal tab for Investment Policy rev (2-21-06).doc
February 21, 2006

Appendix XIV: Campaign Contribution Policy

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

APPENDIX XIV: CAMPAIGN CONTRIBUTION POLICY

It is the policy of the Ohio Bureau of Workers' Compensation ("OBWC") and the Workers' Compensation Oversight Commission ("WCOC") to ensure that the selection of investment management firms to provide investment management services, or the selection of consulting firms to provide consulting services, or the selection of independent auditors to provide auditing services, to the State Insurance Fund (the "Fund") is based on the merits of such firms and not on the political contributions made by such firms. This policy is designed to protect the beneficiaries of the Fund by prohibiting investment management firms, consulting firms or auditing firms, or such other persons who may contract with the Administrator or WCOC to provide services, from being engaged to provide such services to the Fund if certain political contributions have been made.

In furtherance of this goal, those individuals and firms conducting business with the Administrator or the WCOC, and those desiring to do business with the Administrator and the WCOC, shall adhere to the political contribution requirements that are set forth in Ohio Revised Code Chapter 3517. Such individuals and firms should pay particular attention to the restrictions set forth in O.R.C. 3517.13 (Y) and (Z), which expressly restrict the Administrator of OBWC from doing business with persons or business entities that had made contributions to candidates for Ohio Governor or Lieutenant Governor. These provisions are set forth below:

(Y) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if the individual has made, or the individual's spouse has made, or any partner, shareholder, administrator, executor, or trustee, or the spouses of any of those individuals has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

(Z) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if an owner of more than twenty per cent of the corporation or business trust, or the spouse of the owner, has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of such period, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

This campaign contribution policy is not intended to limit participation in the political process by individuals and business entities doing business with the Administrator or the WCOC, or those who may seek to do so in the future. However, such individuals and business entities should be aware that there are restrictions on political contributors, and also upon the award of contracts by officials who receive campaign contributions, in addition to those provisions of Ohio law that are specifically cited in this statement of policy. Any individual or business entity that makes political contributions and also seeks to do business with Ohio governmental agencies should review those provisions carefully. In particular, O.R.C. 3599.03 expressly forbids the payment of corporate funds or use of corporate assets to support a candidate for office, a political party or legislative campaign fund, while O.R.C. 3517.082 and O.R.C. 3599.031 allow bona fide political action committees to make campaign contributions to Ohio candidates.

Appendix XV: Investment Committee – Financial and Operational Requirements

Model of infrastructure data to be provided to the IC

To: The Commissioners of the Investment Committee

The following is a model of portfolio and operational information that is needed by Investment Committee in order that the body can function effectively and comply with its fiduciary duties. The Chief Investment Office will be responsible for the delivery of such information.

Based upon my experiences, of being chairman, committee member and CIO of various insurance companies, pensions and foundations, these reports are standard and ordinary.

It is anticipated that the CIO may not be fully compliant with the first reporting, but that with the passage of a reporting cycle the reports will be compliant and will continue to improve over the ensuing years.

I will be bringing the following motion to the next Investment Committee:
I move that the Investment Committee direct the CIO report the following information. Such list can be modified to meet the needs of the organization, but the theme of full portfolio and operational disclosure is maintained.

Respectfully submitted,

Michael C. Koetters

Monthly Report to IC - 12 reports annually

- CIO written staff report - activities, issues, concerns and action plan
- Portfolio Performance vs. Benchmark by Asset Class by Manager
- Asset changes by manager - monthly, YTD

Quarterly Report to IC – 4 reports annually

- Review Progress on Goals and Action Plan
- Sarbanes-Oxley report – CIO Certification and report
- Economic Review
- Budget vs. Actual -
  - Qtr and YTD
  - For Cash Flow, Investment Income, Dept Expenses

1st Quarter Reporting - July, August and September

- Auditor Report
  - Internal auditor
  - External Auditor
- B-Team list – Managers in the wings

- CIO's Annual Report
    - Year in Review – portfolio performance
    - Environment
    - Outlook
    - Progress on last year's goals – outlook for next year's goals

2nd Quarter Reporting - October, November and December

- Annual Manager Review
- Annual Staff Personal Review
- Annual Fee and Performance Review
    - Managers, Consultants, Custodian vs. Benchmark
- Legal Review
- IT Review

3rd Quarter Reporting - January, February and March

- Review of investment duties and authorities of
    - WCOC, IC, CEO, and CIO
- Annual Economic and interest rate outlook
- Annual Review of customized benchmark for fixed income
    - Sensitivity analysis

4th Quarter Reporting - April, May and June

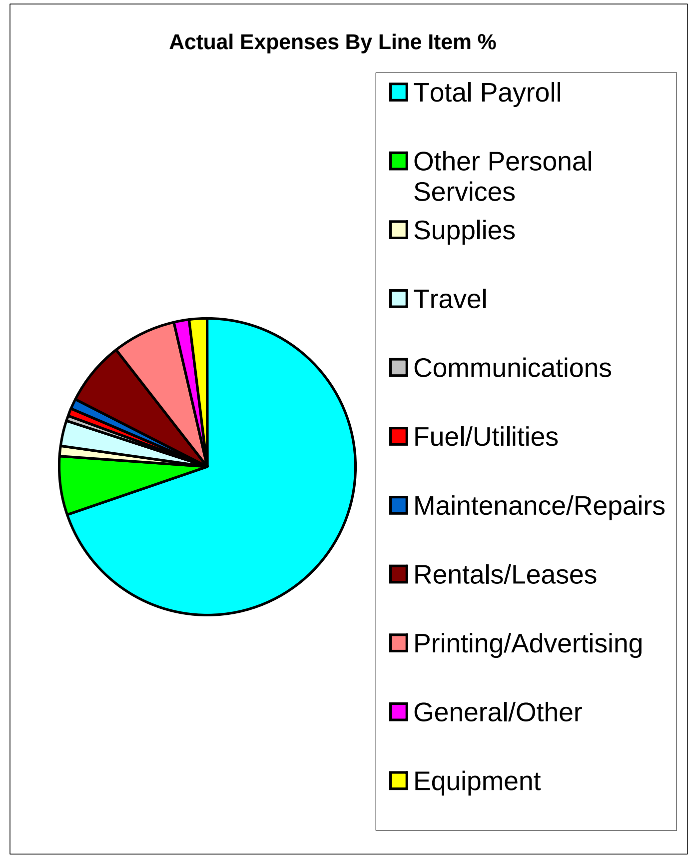
- Portfolio asset allocation review and recommendation
- Asset/Liability study review and recommendation
- Investment Policy and Mission statement review and recommendation
- Annual Goals and Action for next fiscal year
    - Need to support the mission of the BWC
- Annual Budget for next fiscal year
    - Net Income
    - Cash Flow
    - Assets under management
    - Operational Expenses
        - Staff expenses
        - Consultants
        - Custodian
        - Others
    - Capital Expenditures
    - Personnel staffing positions (additions/deductions)
- Review of Internal and External Auditor
    - Pre- audit preparation report on audit focus and review of prior audit
- Certification by Staff and CIO of no-conflict of interest

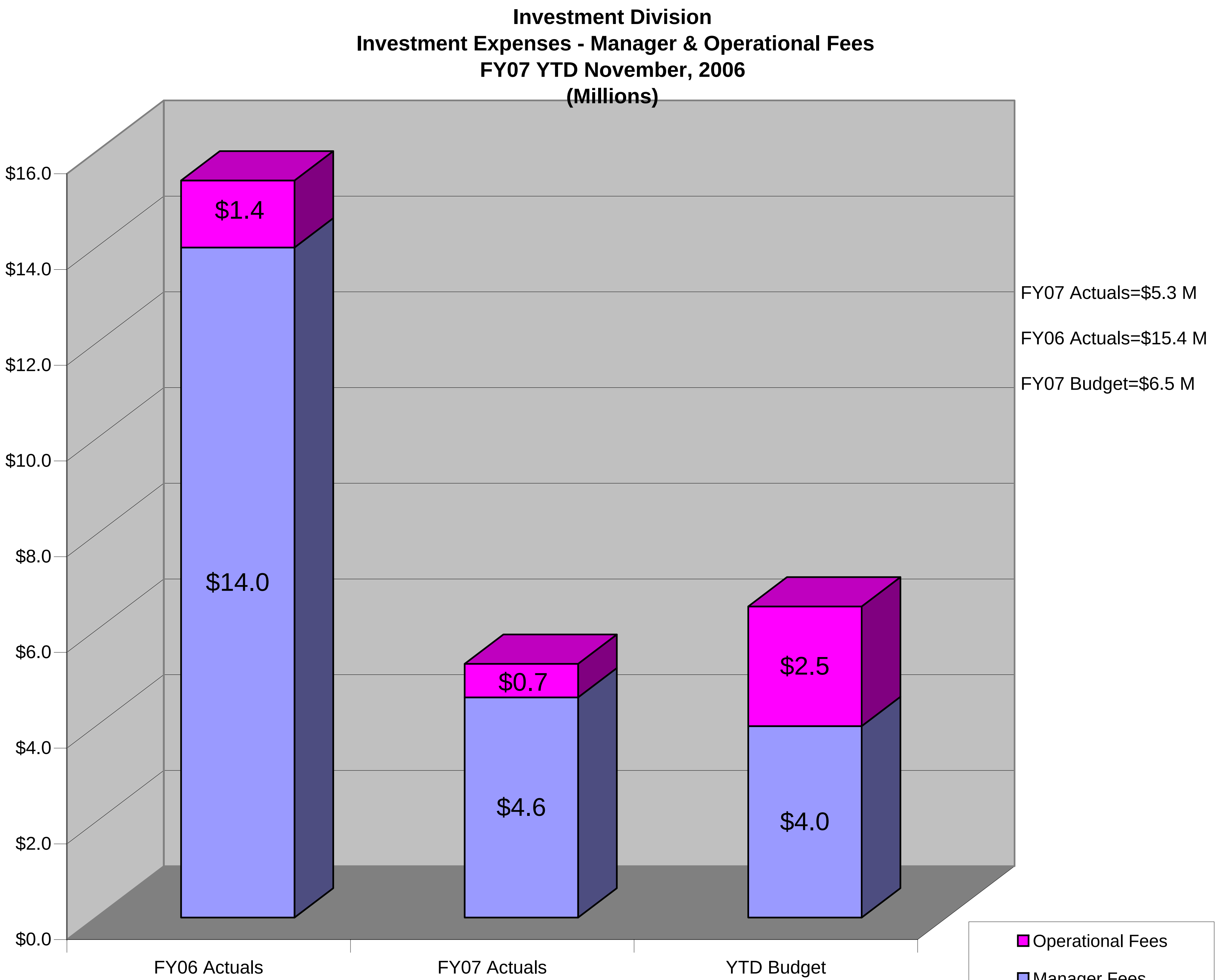
Investment Division - Departmental Budget
Budget and Expenses Summary for Fiscal Year 2007
As of November, 2006

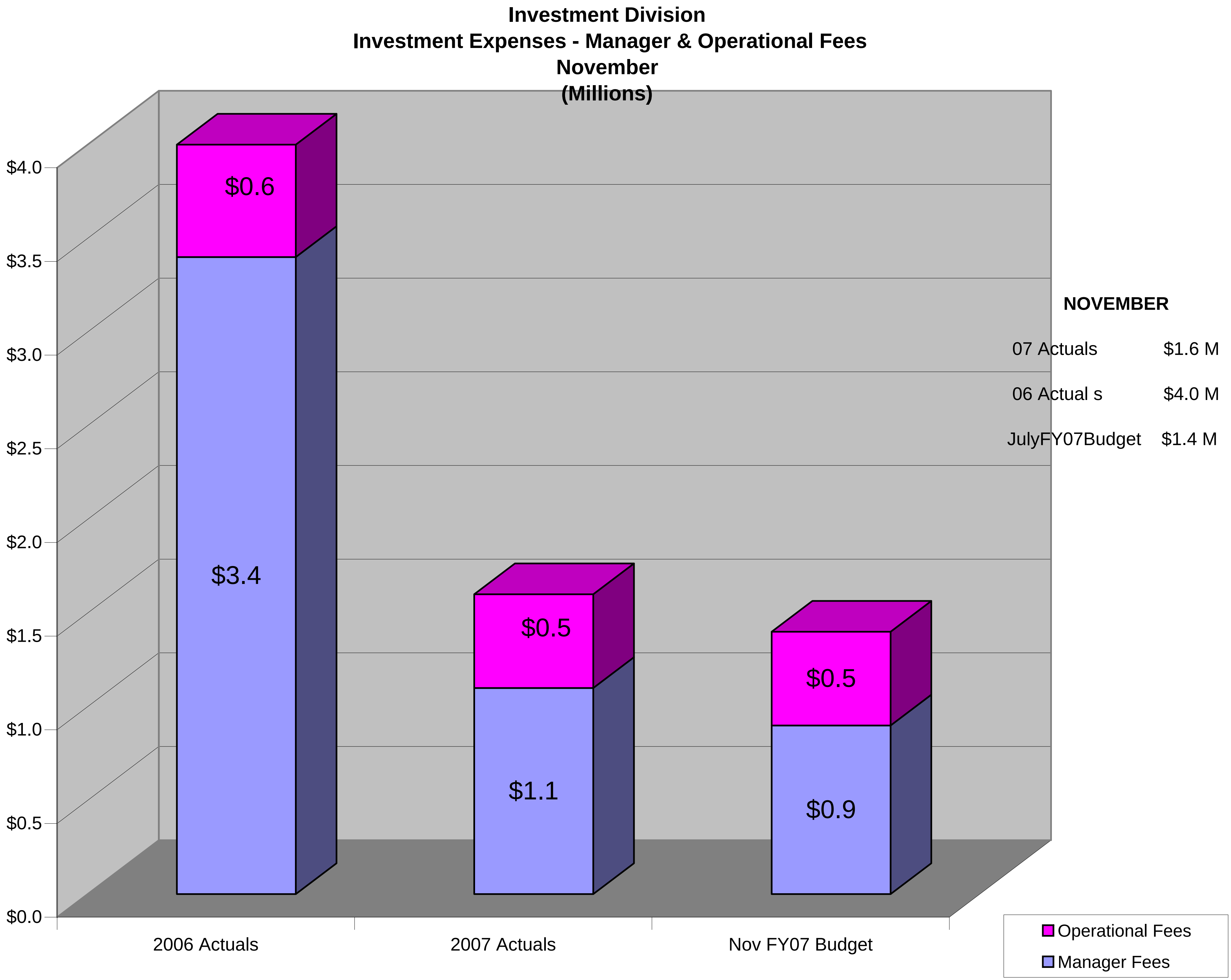
	Year-to-Date			Total 2006		
	[2]	[3]	[4]	[6]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	404,425	424,198	19,773	684,584	1,035,506	350,922
Maintenance (200)	115,623	162,561	46,938	219,758	322,154	102,396
Equipment (300)	10,958	300,000	289,042	300,000	300,000	-
Total	531,006	886,759	355,753	1,204,342	1,657,660	453,318

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	369,693	369,693	-
Purchased Services (13)	33,192	49,840	16,648
Other Personal Services (15)	1,540	4,665	3,125
Total Personal Services	404,425	424,198	19,773
Supplies (21 +21I)	6,305	5,175	(1,130)
Travel (23)	14,413	19,275	4,862
Communications (24 + 24I)	2,724	2,780	56
Fuel/Utilities (25)	4,974	4,974	-
Maintenance/Repairs (26)	5,694	10,729	5,035
Rentals/Leases (27)	36,933	53,368	16,435
Printing/Advertising (28 +28I)	35,967	38,730	2,763
General/Other (22 +22i +29 + 29I)	8,613	27,530	18,917
Total Maintenance	115,623	162,561	46,938
			-
Office Equipment (31)	-	-	-
Communic. Equipment (34)	-	-	-
Data Process Equipment (37 + 37i)	10,958	-	(10,958)
Other Equipment (30+32+35+36+38+39)	-	300,000	300,000
Total Equipment	10,958	300,000	289,042
Grand Total	531,006	886,759	355,753




Investment Division
Investment Expenses - Manager & Operational Fees
FY07 YTD November, 2006
(Millions)
$16.0
$14.0
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
$1.4
$14.0
$0.7
$4.6
$2.5
$4.0
FY06 Actuals
FY07 Actuals
YTD Budget
FY07 Actuals=$5.3 M
FY06 Actuals=$15.4 M
FY07 Budget=$6.5 M
Operational Fees
Manager Fees


Investment Division
Investment Expenses - Manager & Operational Fees
November
(Millions)
$4.0
$3.5
$3.0
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
$0.6
$3.4
$0.5
$1.1
$0.5
$0.9
2006 Actuals
2007 Actuals
Nov FY07 Budget
NOVEMBER
07 Actuals $1.6 M
06 Actual s $4.0 M
JulyFY07Budget $1.4 M
Operational Fees
Manager Fees

Ohio Bureau of Workers' Compensation

Index Manager RFP

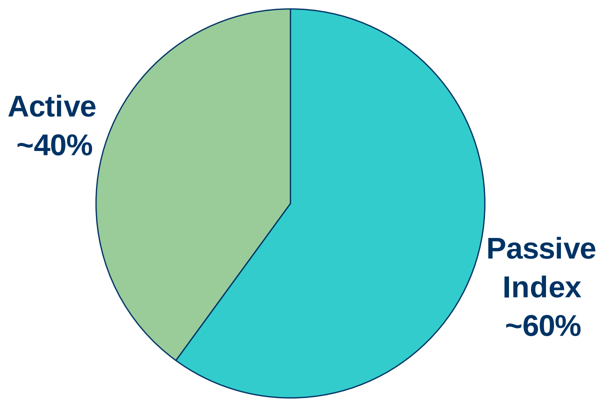
January 25, 2006

Index Manager RFP Mandates

The combined four passive manager transition portfolio mandates in the RFP represent approximately 60% of the BWC asset allocation

- Passive Long Duration U.S. Fixed Income — $4.4 Billion
- Passive Treasury Inflation Protection Securities (TIPS) — $3.3 Billion
- Passive Large Cap U.S. Equity — $1.9 Billion
- Passive Non-U.S. Equity — $0.2 Billion*

BWC TRANSITION ASSETS
$16.2 billion



Qualified managers may respond to one, all or any combination of mandates.

Transition portfolios are the State Insurance Fund, Disabled Workers Fund and Coal Workers Fund accounts.

***Recommendation made at January 25, 2007 WCOC meeting to convert this Passive Non-U.S. Equity mandate to the Active Non-U.S. Equity mandate.**

Index Manager RFP Timeline

RFP ACTION ITEM	TIMELINE
OVERSIGHT COMMISSION MEETING	***Aug. 24 – Complete***
Send RFP Advertisement to Newspapers/Journal	Aug. 28 – Complete
Issue RFP	Sept. 13 – Revised Sept. 18 – Complete
Open period for respondent's questions via email	Sept. 18 - 20 – Revised Sept. 20 - 26 – Complete
OVERSIGHT COMMISSION MEETING	***Sept. 28 – Complete***
Respond to questions via website	Sept. 25 - 27 – Revised Oct. 3 – Complete
DEADLINE FOR RFP PROPOSALS (2:00 PM)	**Oct. 3 – Revised Oct. 10** – Complete
BWC staff initial review of proposals	Oct. 4 - 9 – Revised Oct. 11 - 31 – Revised Oct. 11 - Nov. 14
WCOC MEETING PACKET DEADLINE	Nov. 8 – Complete
Evaluation Committee review / finalist candidates identified	Oct. 10 – Revised Nov. 1 – Revised Nov. 15 – Revised Nov. 21 -- Complete
OVERSIGHT COMMISSION MEETING	***Nov. 16 – Complete***
Finalist candidate Interviews / Re-grade finalist candidates / Notify finalist candidates	Oct. 18 - 19 – Revised Nov. 7 - 17 – Revised Nov. 27 - Dec. 7 – Revised Nov 27 - Dec 21 – Revised Nov 27 – Jan 12
WCOC MEETING PACKET DEADLINE	Dec. 6 – Complete
On-Site visit of finalists (tentative)	Oct. 24 - Nov. 3 – Revised Dec. 8 - Dec. 21 – Revised Dec. 8 – Jan. 12
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists	***Dec. 14 – Complete***
Long Duration Fixed Income and US TIPS	
WCOC MEETING PACKET DEADLINE	Jan. 17
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists	***Jan. 25***
Long Duration Fixed Income	
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist	***Feb. 22***
Large Cap U.S. Equity	

INVESTMENT DIVISION

TO:	Bill Mabe, Administrator/CEO Mike Koetters, Chairman, Investment Committee Denise Farkas, Investment Committee Win McCausland, Investment Committee Bill Sopko, Investment Committee
FROM:	Bruce Dunn, Chief Investment Officer
DATE:	January 17, 2007
SUBJECT:	CIO Report for December, 2006

The Investment Division in December, 2006 continued to work on many important investment initiatives. This report summarizes some of these activities, issues, and action plans relating to the Ohio Bureau of Workers' Compensation Investment Division.

2006 Strategic Initiatives

The Investment Division has the following 2006/2007 goals:

1.	Transition the BWC portfolio to a fixed income allocation while increasing annual cash income by a stated goal of $100 million.	12/31/06	TRANSITION COMPLETED
2.	Establish a new BWC internal investment organization for restructured portfolio	3/31/07*	
3.	Create and implement a new monthly reporting system by outsourcing to custodian	3/31/06	COMPLETED
4.	Establish proper investment controls and procedures to protect the assets of the State Insurance Fund	12/31/06	
5.	Establish new investment accounting process for the restructured portfolio	2/15/07**	

*extended from 6/01/06
**advanced from 3/31/07

Strategic Initiative One- TRANSITION COMPLETED

The transition of BWC's actively managed portfolios to the State Street Lehman Aggregate passive fixed income index commenced on January 9, 2006, with State Street Global Markets (SSGM) managing the process on behalf of BWC. This transition has been completed with only a few clean-up assets still being retained. The final report detailing the $15.5 billion transition was included in the material for the April 27, 2006 WCOC/IC meeting. BWC's transition was completed on time with actual costs well below the anticipated estimates. Progress continued in December on the disposal of miscellaneous assets.

Annual cash income was anticipated to increase by a stated goal of an additional $100 million as a result of the restructured portfolio comprised of nearly 100% fixed income assets. The additional interest income earned calendar

2006 YTD ending November 30 was $230.0 million higher for 2006 versus 2005, thus achieving in the first eleven months of calendar year 2006 a level significantly higher than the comparable period target for this entire calendar year.

Strategic Initiative Two

Training continues for the two newest senior and assistant investment managers of the Investment Division. Two other investment managers, with six and five years of tenure within the Investment Division, were reassigned to other Divisions within BWC effective May 30, 2006. These reassigned investment managers have now been replaced with the hiring of two new investment managers, Doug Walouke (Senior Investment Manager) and Greg Stought (Assistant Investment Manager), who both joined the Investment Division team on August 7, 2006. Further additions to staff are anticipated to occur by early 2007, as the Investment Division executes the new Investment Policy approved last month. The Investment Division initiated job postings last month for the open positions of Investment Administration Manager and Assistant Investment Manager. These expected hires will reflect the next stage of the building of a team of experienced investment professionals dedicated to serving the needs of the BWC and its customers with the highest of integrity and competence.

Strategic Initiative Three – Previously COMPLETED (See March 2006 CIO report)

Strategic Initiative Four

The WCOC/IC approved a new Investment Policy at the April 27, 2006 meeting. This Investment Policy was amended at the July 20, 2006 meeting with respect to the State Insurance Fund, allowing for both active equity and passive equity managed investments as well as new fixed income asset sectors to be managed with a combination of active and passive managers. This Investment Policy was further amended at the September 28, 2006 meeting with respect to new asset allocation targets and passive/active managed investments for four of the five BWC ancillary portfolios (Disabled Workers, Coal Workers, Public Workers, Marine Workers). The Internal Audit Division is providing guidance and assistance in the further improvement of proper procedures and controls for the Investment Division. This will be important as the Investment Division selects and very closely monitors many new investment managers who will manage specific mandates reflected from the new Investment Policy approved.

The Investment Division continues to improve internal procedures for the management of the 68 private equity funds as well as the bond index fund, performance reporting, and other investment activities to support the new Investment Policy.

Strategic Initiative Five

Increased priority is now being given to the review and possible selection of a new investment accounting and reporting system. The higher importance of an improved investment accounting and reporting system is a result of the approval of the new Investment Policy at the July 20, 2006 meeting. The project plan for the possible selection and purchase of a new investment accounting and reporting system has been accelerated with two separate RFPs issued in November 2006 regarding the option of an enhanced vendor software platform and last month pertaining to a proven integrated outsourced package. The Investment Division will be involved with Financial Reporting/Accounting, IT and Internal Audit for the support and development of an enhanced accounting system.

It is the new goal to have a decision on a new investment accounting and reporting system made in February, 2007 with implementation largely completed sometime in 2Q2007. This timetable has been accelerated in part to have an improved accounting system available to BWC before the completion of the selection of active investment managers in satisfaction of the new BWC Investment Policy.

Compliance

The Ohio Passive Bond Market Index Fund (Ohio Fund) managed by State Street was in compliance on November 30, 2006 with both the BWC Investment Policy and with the Lehman Aggregate benchmark guidelines for the Ohio Fund, as per the Fund Declaration investment guidelines.

Although the Ohio Fund will remain in a commingled account trust fund at State Street until all such funds are liquidated in transitions to target portfolio asset allocation mandates per the IPS, State Street has agreed to manage the Ohio Fund to the IPS guidelines when the IPS guidelines are more restrictive than the benchmark index guidelines. A prime example of this pertains to holdings in Foreign (non-U.S.) Government related debt securities. The IPS does not currently permit such investments and State Street has agreed not to invest in this asset class even though Foreign Government related debt currently comprises 3.7% of the benchmark index. State Street willingly disposed of all $368 million of Foreign Government owned debt in the Ohio Fund in November, 2006.

All new investment managers to be selected to manage specific asset mandates for the BWC will be required to manage to the IPS under a separate account management structure. The separate account management structure allows the BWC to legally enforce more restrictive investment guidelines than offered by the approved benchmark index when there are conflicts between BWC guidelines and benchmark index guidelines.

Private Equity Sale Update

At the IC/WCOC meetings of August 24, 2006, UBS Securities LLC was approved to represent BWC as agent in the potential sale of some or all of its private equity funds. The contract of engagement was executed the day of approval. This contract had a commencement date of September 11, 2006. UBS has completed the transfer of BWC electronic files on all 68 private equity funds to a secured password protected Electronic Data Room that will be accessible only to interested serious bidders for the purpose of due diligence review. UBS is progressing in obtaining signed consent agreements and confidentiality agreements from the general partner of each fund to permit the sale of the BWC partnership interest in each such fund. UBS has received back completed questionnaires from a number of interested potential first round bidders. UBS is in the process of finalizing a Notice of Investment Opportunity document that will officially kickoff the formal launch of a first round auction process and due diligence period.

Transition Manager Update

A pool of three Transition Managers (Barclays, Russell, State Street) were approved by the WCOC at its September 28, 2006 meeting. At the discretion of the BWC Investment Division, these transition managers will be selected to oversee and effectively manage one or more of the many specific asset class exchanges in fulfillment of the new BWC Investment Policy. The new Investment Policy was approved at the July 20, 2006 WCOC meeting for State Insurance Fund assets and at the September 28, 2006 WCOC meeting for the assets of the BWC ancillary portfolios. BWC has completed all background checks performed on each of the individuals identified by each transition manager firm as key persons for any BWC specific engagement.

Index Manager RFP Update

The Index Manager RFP was completed and issued on September 18, 2006. This Index Manager RFP encompasses all four mandates involving passive index managers for Long Duration Fixed Income, U.S. TIPS, Large Cap U.S. Equity, and Non-U.S. Equity as per the new BWC Investment Policy. A total of seven qualified firms responded to the BWC Index Manager RFP. The BWC Index Manager Evaluation Committee has completed initial evaluations of these respondents. The Finalist recommended for the U.S. TIPS mandate was approved by the WCOC at the December 14, 2006 meeting. One of two Finalists for the Long Duration Fixed Income (LDFI) mandate was also recommended and approved by the WCOC at the December meeting. The second Finalist for the LDFI mandate is being recommended for approval at the January 25, 2007 WCOC meeting. It is anticipated a recommendation for approval of one or more Large Cap U.S. Equity managers will be presented at the scheduled February 22, 2007 meeting. The Passive Non-U.S. Equity index manager mandate (1% of assets) is being recommended for dismissal at the January, 2007 WCOC meeting and converted to the Active Non-U.S. Equity manager mandate (from 4% to 5% of assets).

Declaratory Judgement Private Equity Action Update

The DJ action was scheduled for trial the week of September 14, 2006, but the case was continued because private equity fund defendants began to enter into settlement agreements with the Columbus Dispatch. Approximately 6-10 private equity funds are releasing Tabs 4 and 5 of the Ennis Knupp Report to the Columbus Dispatch with slight redactions. BWC is consenting to the settlements. The majority of the funds in the lawsuit (approximately 40) have one representation and are working on a draft settlement and entry to dismiss the action against these funds. The impact is that BWC and the WCOC members should not release to the public the full version of Tabs 4 and 5 from the final Ennis Knupp Report. For any future public records request, BWC will provide only the agreed upon version of those Tabs for the Funds.

Legislative Updates/HB66 Compliance

The 127th General Assembly, which will be held in 2007 and 2008, officially convened on January 2, 2007. Bills that were not enacted by the end of the 126th General Assembly, or the previous biennium, are considered dead and are not carried over to the 127th General Assembly. All of the legislation mentioned in previous CIO reports, with the exception of SB 7 and HB 66, was not enacted. In order for any of the legislation from the previous biennium to be considered before the legislature, it must be reintroduced by a member in the 127th General Assembly.

The 127th General Assembly has not introduced legislation that would impact the BWC.

Support continues in providing supporting documentation for the following legal/investigative activity:

Coin Liquidation
MDL
Private Equity Declaratory Judgement
AOL/Time Warner
Inspector General, et al

JPMorgan
Asset Management

Fact Sheet // US Money Market Fund

S&P Rating**	AAAm
Moody's Rating**	Aaa
NAIC Rating**	Approved

Investment Objective

The Fund aims to provide the highest possible level of current income while still maintaining liquidity and preserving capital.

Permissible Investments

The fund invests exclusively in high-quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies and instrumentalities. Some of the securities purchased by the fund may be subject to repurchase agreements. The fund will comply with SEC rules applicable to all money market funds, including Rule 2a-7 under the Investment Company Act of 1940.

Fund Highlights

- The Fund is ideal for temporary or medium-term cash investments, seasonal operating cash, automated cash sweeps and the liquidity components of investment portfolios.
- The Fund aims to preserve capital, maintain liquidity and a competitive yield.

Fund Facts

Fund Number	3164
Assets (in billions)	$19.56
Inception Date	6-14-1993
JPMorgan Minimal initial investment	$100M
Expenses	0.16
JPMorgan Dealing deadline	5:00 PM EST
CUSIP	4812C0670
Ticker	OGVXX

NOT FDIC INSURED.
May lose value. No bank guarantee.

FS-USGMM-CAP-1206

JPMORGAN FUNDS

U.S. Government Money Market Fund Capital Share Class

ALL DATA AS OF 12-31-2006

Performance (%) — 30 Day Average Yield

Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06
4.23	**4.38**	**4.45**	**4.64**	**4.76**	**4.87**	**5.10**	**5.12**	**5.15**	**5.16**	**5.15**	**5.17**

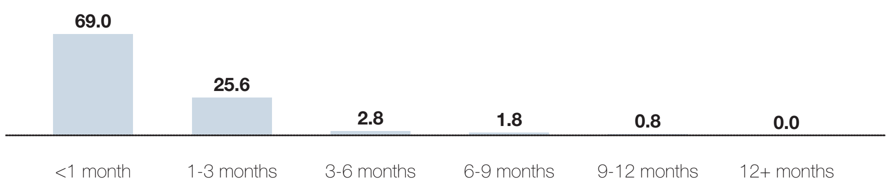
7-day SEC yield as of December 31, 2006 was 5.32%

The performance quoted is past performance and is not a guarantee of future results. Current performance may be higher or lower than the performance data shown. For up to-date month-end performance information please call 1-800-766-7722.

Weighted Average Maturity in days as of December 31, 2006

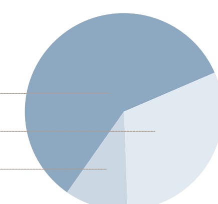
Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06
24	**27**	**39**	**34**	**26**	**42**	**35**	**34**	**50**	**43**	**29**	**29**

Portfolio Analysis Breakdown — Weighted Average Maturity*



Portfolio Analysis Breakdown — Sector*

Repurchase Agreements	**58.8%**
U.S. Government Agencies	**30.9%**
Discount Notes	**10.3%**



* Due to rounding, values may not total 100%.

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds strive to preserve the value of the investment at $1.00 per share, it is possible to lose money by investing in a money market fund. Performance may reflect the waiver of a portion of the fund's fees. If fees had not been waived, the 7-day SEC yield would have been 5.25%.

Please see back page for additional disclosure.

Must be preceded or accompanied by a prospectus.

** The NAIC, Moody's, Fitch IBCA and S&P ratings are historical and signify that the Fund's safety is excellent, with superior capacity to maintain a net asset value of $1.00 per share. The ratings do not eliminate the risks associated with investing in the Fund. The National Association of Insurance Commissioner's (NAIC) "approved" status indicates that the Fund meets certain pricing and quality guidelines.

Some investors may be subject to the Federal Alternative Minimum Tax and to certain state and local taxes.

Weighted Average Maturity: The length of time until the average security in a fund will mature or be redeemed by its issuer. It indicates a fixed income fund's sensitivity to interest rate changes: longer weighted average maturity implies greater volatility in response to interest rate changes.

JPMorgan Funds are distributed by JPMorgan Distribution Services, Inc., which is a subsidiary of JPMorgan Chase & Co. Affiliates of JPMorgan Chase & Co. receive fees for providing various services to the funds.

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

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

Table of Contents

Appendix IX: Asset Allocation Criteria

In the event that the Administrator of OBWC proposes to the WCOC, pursuant to R.C. (A) and Ohio Admin. Code 4123-17-10, to return excess surplus in the OBWC State Insurance Fund (SIF) to employers in either the form of cash refunds or a reduction of premiums, the WCOC shall ask the Investment Committee to recommend approval or non-approval. The Investment Committee will recommend a set of guidelines in conjunction with the independent actuarial consultant, which would be used to preserve the integrity of the asset allocation from the impact of the proposed return of excess surplus. These criteria will be approved on or before the April 2007 WCOC meeting.

Appendix X.A: State Insurance Fund (SIF)

The State Insurance Fund's ("the Fund's") 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 GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on July 20, 2006. The allowable range for all target weights is reflected in the following table.

Asset Class	Policy Target[1]	Policy Range
Total Fixed Income:	***79%***	***76-82%***
Long Duration	54%	51-57%
High Yield	5%	4-6%
Inflation-Protected Securities	20%	17-23%
Cash Equivalents	***1%***	***0-6%***
Total Equity	***20%***	***17-23%***
U.S. Equity		
Large Cap	12%	9-15%
Small/Mid Cap	3%	2-4%
Alternative Investments	0%	NA
Non-U.S. Equity	5%	4-6%

[1] Alternative Investments includes private equity and the coin fund. This asset class targets will be combined with that of Small/Mid Cap U.S. Equity until a final determination has been made regarding the potential liquidation of these assets

Appendix X.B: Coal Workers' Pneumoconiosis Fund (CWPF)

The Coal Workers' Pneumoconiosis Fund ("CWPF") provides benefits for injured workers under the Federal Coal Mine Health and Safety Act of 1969. The CWPF provides voluntary coverage to employers who have employees who are exposed to coal dust, as required by federal law.

These liabilities are long-term in nature, with an approximate duration of 11 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is reflected in the following table

Asset Class	Policy Target	Policy Range
Total Fixed Income:	***79%***	***76-82%***
Long Duration	54%	51-57%
High Yield	5%	4-6%
Inflation-Protected Securities	20%	17-23%
Cash Equivalents	***1%***	***0-6%***
Total Equity	***20%***	***17-23%***
U.S. Equity	20%	
Large Cap	17%	14-20%
Small/Mid Cap	3%	2-4%
Non-U.S. Equity	0%	NA

Appendix X.C: Marine Industry Fund (MIF)

The Marine Industry Fund ("MIF") provides voluntary coverage to employers who have employees who work on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[1] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%
Cash Equivalents	***1%***
Total Equity	***0%***

[1] Expected to be implemented by December 31, 2006

Appendix X.D: Disabled Workers' Relief Fund (DWRF)

The Disabled Workers' Relief Fund ("DWRF") provides supplementary payments to workers whose combined Permanent and Total Disabled plus Social Security disability benefits are lower than the DWRF entitlement amount.

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. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is reflected in the following table

Asset Class	Policy Target	Policy Range
Total Fixed Income:	***79%***	***76-82%***
Long Duration	54%	51-57%
High Yield	5%	4-6%
Inflation-Protected Securities	20%	17-23%
Cash Equivalents	***1%***	***0-6%***
Total Equity	***20%***	***17-23%***
U.S. Equity	15%	
Large Cap	12%	9-15%
Small/Mid Cap	3%	2-4%
Non-U.S. Equity	5%	4-6%

Appendix X.E: Public Work-Relief Fund Employees' Fund (PWRF)

The Public Work-Relief Employees' Fund ("PWRE") provides benefits for "work-relief employees" who are engaged in any public relief employment and receiving "work-relief" in the form of public funds or goods in exchange for any service or labor rendered in connection with any public relief employment.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%
Cash Equivalents	***1%***
Total Equity	***0%***

Appendix X.F: Self Insured Employers Guarantee Fund (SIEGF)

The Self Insured Employers Guarantee Fund ("SIEGF")/Surety Bond Fund ("SBF") provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers.

The WCOC has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes.

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is +/- 10% of the policy target weight.

Asset Class	**Policy Target**
Total Fixed Income:	***0%***
Cash Equivalents	***100%***
Total Equity	***0%***

Appendix XI: Asset/Liability Valuation in Separate File. Insert Here.

Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

Title XLI. Labor and Industry
Chapter 4123. Workers' Compensation (Refs & Annos)
Funds and Premiums
4123.44 Investment powers of administrator

The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with sections 4121.126 and 4121.127 of the Revised Code and the investment objectives, policies, and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund.

The administrator shall not invest in any type of investment specified in divisions (G)(6)(a) to (j) of section 4121.12 of the Revised Code.

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

To facilitate investment of the funds, the administrator may establish a partnership, trust, limited liability company, corporation, including a corporation exempt from taxation under the Internal Revenue Code, 100 Stat. 2085, 26 U.S.C. 1, as amended, or any other legal entity authorized to transact business in this state.

When reporting on the performance of investments, the administrator shall comply with the performance presentation standards established by the association for investment management and research.

All investments shall be purchased at current market prices and the evidences of title to the investments shall be placed in the custody of the treasurer of state, who is hereby designated as custodian, or in the custody of the treasurer of state's authorized agent. Evidences of title of the investments so purchased may be deposited by the treasurer of state for safekeeping with an authorized agent selected by the treasurer of state who is a qualified trustee under section 135.18 of the Revised Code. The treasurer of state or the agent shall collect the principal, dividends, distributions, and interest as they become due and payable and place them when collected into the state insurance fund.

The treasurer of state shall pay for investments purchased by the administrator on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the purchase, and pending receipt of the evidence of title of the investment by the treasurer of state or the treasurer of state's authorized agent. The administrator may sell investments held by the administrator, and the treasurer of state or the treasurer of state's authorized agent shall accept payment from the purchaser and deliver evidence of title of the investment to the purchaser, on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the sale, and pending receipt of the moneys for the investments. The amount received shall be placed in the state insurance fund. The administrator and the treasurer of state may enter into agreements to establish procedures for the purchase and sale of investments under this division and the custody of the investments.

No purchase or sale of any investment shall be made under this section, except as authorized by the administrator.

Any statement of financial position distributed by the administrator shall include the fair value, as of the statement date, of all investments held by the administrator under this section.

When in the judgment of the administrator it is necessary to provide available funds for the payment of compensation or benefits under this chapter, the administrator may borrow money from any available source and pledge as security a sufficient amount of bonds or other securities in which the state insurance fund is invested. The aggregate unpaid amount of loans existing at any one time for money so borrowed shall not exceed ten million dollars. The bonds or other securities so pledged as security for such loans to the administrator shall be the sole security for the payment of the principal and interest of any such loan. The administrator shall not be personally liable for the payment of the principal or the interest of any such loan. No such loan shall be made for a longer period of time than one year. Such loans may be renewed but no one renewal shall be for a period in excess of one year. Such loans shall bear such rate of interest as the administrator determines and in negotiating the loans, the administrator shall endeavor to secure as favorable interest rates and terms as circumstances will permit.

The treasurer of state may deliver to the person or governmental agency making such loan, the bonds or other securities which are to be pledged by the administrator as security for such loan, upon receipt by the treasurer of state of an order of the administrator authorizing such loan. Upon payment of any such loan by the administrator, the bonds or other securities pledged as security therefor shall be returned to the treasurer of state as custodian of such bonds.

The administrator may pledge with the treasurer of state such amount of bonds or other securities in which the state insurance fund is invested as is reasonably necessary as security for any certificates issued, or paid out, by the treasurer of state upon any warrants drawn by the administrator.

The administrator may secure investment information services, consulting services, and other like services to facilitate investment of the surplus and reserve belonging to the state insurance fund. The administrator shall pay the expense of securing such services from the state insurance fund.

(2005 H 66, eff. 9-29-05; 1996 S 82, eff. 3-7-97; 1995 H 7, eff. 9- 1-95; 1994 S 179, eff. 3-10-95; 1993 H 107, eff. 10-20-93; 1989 H 222; 1986 H 562; 1985 H 201; 1984 H 469; 1976 S 545; 1975 H 1; 1974 S 129; 1973 H 406; 1969 S 176; 131 v S 58; 129 v 582; 128 v 1206; 1953 H 1; GC 1465-58)

HISTORICAL AND STATUTORY NOTES

Pre-1953 H 1 Amendments: 118 v 324, § 1; 117 v 469, § 1; 115 v 79; 111 v 51, 218; 109 v 525; 103 v 76, § 11; 102 v 528

Amendment Note: 2005 H 66 added first sentence; inserted "sections 4121.126 and 4121.127 of the Revised Code and" and ", and in consultation with the bureau of workers' compensation chief investment officer" in the first paragraph; added the second paragraph; and inserted "of state" after the second occurrence of "treasurer" in the second sentence of the sixth paragraph.

Amendment Note: 1996 S 82 rewrote this section. See Baldwin's Ohio Legislative Service, 1996, p 12/L-4356, or the OH-LEGIS or OH-LEGIS-OLD database on WESTLAW, for prior version of this section.

Amendment Note: 1995 H 7 added ", in accordance with the investment policy established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code," to division (A).

Amendment Note: 1994 S 179 inserted "the international finance corporation or by" and "; however, the administrator may invest not more than the aggregate of fifteen per cent of the value of the funds described in division (A) of this section in such obligations" in division (A)(6).

Amendment Note: 1993 H 107 deleted ", with the approval of the workers' compensation board and the industrial commission," prior to "may invest" in the first paragraph of division (A); added division (A)(1)(d); substituted "four" for "three" and "fourth" for "third", respectively, in divisions (A)(2)(f)(iv), (A)(3)(a)(iv), and (A)(4)(a); substituted "A-2 or higher quality according to the Standard and Poor's rating service and P-2 or higher quality according to the Moody's rating service, or an equivalent rating according to" for "prime by" and inserted "other" prior to "standard rating services" in division (A)(4)(b); inserted "and section 4123.441 of the Revised Code" in, and deleted a reference to section 4123.442 from the last sentence of, division (B); and added division (G).

CROSS REFERENCES

Bureau of workers' compensation, duties of administrator, 4121.121
Coal-workers pneumoconiosis fund established, investments, 4131.03
Safety and hygiene fund, investment powers of administrator, 4121.37
Self-insuring employers' surety bond fund, investments, 4123.351
State administrative procedure, exceptions to application, 119.01

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

Westlaw Topic No. 413.
C.J.S. Workmen's Compensation § 358.
Baldwin's Ohio Legislative Service, 1989 Laws of Ohio, H 222--LSC Analysis, p 5-832
Baldwin's Ohio Legislative Service, 1993 Laws of Ohio, H 107--LSC Analysis, p 5-941

RESEARCH REFERENCES

Encyclopedias

OH Jur. 3d Administrative Law § 6, Ohio Administrative Procedure Act (Ohio Apa)--Agency and Rulemaking Agency Defined and Exempted by Ohio Apa.

OH Jur. 3d Administrative Law § 67, Filing With Joint Committee on Agency Rule Review--Exceptions.

OH Jur. 3d Workers' Compensation § 51, Rulemaking Powers; Rules Generally.

OH Jur. 3d Workers' Compensation § 427, State Insurance Fund and Surplus; Successors in Interest.

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

In general 2
Constitutional issues 1
Disbursements; investments 3
Effective date 5
Fiduciary obligations 4

1. Constitutional issues

The transfer of state insurance fund investment income to the disabled workers' relief fund, pursuant to RC 4123.411, violates neither O Const Art II §28 nor 35. Thompson v. Industrial Com'n of Ohio (Ohio 1982) 1 Ohio St.3d 244, 438 N.E.2d 1167, 1 O.B.R. 265. Workers' Compensation 🔑1049

Unconstitutional in its attempt to require taxing districts before advertising a bond issue for sale to offer same to the industrial commission of Ohio at less than market value. State ex rel. City of Cleveland Heights v. Frazine (Ohio 1924) 110 Ohio St. 523, 144 N.E. 289, 2 Ohio Law Abs. 407, 22 Ohio Law Rep. 177.

Workmen's compensation fund can be raised only by contributions levied on employers. To divert the premium on bonds, which belongs to a taxing district, is to burden such district as compared with a district not issuing bonds or whose bonds are not accepted by the commission, and hence amounts to a tax without uniformity. State ex rel. City of Cleveland Heights v. Frazine (Ohio 1924) 110 Ohio St. 523, 144 N.E. 289, 2 Ohio Law Abs. 407, 22 Ohio Law Rep. 177.

2. In general

If the assessment levied against employers pursuant to RC 4123.411 is insufficient to carry out the provisions of RC 4123.412 to 4123.418 then the additional amount necessary must be provided from the income produced as a result of investments made pursuant to RC 4123.44. OAG 76-039.

Responsibility of the state treasurer for collection of installments of interest and principal of so-called FHA insured mortgages bought by state retirement boards or state industrial commission, begins when, under the terms of the accompanying contract for the servicing of said mortgages, the proceeds of these payments are remitted by the servicer or the servicing agent to the investors; the title to notes and the mortgage securing the same, representing the investment, vests in the retirement board of the industrial commission making the investment. 1940 OAG 1723.

3. Disbursements; investments

The formation of a partnership by the administrator of workers' compensation and a private corporation for the purpose of investing a portion of the surplus or reserve of the state insurance fund in a project to construct and operate a parking garage does not violate O Const Art VIII §4, provided that no moneys belonging to the state will ever be obligated for the purpose of reimbursing the state insurance fund for any losses it incurs as a result of such investment. OAG 99-002.

Pursuant to RC 4123.44, the administrator of workers' compensation may form a partnership with a private corporation for the purpose of investing a portion of the surplus or reserve of the state insurance fund in a project to construct and operate a parking garage, provided such investment is in accordance with the investment objectives, policies, and criteria established by the workers' compensation oversight commission. However, in making such an investment, the administrator must discharge his investment duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. OAG 99- 002.

Neither the administrator of the bureau of workers' compensation nor the industrial commission has the authority to invest moneys of the safety and hygiene fund not needed for current operations. Such moneys may, however, be invested by the treasurer of state in accordance with RC Ch 135. OAG 79-110.

The department of administrative services and industrial commission have no authority to create a rotary fund in the state insurance fund for payment of administrative costs of managing investments made pursuant to RC 4123.44, and disbursements from the state insurance fund for payment of such administrative costs are limited to those provided for in the appropriations act and RC 4123.341 and 4123.342. OAG 74-067.

Neither the workmen's compensation fund nor the teachers' retirement fund can lawfully be used for the purpose of erecting a state building. 1927 OAG 110.

4. Fiduciary obligations

The industrial commission has a fiduciary responsibility to preserve and safeguard the financial integrity and solvency of the state insurance fund, including an obligation to adhere to certain standards of judgment and care when taking actions such as approving the sale of industrial rehabilitation centers for prices less than their construction and development costs, modifying or renegotiating the terms of the lease agreements for such centers, or agreeing to a reduction in the rent paid under such lease agreements. OAG 89-033.

5. Effective date

Any section of a law which changes the permanent law of the state is subject to referendum under the powers reserved to the people by O Const Art II § 1, even though the law also contains a section providing for an appropriation for the current expenses of the state government and state institutions, which under O Const Art II § 1d becomes immediately effective; thus, the nonappropriation provisions of 1993 Am.Sub.H.B. 107 are stayed for ninety days, during which period relators may undertake to petition for a referendum on the provisions of such act that change the permanent law of the state. State ex rel. Ohio AFL-CIO v. Voinovich (Ohio, 04-08-1994) 69 Ohio St.3d 225, 631 N.E.2d 582, 1994-Ohio-1, opinion clarified 69 Ohio St.3d 1208, 632 N.E.2d 907.

R.C. § 4123.44, OH ST § 4123.44

Current through 2005 File 63 and 2006 File 64 of the 126th GA (2005-2006)
apv. by 1/30/06, and filed with the Secretary of State by 1/31/06.

Appendix XIII: Legal Requirements Summary

This section of the Statement of Investment Policy and Guidelines contains the Ohio Revised Code citations that form the legal basis for the duties and requirements of the Workers' Compensation Oversight Commission, the Administrator, and the Chief Investment Officer relating to Bureau of Workers' Compensation investments. The text of relevant statutory provisions that form the basis of the Statement of Investment Policy and Guidelines is included in this section for reference. This section does not include all Revised Code sections relating to the WCOC, Administrator, BWC, and Chief Investment Officer, but only those Revised Code sections that relate to the Investment Policy.

Am. Sub. H.B. 66, the General Revenue budget bill for the operation of state government, amended or enacted many of these statutes affecting BWC investments. The provisions of Sub. H.B. 66 were effective September 29, 2005.

I. General Investment Authority and Criteria

R.C. 4123.44 contains the chief authority for the investment of the State Insurance Fund. The statute establishes the "prudent person" standard for investment decisions. The statute cross references R.C. 4121.12(G)(6)(a) to (j) for prohibited investments, cited below in the section on "Workers' Compensation Oversight Commission duties."

> 4123.44: The voting members of the workers' compensation oversight commission, the administrator of workers' compensation, and the bureau of workers' compensation chief investment officer are the trustees of the state insurance fund. The administrator of workers' compensation, in accordance with sections 4121.126 and 4121.127 of the Revised Code and the investment objectives, policies, and criteria established by the workers' compensation oversight commission pursuant to section 4121.12 of the Revised Code, and in consultation with the bureau of workers' compensation chief investment officer, may invest any of the surplus or reserve belonging to the state insurance fund.
>
> The administrator shall not invest in any type of investment specified in divisions (G)(6)(a) to (j) of section 4121.12 of the Revised Code.
>
> The administrator and other fiduciaries shall discharge their duties with respect to the funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
>
> To facilitate investment of the funds, the administrator may establish a partnership, trust, limited liability company, corporation, including a corporation exempt from taxation under the Internal Revenue Code, 100 Stat. 2085, 26 U.S.C. 1, as amended, or any other legal entity authorized to transact business in this state.
>
> When reporting on the performance of investments, the administrator shall comply with the performance presentation standards established by the association for investment management and research.

All investments shall be purchased at current market prices and the evidences of title to the investments shall be placed in the custody of the treasurer of state, who is hereby designated as custodian, or in the custody of the treasurer of state's authorized agent. Evidences of title of the investments so purchased may be deposited by the treasurer of state for safekeeping with an authorized agent selected by the treasurer of state who is a qualified trustee under section 135.18 of the Revised Code. The treasurer of state or the agent shall collect the principal, dividends, distributions, and interest as they become due and payable and place them when collected into the state insurance fund.

The treasurer of state shall pay for investments purchased by the administrator on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the purchase, and pending receipt of the evidence of title of the investment by the treasurer of state or the treasurer of state's authorized agent. The administrator may sell investments held by the administrator, and the treasurer of state or the treasurer of state's authorized agent shall accept payment from the purchaser and deliver evidence of title of the investment to the purchaser, on receipt of written or electronic instructions from the administrator or the administrator's designated agent authorizing the sale, and pending receipt of the moneys for the investments. The amount received shall be placed in the state insurance fund. The administrator and the treasurer of state may enter into agreements to establish procedures for the purchase and sale of investments under this division and the custody of the investments.

No purchase or sale of any investment shall be made under this section, except as authorized by the administrator.

Any statement of financial position distributed by the administrator shall include the fair value, as of the statement date, of all investments held by the administrator under this section.

When in the judgment of the administrator it is necessary to provide available funds for the payment of compensation or benefits under this chapter, the administrator may borrow money from any available source and pledge as security a sufficient amount of bonds or other securities in which the state insurance fund is invested. The aggregate unpaid amount of loans existing at any one time for money so borrowed shall not exceed ten million dollars. The bonds or other securities so pledged as security for such loans to the administrator shall be the sole security for the payment of the principal and interest of any such loan. The administrator shall not be personally liable for the payment of the principal or the interest of any such loan. No such loan shall be made for a longer period of time than one year. Such loans may be renewed but no one renewal shall be for a period in excess of one year. Such loans shall bear such rate of interest as the administrator determines and in negotiating the loans, the administrator shall endeavor to secure as favorable interest rates and terms as circumstances will permit.

The treasurer of state may deliver to the person or governmental agency making such loan, the bonds or other securities which are to be pledged by the administrator as security for such loan, upon receipt by the treasurer of state of an order of the administrator authorizing such loan. Upon payment of any such loan by the administrator, the bonds or other securities pledged as security therefor shall be returned to the treasurer of state as custodian of such bonds.

The administrator may pledge with the treasurer of state such amount of bonds or other securities in which the state insurance fund is invested as is reasonably necessary as security for any certificates issued, or paid out, by the treasurer of state upon any warrants drawn by the administrator.

The administrator may secure investment information services, consulting services, and other like services to facilitate investment of the surplus and reserve belonging to the state insurance fund. The administrator shall pay the expense of securing such services from the state insurance fund.

II. Workers' Compensation Oversight Commission Investment Duties

R.C. 4121.12(G)(6) requires the WCOC to establish an investment policy with certain criteria, and to monitor the Administrator's progress in investments. The WCOC shall review the investment policy annually. The WCOC shall prohibit BWC from investing in certain specified assets.

> 4121.12(G): The commission shall . . . (6) Establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. The commission shall review and publish the objectives, policies, and criteria no less than annually and shall make copies available to interested parties. The commission shall prohibit, on a prospective basis, any specific investment it finds to be contrary to its investment objectives, policies, and criteria.
>
> The objectives, policies, and criteria adopted by the commission for the operation of the investment program shall prohibit investing assets of funds, directly or indirectly, in vehicles that target any of the following:
>
> (a) Coins;
>
> (b) Artwork;
>
> (c) Horses;
>
> (d) Jewelry or gems;
>
> (e) Stamps;
>
> (f) Antiques;
>
> (g) Artifacts;
>
> (h) Collectibles;
>
> (i) Memorabilia;
>
> (j) Similar unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity, and that lack readily determinable valuation.

R.C. 4121.12(G)(7) requires the WCOC to specify in the investment policy that the Administrator is permitted to invest in an investment class only if the WCOC opens that class. The WCOC shall adopt rules establishing due diligence standards for BWC employees to follow when investing in that class. The WCOC shall establish policies and procedures to monitor and review the performance and value of each investment class. The WCOC shall report annually on the performance and value of each investment class.

> 4121.12(G): The commission shall . . . (7) Specify in the objectives, policies, and criteria for the investment program that the administrator is permitted to invest in an investment class only if the commission, by a majority vote, opens that class. After the commission opens a class but prior to the administrator investing in that class, the commission shall adopt rules establishing due diligence standards for employees' of the bureau to follow when investing in that class and shall establish policies and procedures to review and monitor the performance and value of each investment class. The commission shall submit a report annually on the performance and value of each investment class to the governor, the president and minority

leader of the senate, and the speaker and minority leader of the house of representatives. The commission may vote to close any investment class.

III. Administrator's Investment Duties

R.C. 4121.121(B)(7) states the general power for the Administrator to invest, prohibits the Administrator from investing in prohibited investment classes, and requires the Administrator to make investments in consultation with the Chief Investment Officer.

R.C. 4121.121: (B) The administrator is responsible for the management of the bureau of workers' compensation and for the discharge of all administrative duties imposed upon the administrator in this chapter and Chapters 4123., 4127., 4131., and 4167. of the Revised Code, and in the discharge thereof shall do all of the following: . . .

(7) Exercise the investment powers vested in the administrator by section 4123.44 of the Revised Code in accordance with the investment objectives, policies, and criteria established by the oversight commission pursuant to section 4121.12 of the Revised Code and in consultation with the chief investment officer of the bureau of workers' compensation. The administrator shall not engage in any prohibited investment activity specified by the oversight commission pursuant to division (G)(6) of section 4121.12 of the Revised Code and shall not invest in any type of investment specified in division (G)(6)(a) to (j) of that section. All business shall be transacted, all funds invested, all warrants for money drawn and payments made, and all cash and securities and other property held, in the name of the bureau, or in the name of its nominee, provided that nominees are authorized by the administrator solely for the purpose of facilitating the transfer of securities, and restricted to the administrator and designated employees.

IV. Chief Investment Officer Duties

R.C. 4123.441 requires BWC, with the advice and consent of the WCOC, to employ a licensed BWC chief investment officer and who is a chartered financial analyst. The chief investment officer shall reasonably supervise BWC employees who handle investments to prevent specified securities and investment violations. The chief investment officer shall establish a policy to monitor and evaluate the effectiveness of BWC investments.

R.C. 4123.441: (A) The bureau of workers' compensation, with the advice and consent of the workers' compensation oversight commission shall employ a person or designate an employee of the bureau who is designated as a chartered financial analyst by the CFA institute and who is licensed by the division of securities in the department of commerce as a bureau of workers' compensation chief investment officer to be the chief investment officer for the bureau of workers' compensation. After ninety days after the effective date of this section, the bureau of workers' compensation may not employ a bureau of workers' compensation chief investment officer, as defined in section 1707.01 of the Revised Code, who does not hold a valid bureau of workers' compensation chief investment officer license issued by the division of securities in the department of commerce. The oversight commission shall notify the division of securities of the department of commerce in writing of its designation and of any change in its designation within ten calendar days after the designation or change.

(B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

For purposes of this division, no bureau of workers' compensation chief investment officer shall be considered to have failed to satisfy the officer's duty of reasonable supervision if the officer has done all of the following:

(1) Adopted and implemented written procedures, and a system for applying the procedures, that would reasonably be expected to prevent and detect, insofar as practicable, any violation by employees handling investments of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code;

(2) Reasonably discharged the duties and obligations incumbent on the bureau of workers' compensation chief investment officer by reason of the established procedures and the system for applying the procedures when the officer had no reasonable cause to believe that there was a failure to comply with the procedures and systems;

(3) Reviewed, at least annually, the adequacy of the policies and procedures established pursuant to this section and the effectiveness of their implementation.

(C) The bureau of workers' compensation chief investment officer shall establish and maintain a policy to monitor and evaluate the effectiveness of securities transactions executed on behalf of the bureau.

R.C. 1707.164 and R.C. 1707.165 provide that the BWC Chief Investment Officer shall be licensed by the Division of Securities in the Department of Commerce.

R.C. 1707.164: (A) No person shall act as a bureau of workers' compensation chief investment officer unless the person is licensed as a bureau of workers' compensation chief investment officer by the division of securities.

(B) No bureau of workers' compensation chief investment officer shall act as a dealer, salesperson, investment advisor, or investment advisor representative.

R.C. 1707.165: (A) Application for a bureau of workers' compensation chief investment officer's license shall be made in accordance with this section by filing with the division of securities the information, materials, and forms specified in rules adopted by the division.

(B) The division may investigate any applicant for a license and may require any additional information as it considers necessary to determine the applicant's business repute and qualifications to act as a chief investment officer. If the application for a bureau of workers' compensation chief investment officer's license involves investigation outside of this state, the applicant may be required by the division to advance sufficient funds to pay any of the actual expenses of the investigation. The division shall furnish the applicant with an itemized statement of the expenses the applicant is required to pay.

(C) The division shall by rule require an applicant for a bureau of workers' compensation chief investment officer's license to pass an examination designated by the division or achieve a specified professional designation unless the applicant meets both of the following requirements:

(1) Acts as a bureau of workers' compensation chief investment officer on the effective date of this section;

(2) Has experience or education acceptable to the division.

(D) If the division finds that the applicant is of good business repute, appears to be qualified to act as a bureau of workers' compensation chief investment officer, and has complied with this chapter and rules adopted by the division under this chapter, the division, upon receipt of the fees prescribed by division (B) of section 1707.17 of the Revised Code, shall issue to the applicant a license authorizing the applicant to act as a bureau of workers' compensation chief investment officer.

V. Investment Manager Requirements

R.C. 4123.444 and R.C. 4123.445 require the Administrator, prior to awarding a contract to an investment manager, to have criminal background checks conducted on the investment manager's employees who will be investing BWC funds. The statutes prohibit BWC from entering into a contract with an investment manager if any employee of that manager who will be investing assets of BWC funds has been convicted of or pleaded guilty to a financial or investment crime.

R.C. 4123.444: (A) As used in this section and section 4123.445 of the Revised Code:

(1) "Bureau of workers' compensation funds" means any fund specified in Chapter 4121., 4123., 4127., or 4131. of the Revised Code that the administrator of workers' compensation has the authority to invest, in accordance with the administrator's investment authority under section 4123.44 of the Revised Code.

(2) "Investment manager" means any person with whom the administrator of workers' compensation contracts pursuant to section 4123.44 of the Revised Code to facilitate the investment of assets of bureau of workers' compensation funds.

(3) "Business entity" means any person with whom an investment manager contracts for the investment of assets of bureau of workers' compensation funds.

(4) "Financial or investment crime" means any criminal offense involving theft, receiving stolen property, embezzlement, forgery, fraud, passing bad checks, money laundering, drug trafficking, or any criminal offense involving money or securities, as set forth in Chapters 2909., 2911., 2913., 2915., 2921., 2923., and 2925. of the Revised Code or other law of this state, or the laws of any other state or the United States that are substantially equivalent to those offenses.

(B)(1) Before entering into a contract with an investment manager to invest bureau of workers' compensation funds, the administrator shall do both of the following:

(a) Request from any investment manager with whom the administrator wishes to contract for those investments a list of all employees who will be investing assets of bureau of workers' compensation funds. The list shall specify each employee's state of residence for the five years prior to the date of the administrator's request.

(b) Request that the superintendent of the bureau of criminal investigation and identification conduct a criminal records check in accordance with this section and section 109.579 of the Revised Code with respect to every employee the investment manager names in that list.

(2) After an investment manager enters into a contract with the administrator to invest bureau of workers' compensation funds and before an investment manager enters into a contract with a business entity to facilitate those investments, the investment manager shall request from any business entity with whom the investment manager wishes to contract to make those investments a list of all employees who will be

investing assets of the bureau of workers' compensation funds. The list shall specify each employee's state of residence for the five years prior to the investment manager's request. The investment manager shall forward to the administrator the list received from the business entity. The administrator shall request the superintendent to conduct a criminal records check in accordance with this section and section 109.579 of the Revised Code with respect to every employee the business entity names in that list. Upon receipt of the results of the criminal records check, the administrator shall forward a copy of those results to the investment manager.

(3) If, after a contract has been entered into between the administrator and an investment manager or between an investment manager and a business entity for the investment of assets of bureau of workers' compensation funds, the investment manager or business entity wishes to have an employee who was not the subject of a criminal records check under division (B)(1) or (B)(2) of this section invest assets of the bureau of workers' compensation funds, that employee shall be the subject of a criminal records check pursuant to this section and section 109.579 of the Revised Code prior to handling the investment of assets of those funds. The investment manager shall submit to the administrator the name of that employee along with the employee's state of residence for the five years prior to the date in which the administrator requests the criminal records check. The administrator shall request that the superintendent conduct a criminal records check on that employee pursuant to this section and section 109.579 of the Revised Code.

(C)(1) If an employee who is the subject of a criminal records check pursuant to division (B) of this section has not been a resident of this state for the five-year period immediately prior to the time the criminal records check is requested or does not provide evidence that within that five-year period the superintendent has requested information about the employee from the federal bureau of investigation in a criminal records check, the administrator shall request that the superintendent obtain information from the federal bureau of investigation as a part of the criminal records check for the employee. If the employee has been a resident of this state for at least that five-year period, the administrator may, but is not required to, request that the superintendent request and include in the criminal records check information about that employee from the federal bureau of investigation.

(2) The administrator shall provide to an investment manager a copy of the form prescribed pursuant to division (C)(1) of section 109.579 of the Revised Code and a standard impression sheet for each employee for whom a criminal records check must be performed, to obtain fingerprint impressions as prescribed pursuant to division (C)(2) of section 109.579 of the Revised Code. The investment manager shall obtain the completed form and impression sheet either directly from each employee or from a business entity and shall forward the completed form and sheet to the administrator, who shall forward these forms and sheets to the superintendent.

(3) Any employee who receives a copy of the form and the impression sheet pursuant to division (C)(2) of this section and who is requested to complete the form and provide a set of fingerprint impressions shall complete the form or provide all the information necessary to complete the form and shall complete the impression sheets in the manner prescribed in division (C)(2) of section 109.579 of the Revised Code.

(D) For each criminal records check the administrator requests under this section, at the time the administrator makes a request the administrator shall pay to the superintendent the fee the superintendent prescribes pursuant to division (E) of section 109.579 of the Revised Code.

R.C. 4123.445: (A) The administrator of workers' compensation shall not enter into a contract with an investment manager for the investment of assets of the bureau of workers' compensation funds if any employee of that investment manager who will be investing assets of bureau of workers' compensation funds has been convicted of or pleaded guilty to a financial or investment crime.

(B) An investment manager who has entered into a contract with the bureau of workers' compensation for the investment of assets of bureau of workers' compensation funds shall not contract with a business entity for the investment of those assets if any employee of that business manager who will be investing assets of bureau of workers' compensation funds has been convicted of or pleaded guilty to a financial or investment crime.

(C) The administrator shall not enter into a contract with an investment manager who refuses to submit the list of the investment manager's employees required under division (B) of section 4123.444 of the Revised Code. An investment manager shall not enter into a contract with a business entity that refuses to submit the list of the business entity's employees required under division (B) of section 4123.444 of the Revised Code.

(D) If, after a contract has been awarded to an investment manager or business entity for the investment of assets of bureau of workers' compensation funds, the investment manager or business entity discovers that an employee who is handling the investment of those assets has been convicted of or pleaded guilty to a financial or investment crime, the investment manager or business entity immediately shall notify the administrator.

R.C. 3517.13(Y) and (Z) prohibits the BWC from conducting business with or awarding a contract, other than by competitive bidding, for goods or services costing more than $500 entities who, within the two previous calendar years, have made contributions totaling more than $1,000 to the campaign committees of the Governor or Lieutenant Governor or candidates for those offices.

R.C. 3517.13: (Y) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if the individual has made, or the individual's spouse has made, or any partner, shareholder, administrator, executor, or trustee, or the spouses of any of those individuals has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

(Z) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if an owner of more than twenty per cent of the corporation or business trust, or the spouse of the owner, has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of such period, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

VI. Fiduciary Requirements

R.C. 4121.126 prohibits BWC employees and WCOC members from having any interest in any investment made by the Administrator or receiving any pay for the employee's or member's services. The statute prohibits any member or person connected with the BWC from borrowing any of its funds or using the funds except to make necessary payments authorized by the Administrator. The Administrator shall not make investments or purchases from or do any business with an entity that is owned or controlled by a person who within the preceding three years was employed by BWC or was a WCOC member, or was employed by or was an officer holding a fiduciary position in which the person was involved in decisions affecting the investment policy of BWC.

R.C. 4121.126: Except as provided in this chapter, no member of the workers' compensation oversight commission or employee of the bureau of workers' compensation shall have any direct or indirect interest in the gains or profits of any investment made by the administrator of workers' compensation or shall receive directly or indirectly any pay or emolument for the member's or employee's services. No member or person connected with the bureau directly or indirectly, for self or as an agent or partner of others, shall borrow any of its funds or deposits or in any manner use the funds or deposits except to make current and necessary payments that are authorized by the administrator. No member of the oversight commission or employee of the bureau shall become an indorser or surety or become in any manner an obligor for moneys loaned by or borrowed from the bureau.

The administrator shall make no investments through or purchases from, or otherwise do any business with, any individual who is, or any partnership, association, or corporation that is owned or controlled by, a person who within the preceding three years was employed by the bureau, a board member of, or an officer of the oversight commission, or a person who within the preceding three years was employed by or was an officer holding a fiduciary, administrative, supervisory, or trust position, or any other position in which such person would be involved, on behalf of the person's employer, in decisions or recommendations affecting the investment policy of the bureau, and in which such person would benefit by any monetary gain.

R.C. 4121.127 prohibits a BWC fiduciary from engaging in a transaction if the fiduciary knows that the transaction constitutes a prohibited activity, prohibits a fiduciary from engaging in certain activities concerning the fiduciary acting with the fiduciary's own interest, and specifies circumstances in which a fiduciary will be liable to the BWC for a breach of fiduciary duty.

R.C. 4121.127: (A) Except as provided in division (B) of this section, a fiduciary shall not cause the bureau of workers' compensation to engage in a transaction, if the fiduciary knows or should know that such transaction constitutes any of the following, whether directly or indirectly:

(1) The sale, exchange, or leasing of any property between the bureau and a party in interest;

(2) Lending of money or other extension of credit between the bureau and a party in interest;

(3) Furnishing of goods, services, or facilities between the bureau and a party in interest;

(4) Transfer to, or use by or for the benefit of a party in interest, of any assets of the bureau;

(5) Acquisition, on behalf of the bureau, of any employer security or employer real property.

(B) Nothing in this section shall prohibit any transaction between the bureau and any fiduciary or party in interest if both of the following occur:

(1) All the terms and conditions of the transaction are comparable to the terms and conditions that might reasonably be expected in a similar transaction between similar parties who are not parties in interest.

(2) The transaction is consistent with fiduciary duties under this chapter and Chapters 4123., 4127., and 4131. of the Revised Code.

(C) A fiduciary shall not do any of the following:

(1) Deal with the assets of the bureau in the fiduciary's own interest or for the fiduciary's own account;

(2) In the fiduciary's individual capacity or in any other capacity, act in any transaction involving the bureau on behalf of a party, or represent a party, whose interests are adverse to the interests of the bureau or to the injured employees served by the bureau;

(3) Receive any consideration for the fiduciary's own personal account from any party dealing with the bureau in connection with a transaction involving the assets of the bureau.

(D) In addition to any liability that a fiduciary may have under any other provision, a fiduciary, with respect to bureau, shall be liable for a breach of fiduciary responsibility in any the following circumstances:

(1) If the fiduciary knowingly participates in or knowingly undertakes to conceal an act or omission of another fiduciary, knowing such act or omission is a breach;

(2) If, by the fiduciary's failure to comply with this chapter or Chapter 4123., 4127., or 4131. of the Revised Code, the fiduciary has enabled another fiduciary to commit a breach;

(3) If the fiduciary has knowledge of a breach by another fiduciary of that fiduciary's duties under this chapter and Chapters 4123., 4127., and 4131. of the Revised Code, unless the fiduciary makes reasonable efforts under the circumstances to remedy the breach.

(E) Every fiduciary of the bureau shall be bonded or insured for an amount of not less than one million dollars for loss by reason of acts of fraud or dishonesty.

(F) As used in this section, "fiduciary" means a person who does any of the following:

(1) Exercises discretionary authority or control with respect to the management of the bureau or with respect to the management or disposition of its assets;

(2) Renders investment advice for a fee, directly or indirectly, with respect to money or property of the bureau;

(3) Has discretionary authority or responsibility in the administration of the bureau.

R.C. 109.981 authorizes the Attorney General to maintain a civil action against a voting member of the WCOC who breaches the member's fiduciary duty to the BWC for harm resulting from that breach, and allows the WCOC to retain independent legal counsel if informed of an allegation that the entire WCOC has breached its fiduciary duty to the BWC.

If a voting member of workers' compensation oversight commission breaches the member's fiduciary duty to the bureau of workers' compensation, the attorney general may maintain a civil action against the board member for harm resulting from that breach. Notwithstanding section 4121.128 of the Revised Code, after being informed of an allegation that the entire oversight commission has breached its fiduciary duty, the oversight commission may retain independent legal counsel, including legal counsel provided by the oversight commission's fiduciary insurance carrier, to advise the board and to represent the board. The attorney general may recover damages or be granted injunctive relief, which shall include the enjoinment of specified activities and the removal of the member from the board. Any damages awarded shall be paid to the bureau. The authority to maintain a civil action created by this section is in addition to any authority the attorney general possesses under any other provision of the Revised Code.

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

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February 21, 2006

Appendix XIV: Campaign Contribution Policy

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

APPENDIX XIV: CAMPAIGN CONTRIBUTION POLICY

It is the policy of the Ohio Bureau of Workers' Compensation ("OBWC") and the Workers' Compensation Oversight Commission ("WCOC") to ensure that the selection of investment management firms to provide investment management services, or the selection of consulting firms to provide consulting services, or the selection of independent auditors to provide auditing services, to the State Insurance Fund (the "Fund") is based on the merits of such firms and not on the political contributions made by such firms. This policy is designed to protect the beneficiaries of the Fund by prohibiting investment management firms, consulting firms or auditing firms, or such other persons who may contract with the Administrator or WCOC to provide services, from being engaged to provide such services to the Fund if certain political contributions have been made.

In furtherance of this goal, those individuals and firms conducting business with the Administrator or the WCOC, and those desiring to do business with the Administrator and the WCOC, shall adhere to the political contribution requirements that are set forth in Ohio Revised Code Chapter 3517. Such individuals and firms should pay particular attention to the restrictions set forth in O.R.C. 3517.13 (Y) and (Z), which expressly restrict the Administrator of OBWC from doing business with persons or business entities that had made contributions to candidates for Ohio Governor or Lieutenant Governor. These provisions are set forth below:

(Y) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if the individual has made, or the individual's spouse has made, or any partner, shareholder, administrator, executor, or trustee, or the spouses of any of those individuals has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

(Z) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if an owner of more than twenty per cent of the corporation or business trust, or the spouse of the owner, has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of such period, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

This campaign contribution policy is not intended to limit participation in the political process by individuals and business entities doing business with the Administrator or the WCOC, or those who may seek to do so in the future. However, such individuals and business entities should be aware that there are restrictions on political contributors, and also upon the award of contracts by officials who receive campaign contributions, in addition to those provisions of Ohio law that are specifically cited in this statement of policy. Any individual or business entity that makes political contributions and also seeks to do business with Ohio governmental agencies should review those provisions carefully. In particular, O.R.C. 3599.03 expressly forbids the payment of corporate funds or use of corporate assets to support a candidate for office, a political party or legislative campaign fund, while O.R.C. 3517.082 and O.R.C. 3599.031 allow bona fide political action committees to make campaign contributions to Ohio candidates.

Appendix XV: Investment Committee – Financial and Operational Requirements

Model of infrastructure data to be provided to the IC

To: The Commissioners of the Investment Committee

The following is a model of portfolio and operational information that is needed by Investment Committee in order that the body can function effectively and comply with its fiduciary duties. The Chief Investment Office will be responsible for the delivery of such information.

Based upon my experiences, of being chairman, committee member and CIO of various insurance companies, pensions and foundations, these reports are standard and ordinary.

It is anticipated that the CIO may not be fully compliant with the first reporting, but that with the passage of a reporting cycle the reports will be compliant and will continue to improve over the ensuing years.

I will be bringing the following motion to the next Investment Committee:
I move that the Investment Committee direct the CIO report the following information. Such list can be modified to meet the needs of the organization, but the theme of full portfolio and operational disclosure is maintained.

Respectfully submitted,

Michael C. Koetters

Monthly Report to IC - 12 reports annually

- CIO written staff report - activities, issues, concerns and action plan
- Portfolio Performance vs. Benchmark by Asset Class by Manager
- Asset changes by manager - monthly, YTD

Quarterly Report to IC – 4 reports annually

- Review Progress on Goals and Action Plan
- Sarbanes-Oxley report – CIO Certification and report
- Economic Review
- Budget vs. Actual -
  - Qtr and YTD
  - For Cash Flow, Investment Income, Dept Expenses

1st Quarter Reporting - July, August and September

- Auditor Report
  - Internal auditor
  - External Auditor
- B-Team list – Managers in the wings

- CIO's Annual Report
    - Year in Review – portfolio performance
    - Environment
    - Outlook
    - Progress on last year's goals – outlook for next year's goals

2nd Quarter Reporting - October, November and December

- Annual Manager Review
- Annual Staff Personal Review
- Annual Fee and Performance Review
    - Managers, Consultants, Custodian vs. Benchmark
- Legal Review
- IT Review

3rd Quarter Reporting - January, February and March

- Review of investment duties and authorities of
    - WCOC, IC, CEO, and CIO
- Annual Economic and interest rate outlook
- Annual Review of customized benchmark for fixed income
    - Sensitivity analysis

4th Quarter Reporting - April, May and June

- Portfolio asset allocation review and recommendation
- Asset/Liability study review and recommendation
- Investment Policy and Mission statement review and recommendation
- Annual Goals and Action for next fiscal year
    - Need to support the mission of the BWC
- Annual Budget for next fiscal year
    - Net Income
    - Cash Flow
    - Assets under management
    - Operational Expenses
        - Staff expenses
        - Consultants
        - Custodian
        - Others
    - Capital Expenditures
    - Personnel staffing positions (additions/deductions)
- Review of Internal and External Auditor
    - Pre- audit preparation report on audit focus and review of prior audit
- Certification by Staff and CIO of no-conflict of interest

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

The Ohio Bureau of Workers' Compensation
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Comment [mp1]: Added

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

I. INVESTMENT OBJECTIVES

The primary investment objective is to manage the reserve to preserve the ability of Funds to pay all disability benefits and expense obligations when due. Meeting this objective necessitates prudent risk-taking with the Funds' investments. An additional objective is to earn sufficient returns to grow the surplus over time and to keep premium payments as reasonable and predictable as possible for the benefit of the injured workers and employers of Ohio.

II. BACKGROUND

A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and Ancillary Funds ("the Funds"). The Oversight Commission ("WCOC") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the surplus and reserves of the Funds.

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

B. Fiduciary Standard

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

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

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the Ohio Revised Code Section 4123.44 and any other applicable statutory or administrative rules. A copy of the Ohio Revised Code Section 4123.44, as amended, is attached to this Investment Policy and all aspects of this Investment Policy shall be construed and interpreted in a manner consistent with Section 4123.44.

III. ROLES AND RESPONSIBILITIES

A. WCOC Responsibilities

The WCOC is the primary body charged with overseeing investment activities relating to the Funds. Its oversight functions include the duties specified below:

i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.

ii. Permit the Administrator to invest in an investment class only after the WCOC, by majority vote, opens the class in question.

iii. Close any class of investments when it deems prudent.

iv. Monitor and review the investment performance of the Funds on a quarterly (February, May, August and November) basis to determine achievement of goals and compliance with this Investment Policy.

v. Advise and consent to the Administrator's hiring of the CIO.

vi. Advise and consent to the OBWC's employment of an internal auditor, who shall report directly to the WCOC on investment matters.

vii. Approve the selection and termination of all Investment Consultants.

viii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.

ix. Approve the final selection and funding and termination of all Investment Managers and General Partners.

x. Approve the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

xi. Prohibit on a prospective basis any specific investment that the WCOC finds to be contrary to the Investment Objectives of the Funds. In the event that the WCOC determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the WCOC shall direct the Administrator to take the appropriate corrective action.

xii. Submit a report annually on the performance and the value of each investment class to the governor, the president and minority leader of the senate, and the speaker and the minority leader of the house of representatives.

xiii. Advise the Administrator of the WCOC's criteria for approving proposed dividends submitted to it pursuant to R.C. 4123.32 and Ohio Admin. Code 4123-17-10.

The WCOC may appoint members to an Investment Committee for the express purpose of assisting the WCOC to carry out any of the responsibilities enumerated here.

B. OBWC Staff Responsibilities

The Chief Investment Officer shall be employed by the Administrator, with the advice and consent of the WCOC, and shall be a senior member of the OBWC staff with the primary responsibility for implementing the Investment Policy. Subject to the supervision and control of the Administrator, the Chief Investment Officer shall:

i. Consult with and receive approval from the WCOC regarding the appropriate strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving relevant facts or situations.

ii. Recommend permissible asset classes for investment to the WCOC.

iii. Monitor and review the investment performance of the Funds on a monthly basis to determine achievement of goals and compliance with Investment Policy

iv. Consult with and receive approval from the WCOC on the selection and termination of all Investment Consultants.

v. Consult with and receive approval from the WCOC on the selection and termination of all Investment Managers and General Partners.

vi. Consult with and receive approval from the WCOC on the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.

vii. Implement the directives of the WCOC.

viii. Supervise the management of each Fund's assets in accordance with this Investment Policy and the objectives and guidelines set forth herein.

ix. Consult with and receive approval from the WCOC regarding criteria and procedures to be utilized to select Investment Managers and General Partners

x. Monitor all managed assets to insure compliance with the guidelines set forth in this Investment Policy and report same to the WCOC on a monthly basis.

xi. Monitor manager trade execution.

xii. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds set forth herein. The CIO may retain a third party proxy voting service or direct investment managers to vote the proxies related to securities held in their respective portfolios.

xiii. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory obligations related thereto.

xiv. Report to the WCOC on at least a quarterly basis regarding the performance of the portfolio and brokerage information for various time periods.

xv. Consult with the Funds' Investment Managers on at least a quarterly basis to discuss account performance and other material information.

xvi. Collect and review the current Form ADV of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the WCOC.

C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

x. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as Appendix XIV, on a quarterly basis.

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

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

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

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

D. General Partners' Responsibilities

Each General Partner shall:

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

ii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Partnership and/or Subscription Agreement and the specific portfolio guidelines contained therein.

iii. Provide the CIO with quarterly financial statements and an audited annual financial statement for each partnership or fund to which the Ohio BWC has made a commitment.

iv. Provide the CIO with an annual Valuation Certification attesting to the value of the Ohio BWC's holdings in each partnership or fund.

v. Provide the CIO with the firm's Ethics Policy and annual confirmation of its compliance with said policy (for agreements entered into after January 1, 2006 only).

vi. Promptly provide the CIO with a detailed report of all capital calls and/or distributions for each partnership or fund.

vii. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as XIV, on an annual basis (for agreements entered into after January 1, 2006 only).

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

i. Provide independent and unbiased information to the WCOC, 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 monthly investment results and quarterly risk characteristics of the Funds to the WCOC.

vi. Monitor and evaluate Investment Manager performance on an ongoing basis.

vii. Conduct due diligence on the Funds' current and prospective Investment Managers.

viii. Establish a procedural due diligence search process.

ix. Assist in the development of criteria and procedures to be utilized for the selection of all Investment Managers.

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

xi. Provide any other advice or services that the WCOC 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. 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 annually, or more frequently if conditions warrant.

The WCOC has adopted a long-term asset allocation policy for each Fund that identifies the strategic target weights to each of the major asset classes. These policies are detailed in Appendix X.

B. Rebalancing Policy

The asset allocation targets represent a long-term strategy. Short-term market activity will cause the asset mix to drift from the specific allocation targets. A **Rebalancing Policy** is designed to provide a disciplined approach to control the risk exposure of each Fund to the investment categories that have deviated from the established target policy weights. The WCOC has adopted a policy of range rebalancing. Under range rebalancing, asset rebalancing will be triggered only when actual weightings fall outside of the ranges specified above. The WCOC expects range rebalancing to produce a superior return/risk tradeoff as compared to time rebalancing because turnover occurs only when necessary.

The Funds' asset allocations are to be monitored quarterly, or more frequently if market conditions warrant. Should the actual asset allocations for a particular class of investments deviate from the indicated range for a particular asset class, the Administrator and Chief Investment Officer will make the necessary adjustments to satisfy the asset allocation guidelines established by this Investment Policy. 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.

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 investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The WCOC, 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 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 specific strategy, style or partnership, at the time it is hired, unless unique circumstances – such as the need to hire a manager in a capacity-constrained asset class such as high yield or small cap U.S. equity, or in certain specific strategies such as passively managed inflation-protected securities and passively managed long duration fixed income - warrant an exception.

Comment [mp2]: To be reviewed

ii. **Fixed Income Investments**

The investment goal of the fixed income investments is to protect the Funds against adverse changes in the value of the Funds' assets relative to their liabilities. The WCOC has adopted a policy to invest each Fund's fixed income portfolio in a manner that will approximate the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow the surplus.

Average Weighted Credit Quality
The minimum average weighted quality of the total fixed income portfolio shall be A, as measured by the lower of the Moody's or Standard & Poors (S&P) rating.

Duration
The duration of the fixed income portfolio in aggregate shall be maintained within a range of +/- 5% of each Fund's fixed income benchmark.

Diversification

The fixed income portfolio shall be diversified as specified below[1] to minimize the risk of losses:

By Sector:

Sector Allocation	**Max. % of Fund**
U.S. Governments:	***100%***
Treasuries	100%
Agencies	100%
Mortgages	***40%***
Agencies	40%
Non-Agency	10%
Collateralized Mortgage Obligations (CMOs) (must be rated AA or better)	10%
Commercial Mortgage Backed Securities (CMBS) and Project Loans	10%
Floating Rate Mortgages	10%
Investment Grade Credit	***70%***
Finance	35%
Industrial	35%
Transportation	35%
Utilities	35%
Yankees	10%
Asset Backed Securities (ABS) (must be rated AA or better)	10%
Foreign Governments	***0%***
Below Investment Grade Credit	***6%***

[1] Percentages represent a maximum allocation and will not sum to 100%

By Credit Quality:

Credit Quality	Max. % of Fund	Individual Security Max %
Governments/Agencies	100%	N.A.
Aaa/AAA or below	80%	1.00% (AAA only)
Aa/AA or below	65%	1.00% (AA only)
A/A or below	40%	0.75% (A only)
Baa/BBB or below	20%	0.50% (BBB only)
Ba/BB or below	6%	0.25% (BB only)
B/B or below	4%	0.10% (B only)
CCC or below	1%	0.05% (CCC only)
Below CCC	0%	0.00%

Maximum percentages refer to market value of each security owned for the Funds' Fixed Income portfolio in its aggregate. Credit ratings recognized are Moody's, Standard & Poor's and Fitch. Credit rating applicable is the lower of the two ratings if such security is rated by only two of the three rating agencies. Credit rating applicable is the middle rating if such security is rated by all three rating agencies, as consistent with the rules used by the sponsor of the fixed income benchmark index approved. The Chief Investment Officer will report to the WCOC the details of any guideline violation at the next scheduled WCOC meeting, or sooner if warranted in the judgment of the Chief Investment Officer. Each Investment Manager will be required to adhere to this Investment Policy in general and will be provided with specific investment security guidelines by the Chief Investment Officer consistent with these Credit Quality and Sector Allocation guidelines in the aggregate.

In the event that downgraded securities result in a violation of these constraints, the WCOC shall grant an exemption that would allow the Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the Chief Investment Officer. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the applicable guidelines to the Chief Investment Officer. Such action plan will be reflected in the compliance report of the Chief Investment Officer to be presented at the next scheduled WCOC meeting.

The Funds may invest in Rule 144A and private placement securities subject to the sector and credit constraints specified above.

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.

<u>Diversification</u>
The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's U.S. Equity benchmark.
- No single holding shall account for more than 5% of each Fund's total U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

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.

<u>Diversification</u>
The Non-U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's Non-U.S. Equity benchmark.
- Investments will be diversified by geographic region and sector, so as to optimize the relationship of expected return to expected risk after taking into consideration the asset allocation of each Fund.
- No single holding shall account for more than 5% of each Fund's total Non-U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

iv. **Alternative Investments**

The SIF has allocated a portion of its investment portfolio to private equity securities, limited partnerships and funds of funds subject to all applicable legal requirements and limits set forth in this Investment Policy. The purpose of investing in private equity securities, partnerships or funds is to enhance the overall investment returns of the Funds.

Future investments in Alternative Investments are not presently anticipated.

v. **Cash Equivalents**

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

vi. **Securities Lending**

Securities lending is not permitted by the Funds or their Investment Managers in order to accommodate the implementation of the asset allocation strategy reflected in Appendix XI.

vii. **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.

The use of derivatives by the Funds or their Investment Managers is expressly prohibited, with the exception of collateralized mortgage obligations (CMOs) and asset backed securities (ABS), and TBA mortgage-backed securities in accordance with the restrictions outlined below and in Section IV.C.ii above.

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. To qualify for investment by the Funds, CMOs must be rated AA or better and not be levered. 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. To qualify for investment by the Funds, ABS must be rated AA or better.

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).

viii. **Commission Recapture / Directed Brokerage**

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

ix. **General Prohibitions**

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

a. Short selling in any form.
b. All forms of leverage, including, but not limited to, purchasing securities on margin, treasury rolls and reverse repurchase agreements.

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 exceeds the return of each Fund's Performance Benchmark on a consistent basis. The Benchmark combines designated market and/or custom indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are:

Asset Class	Benchmark
Total Fixed Income:	***N/A***
Long Duration	Lehman Long Government/Credit
High Yield	Merrill Lynch High Yield Master II
Inflation-Protected Securities	Lehman U.S. TIPS
U.S. Equity	***Wilshire 5000***
Large Cap	S&P 500
Small/Mid Cap	Wilshire 4500 / Russell 2500
Alternative Investments	Wilshire 5000 + 5%
Non-U.S. Equity	***MSCI EAFE***
Cash Equivalents	***90-Day T-Bill***

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.

C. Investment Managers

On a timely basis, but not less that four times a year, the Chief Investment Officer will meet with the Investment Consultants to:

- Evaluate the performance of each Investment Manager.
- Review each Investment Manager's adherence to this Investment Policy.
- Analyze any material changes in the Investment Manager's organization, investment strategies or personnel.
- Review each Investment Manager's performance relative to appropriate indices and peer groups.

Each Investment Manager's performance shall be evaluated relative to an appropriate benchmark index and a relative peer group of managers as indicated below. They are expected to (1) rank above median versus their respective peer groups and (2) earn investment returns, net of expenses, that equal or exceed their respective benchmark index.

The performance of each Investment Manager will be monitored on an ongoing basis and the Administrator and the Chief Investment Office shall take any appropriate corrective action, including, subject to approval by the WCOC, the termination and replacement of an Investment Manager. Factors that may lead to terminating a manager relationship include:

- Performance below median (50th percentile) of their peer group.
- Realization of investment returns, net of expenses, that lag their respective benchmark index.
- Failure to adhere to this Policy or the portfolio's Investment Guidelines.
- Failure to comply with the Ethics Policy of the firm or the WCOC.
- Violation of any law.
- Style drift.
- Organizational changes including:
  - ➢ Change in professional staff
  - ➢ Significant loss of clients
  - ➢ Significant growth of new business
  - ➢ Change in ownership

VI. COMMUNICATIONS

- Each Investment Manager will provide written reports at least monthly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Private Equity General Partner will provide written reports at least quarterly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Investment Manager will provide all reporting required under Section III. C. of this Policy.
- Each Investment Manager is expected to meet with the Administrator and/or the Chief Investment Officer at least annually at OBWC offices.
- Frequent and regular communication with the OBWC by all Investment Managers is encouraged.

VII. REVIEW PROCEDURES

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

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

VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

The WCOC desires that Staff and the Investment Consultant identify, research and evaluate qualified Ohio managers, minority managers and women-owned managers and that Investment Managers give consideration to such managers and brokers in their efforts to fulfill the Funds' investment objectives, but only in compliance with their respective fiduciary duties to the Funds.

Qualified Ohio Managers - Criteria

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

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

Minority Managers – Criteria

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

Additionally, Investment Managers who are majority-owned by women are included in this Policy

In addition to the requirements above, any qualified Ohio manager, and any minority or women-owned Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940. Any Broker must be properly licensed.

It is the WCOC's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the WCOC is not obligated to hire any qualified Ohio manager, minority or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders.

Exhibit B

MSCI EAFE vs MSCI ACWI ex US

Correlations* between the MSCI EAFE and MSCI ACWI ex US

1 YR (Jan 06 - Dec 06)	0.996
3 YR (Jan 04 - Dec 06)	0.993
5 YR (Jan 02 - Dec 06)	0.996
10 YR (Jan 97 - Dec 06)	0.994

2006	0.996
2005	0.995
2004	0.993
2003	0.998
2002	0.999
2001	0.997
2000	0.989
1999	0.993
1998	0.994
1997	0.997
1996	0.993

*Correlations are based on monthly returns for the specified time period.
Source: Bloomberg

Exhibit A

MSCI EAFE vs. MSCI ACWI ex US

1. The EAFE and the ACWI are highly correlated with one another with a monthly correlation coefficient of over 0.99 over the past ten year period.

2. The EAFE is a market capitalization index comprised of approximately 1,100 securities representing 23 developed countries:
   - Australia, Austria, Belgium, Bermuda, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

3. The ACWI ex US is a market capitalization index comprised of approximately 2,100 securities representing 49 developed and emerging countries:
   - Includes all of the EAFE countries as well as, Argentina, Brazil, Canada, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey.

4. Annualized Gross Returns in USD for MSCI EAFE and MSCI ACWI ex US as of 12/31/2006

Index	One Year	Three Year	Five Year	Ten Year
MSCI EAFE	26.86%	20.41%	15.43%	8.06%
MSCI ACWI ex US	27.16%	21.81%	16.88%	8.59%

LEHMAN FIXED INCOME BENCHMARKS

Quality Analysis

December 31, 2006

	% Lehman Aggregate	% Lehman Long Govt/Credit
AAA	78.86	53.33
AA	4.98	7.19
A	8.71	19.30
BBB	7.46	20.18
BB or lower	0.00	0.00
Avg. Quality	AA1/AA2	AA2/AA3

LEHMAN FIXED INCOME BENCHMARKS

Portfolio Characteristics

December 31, 2006

	Lehman Aggregate	Lehman Long Govt/Credit
Effective Duration	4.46 yrs	10.93 yrs
Avg Maturity/Avg Life	6.96 yrs	20.76 yrs
Avg Effective YTM	5.13%	5.48%
Current Yield	5.31%	5.97%
Avg. Effective Convexity	-0.22	1.74
Portfolio Avg Bond Price	100.96	112.55
Avg Coupon	5.36%	6.72%
Number of Issues	7,134	988

Effective implies option adjusted

Source: Lehman Brothers

LEHMAN FIXED INCOME BENCHMARKS

Sector Weightings

December 31, 2006

SECTOR	% Lehman Aggregate		% Lehman Long Govt/Credit	
U.S. Treasury	24.85		45.68	
U.S. Agencies	11.14		7.65	
MBS Pass-Thrus	34.91		0.00	
Commercial MBS	4.83		0.00	
Asset-Backed (ABS)	1.17		0.00	
CMOs	0.00		0.00	
U.S. Corporates	16.66		33.63	
Financials		7.59		9.18
Industrials		7.31		19.31
Utilities		1.76		5.14
		16.66%		33.63%
Non-U.S. (Yankees)	6.44		13.04	
Corporates		2.77		6.73
Local Govt/Agcy		1.73		3.43
Sovereigns		1.06		2.24
Supranationals		0.88		0.64
		6.44%		13.04%
TOTAL	100.0%		100.0%	

Source: Lehman Brothers

DATE: January 15, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Investment Policy Recommendations**
Revisions to BWC Investment Policy and Guidelines

The following is an outline and brief explanation as to Recommendations for Revisions to the BWC Investment Policy and Guidelines ("IPS") dated September 28, 2006. Each of these proposed Revisions provided herein are being proposed by the BWC Chief Investment Officer after consultations with Mark Brubaker of Wilshire Associates.

A. Asset Allocation Variances Revisions

It is recommended that the allowable percentage ranges for each target asset allocation weighting be converted to a specific defined percentage range as reflected in the proposed revised Appendix X.A, X.B and X.D of the IPS. The target asset allocation weight variances are currently expressed as +/- 10% which is more difficult to track for each asset class and which is considered to be too narrow for all asset classes with the exception of Long Duration Fixed Income which has a large 54% target weighting. The smaller asset classes can move in opposite directions for periods of time which could force more frequent asset rebalancing and consequent higher transaction activity and trading costs than desired. It is believed the proposed new asset allocation variances maintain the purpose and intent of the Policy Targets. In addition, it is anticipated that managers will not be fully invested at all times so that the Cash Equivalents range must be adjusted at the high end as proposed.

B. Credit Quality and Sector Allocation Limits Revisions

It is recommended that the Credit Quality category limits be converted to cumulative percentages from absolute percentages as reflected in the proposed revised Section IV.C.ii of the IPS. Credit limits expressed in cumulative percentages by credit quality grade or lower is the preferred method for most investment managers and is desired by the BWC Investment Division for monitoring all external managers in the aggregate. The Asset Allocation Variances Revisions recommended, as reflected in Section A above, would result in the Below Investment Grade Credit limit increasing to 6% from 5%, even though the target asset allocation remains at 5%.

It is necessary to define the credit rating applicable for Section IV.C.ii of the IPS and to also address the treatment of fixed income securities that are split rated between the letter credit quality grades. For the purposes of all of its sponsored bond indices, Lehman Brothers recognizes the three large credit rating agencies (Moody's, S&P, Fitch) and treats split ratings in the manner reflected in the proposed language for revised Section IV.C.ii of the IPS recommended.

C. Non-U.S. Equity Asset Allocation Revision

It is recommended that the 1% Passive Non-U.S. Equity asset allocation management style applicable for both the State Insurance Fund (SIF) and Disabled Workers Relief Fund (DWRF) be eliminated and replaced with an increase in asset allocation applicable to the Active Non-U.S. Equity management style from 4% to 5%. This is reflected in the proposed revised Appendix XI.A.VIII and Appendix XI.B of the IPS. When the current 4%/1% Active/Passive mix for Non-U.S. Equity was initially proposed by Wilshire Associates and approved by the WCOC, it was based upon the assumption that such passive management would be made via a commingled portfolio management structure. The current desired and approved portfolio management structure is for separate account management. A passive management approach under a separate account management structure for this relatively small mandate ($150mm SIF; $11mm DWRF) becomes inefficient with many small denomination securities directly owned (estimated 600-800 issues) in many foreign currencies with withholding taxes as well as being subjected to very high management fees for a passive management approach. Consolidating this mandate with one or at most two Active managers likely owning significantly fewer number of securities in much larger denominations is clearly preferred.

It is recommended that the 5% Passive Non-U.S. Equity asset allocation management style for the Coal Workers Fund (CWF) be eliminated and replaced with a 5% higher asset allocation directed to the Passive Large Cap U.S. Equity mandate (from 12% to 17%). This is reflected in the proposed revised Appendix XI.B of the IPS. The recommendation for elimination of this mandate is made for the same reasons state for SIF and DWRF. The size of funds representing this 5% mandate is currently only $6.5 million which is very inefficient and very expensive to manage in either a passive or active separate account management structure. It is recommended that this 5% asset allocation be redirected to the Passive Large Cap U.S. Equity mandate to reduce management and custodian fees as well as to consolidate small size mandates for the small CWF portfolio into fewer separate accounts with fewer managers.

D. Non-U.S. Equity Benchmark Revision

It is recommended that the benchmark applicable to both Non-U.S. Equity passive and active managers be the MSCI EAFE index instead of the MSCI ACWI ex-US index. This is reflected in the proposed revised Section V.A of the IPS. MSCI EAFE ("EAFE") is the Morgan Stanley Capital International Europe, Australasia, Far East index. MSCI ACWI ex-US ("ACWI") is the Morgan Stanley Capital International All Country World Index excluding U.S. stocks.

The EAFE index is the most popular non-U.S. equity index utilized in the management of non-U.S. equity funds by both active and passive portfolio managers in the United States. The EAFE index consists of approximately 1,100 securities representing 23 developed countries whereas the ACWI index consists of over 2,000 securities in 49 developed and emerging market countries. The Wilshire report submitted provides a comparison of recent country weightings for these two indices.

A list of the 26 nations included in the ACWI index but excluded in the EAFE index is provided in Exhibit A. Some of the nations in the ACWI index have relatively small stock exchanges with less liquid securities represented in their own local currencies. The number of issues required to be purchased by both an active or passive EAFE benchmark portfolio manager will be considerably less than for the ACWI portfolio manager. This makes it easier for the BWC Investment Department to monitor all securities owned. In addition, there will be significantly less foreign currencies owned in an EAFE managed portfolio versus an ACWI managed portfolio. Transaction costs (including per trade custodian fees) are also significantly higher for many of the ACWI emerging markets securities when compared to EAFE eligible securities of developed nations only.

As shown in both Exhibit B and the Wilshire report, there are extremely high correlations of annual performance in excess of 0.99 between these two indices over the recent ten-year period.

It is the opinion of the CIO that BWC will capture comparable returns with funds managed to the most popular EAFE Non-U.S. Equity index versus the ACWI index. BWC will achieve savings in trading and custody costs by avoiding investments in the non-EAFE nations of the ACWI index. In addition, there will be fewer accounting, administrative and portfolio monitoring challenges by not owning less liquid, emerging market equities.

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BWC Better Workers' Compensation Built with you in mind

Ohio Bureau of Workers' Compensation

Passive Long Duration Fixed Income Manager Search

January 25, 2007

Mark Brubaker, CFA
Managing Director

Michael Patalsky, CFA
Senior Associate

Manager Specifications

- Approximately $4.5 billion mandate
- Benchmarked to the Lehman Long Government/Credit Index
- Manager candidates responded to a public RFP which was issued on September 18, 2006
- 5 respondents to this search
  - State Street Global Advisors
  - Barclays Global
  - Northern Trust
  - Standish Mellon
  - Mellon Capital

Note: Bank of New York also responded but was not considered due to lack of assets managed in this asset class

Recommendation

- Wilshire's recommendation is to utilize two firms to manage the passive long duration fixed income allocation
  - In the December 14th Meeting, Wilshire recommended retaining State Street Global Advisors to manage a portion of the mandate
  - Our recommendation for a second firm to manage passive long duration fixed income assets for the Ohio BWC is **Barclays Global Advisors**
    - BGI has a long history managing passive investments across multiple asset classes
    - BGI has good experience managing passive long duration mandates, managing over $7.4 billion with a long track record (12/31/97 inception)
    - The fund's tracking error relative to the Lehman Long Government/Credit index has been 0.17% since inception, but approximately 0.02% over the past 3-year period

Product Summary

Manager	Assets Managed ($MM)[2] Firm AUM	Fixed Income AUM	Equity AUM	Long Duration Product AUM	Projected Ohio BWC AUM (% of Product AUM)[3]	Fees Based On Half $2.2 B Mandate[1] Actual Fee (bps)	Estimated Fee in $
Barclays Global Investors	$ 1,534,246	$ 650,685	$ 689,375	$ 7,385	23.2%	5.38	$ 1,200,593
Mellon Capital	$ 352,835	$ 54,694	$ 181,436	$ 520 [4]	81.1%	1.46	$ 325,872
Northern Trust	$ 148,861	$ 14,743	$ 82,297	$ 4,276	34.3%	0.80	$ 178,560
Standish Mellon	$ 146,321	$ 146,321	$ -	$ 519	81.1%	1.69	$ 377,208
State Street Global Advisors	$ 1,622,714	$ 273,523	$ 1,129,417	$ 6,259	26.3%	2.40	$ 534,801

[1]Fees are based on proposed fee schedule provided by the manager. These are estimated based on a proposed fee for a separate account without securities lending assuming a half mandate.
[2]Assets managed as of 6/30/2006.
[3]This value represents the percentage that BWC's investment would comprise of the total passive long duration fixed income assets being managed for each manager (taking into account the size of BWC's mandate).
[4]Value represents the amount MCM manages in total for passive long duration government and passive long duration credit

Annualized Returns as of 9/30/06

	Annualized Returns			
Manager	**YTD**	**1 Year**	**3 Year**	**5 Year**
Barclays Global Investors	1.67	2.64	5.09	7.17
Mellon Capital	1.65	2.59	5.06	7.14
Northern Trust	1.66	2.64	5.16	7.39
Standish Mellon	1.56	2.51	4.97	7.08
State Street Global Advisors	1.63	2.56	4.98	7.01
Lehman Long Govt/Credit Index	**1.65**	**2.60**	**5.04**	**7.14**
Mellon Capital Long Government	1.55	2.60	4.94	6.63
Lehman Long Government	**1.50**	**2.52**	**4.92**	**6.59**
Mellon Capital Long Credit	1.81	2.61	5.26	7.91
Lehman Long Credit	**1.86**	**2.70**	**5.24**	**7.95**

Annual Returns

Manager	Calendar Years 2005	2004	2003	2002	2001	2000
Barclays Global Investors	5.40	8.60	5.84	14.89	7.44	16.22
Northern Trust	5.50	8.68	6.03	15.47	7.69	16.36
Standish Mellon	5.54	8.46	5.14	15.46	6.94	16.58
State Street Global Advisors	5.26	8.48	5.69	14.57	6.98	16.25
Lehman Long Govt/Credit Index	**5.35**	**8.56**	**5.88**	**14.82**	**7.25**	**16.15**
Mellon Capital Long Government	6.67	8.00	2.55	17.08	4.53	20.57
Lehman Long Government	**6.60**	**7.96**	**2.61**	**16.99**	**4.33**	**20.29**
Mellon Capital Long Credit	3.88	9.39	10.11	11.80	12.02	9.96
Lehman Long Credit	**3.76**	**9.37**	**10.44**	**11.93**	**12.16**	**9.19**

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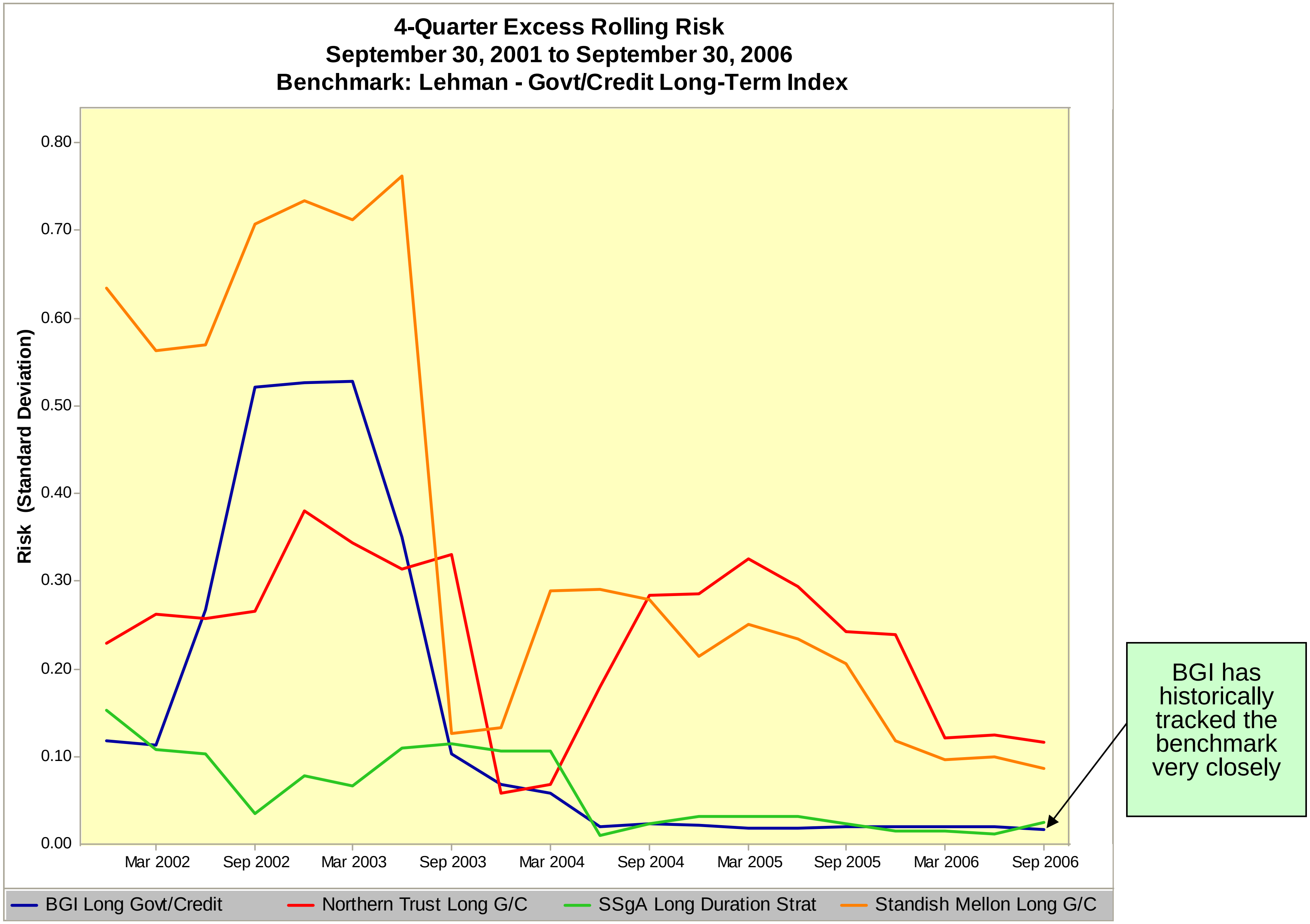
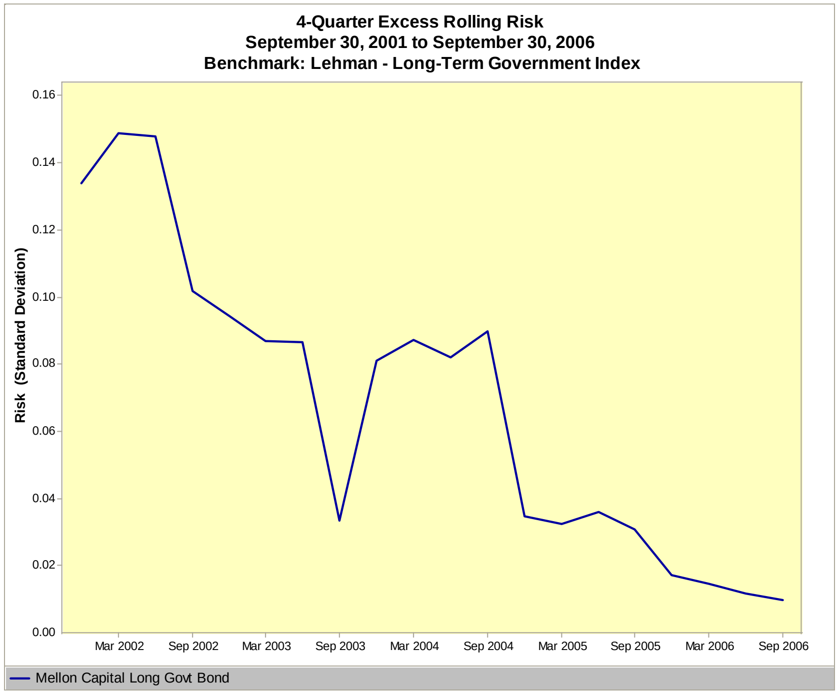
1 Year Rolling Tracking Error- Passive Lehman Long Government/Credit Index Composites

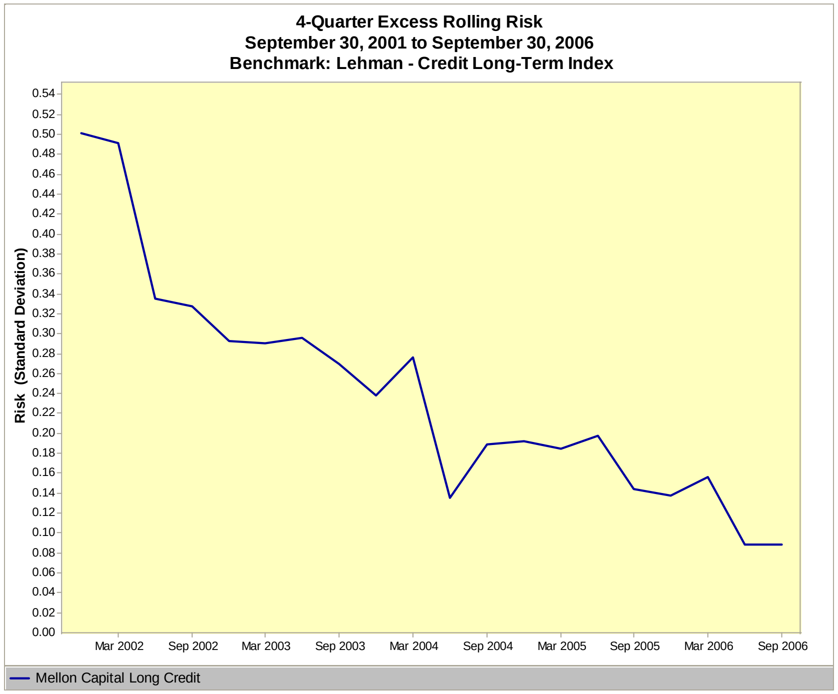


1 Year Rolling Tracking Error- Mellon Capital

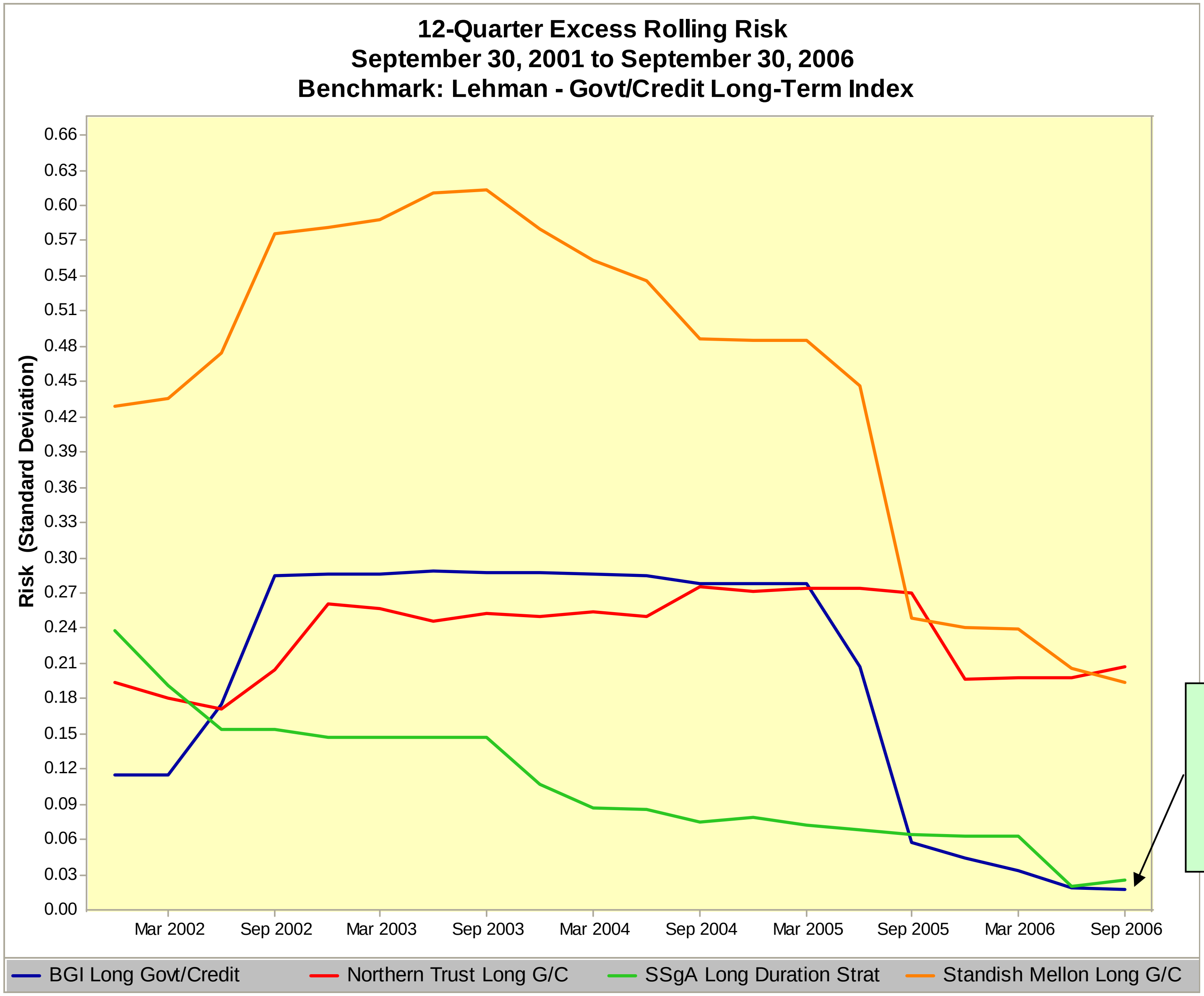
Mellon Capital Mgt Lehman Long Govt Composite



Mellon Capital Mgt. Lehman Long Credit Composite



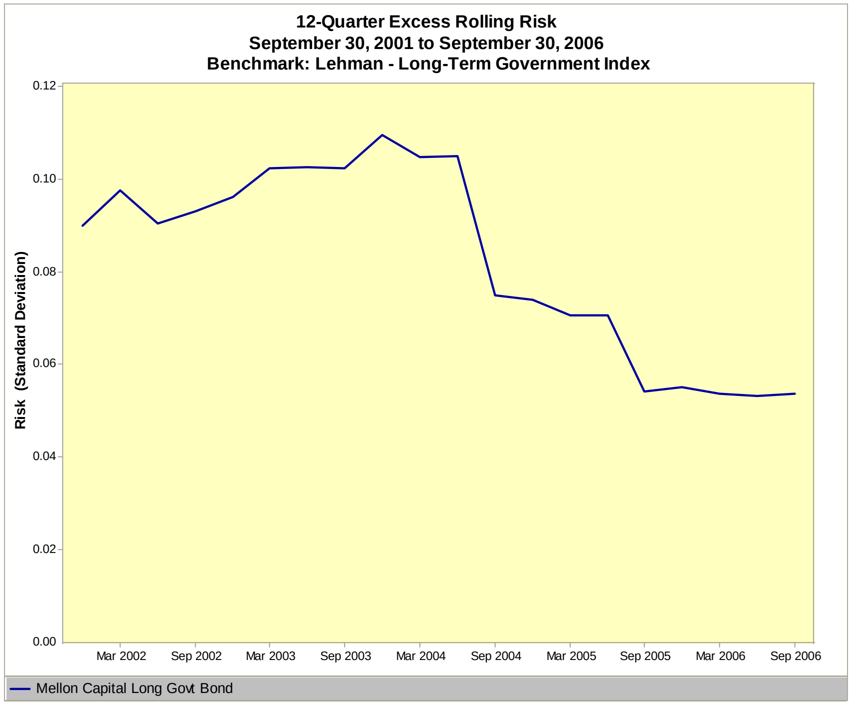
3 Year Rolling Tracking Error- Passive Lehman Long Government/Credit Index



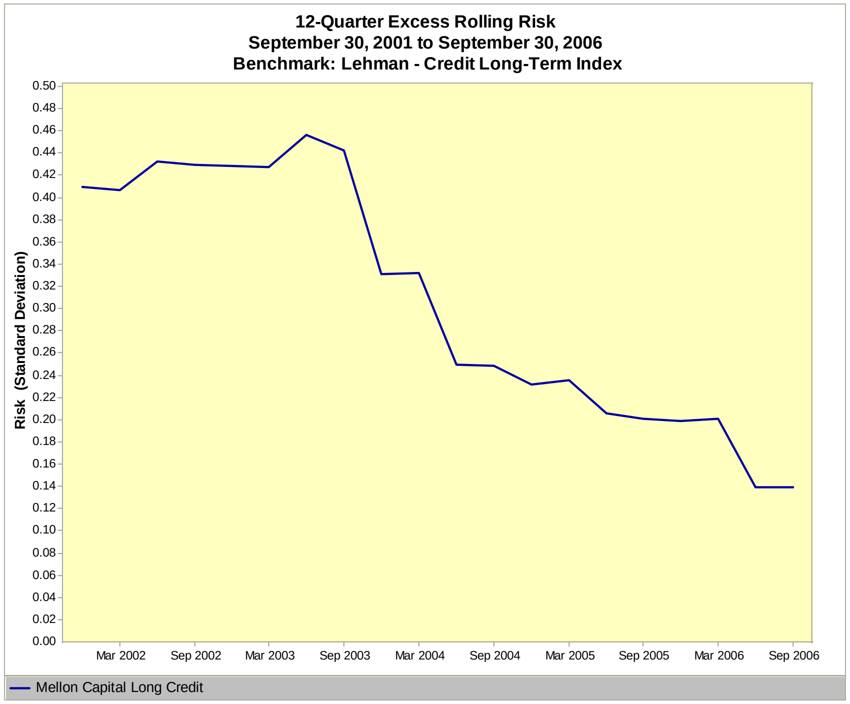
BGI has historically tracked the benchmark very closely

3 Year Rolling Tracking Error- Mellon Capital

Mellon Capital Mgt Lehman Long Govt Composite



Mellon Capital Mgt. Lehman Long Credit Composite



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Barclays Global Investors

Organization Overview

- Barclays Global Investors was founded in 1922 and is headquartered in San Francisco. BGI is a majority-owned indirect subsidiary of Barclays Bank PLC. As of 6/30/06, the firm managed over $1.6 trillion for more than 2800 clients, including 65% of the world's 100 largest pension plans.

Experience

- BGI has managed index funds since 1971 and fixed income index funds since 1983. BGI's Global Index and Markets Group (GIMG), based in San Francisco, is engaged in ongoing research of investment strategies and portfolio rebalancing techniques. The four long duration portfolio managers who manage $7.4 billion in passive long duration mandates average 12 years of experience and 6 years with the firm. A little over half (50.1%) of the firm's passive long duration mandates are for public fund clients.

Philosophy/Investment Process

- BGI utilizes a stratified sampling process to create its passive index product. The process does not explicitly match the benchmark's average statistics, rather it matches the distribution of the statistics, to ensure that portfolio performance will track the index regardless of how the relationships among the various factors change.

Pros

- **Long history as an index provider**
- **Several team members have representation on various index committees**
- **Low turnover on fixed income team**
- **High assets under management relative to candidates for passive long duration ($7.4 billion)**
- **Low Tracking Error**

Cons

- **Highest fee amongst candidates (5.38 bps)**

State Street Global Advisors

Organization Overview

- SSgA is the investment management arm of State Street Corporation, and has been an institutional investment management provider since 1978. State Street Corporation is a publicly traded bank holding company. In 1995, all of State Street's investment related business units were reorganized under one umbrella, named State Street Global Advisors.

Experience

- SSgA has 6.3 billion in U.S. long duration fixed income AUM as of June 30, 2006. They currently handle 2.8 million in public fund clients. The five key personal that will be involved in the management of the portfolio average 16 years experience in the industry, and 8 years with the firm.

Philosophy and Process

- SSgA's goal is to match the returns of the index. The cornerstone to these strategies is stratified sampling executed under strict guidelines that eliminate active over/underweight positions. The Long U.S. Agency Index is purchased using predominately a sampling method since the market does not contain significant levels of default risk.

Pros:

- **Large amount of AUM in this space (6.3 billion in U.S. long duration fixed income), in which 45.9% is from public fund clients.**
- **More than 10 year performance history for their U.S. Fixed Income Passive Long Duration composite.**
- **Proposed Fee is reasonable**

Cons:

- **Product displayed higher levels of tracking error to the benchmark in earlier periods, however tracking error has tightened over time**

Mellon Capital

Organization Overview

- Mellon Capital Management was established in 1983. Mellon Capital is a wholly-owned subsidiary of Mellon Financial Corporation, a publicly traded company. Mellon offers global, quantitatively based investment strategies to corporate, government, and Trade Union retirement plans, endowments, foundations, and mutual fund distributors. As of June 30, 2006, Mellon Capital in $148.9 billion in AUM.

Experience

- Mellon Capital has $520 million in U.S. long duration fixed income AUM as of June 30, 2006. Mellon Capital has eight key personal that will be involved in the management of the portfolio. Their experience averages 16 years in the industry, and 12 years with the firm.

Philosophy and Process

- Mellon Capital's indexing strategies are disciplined and structured, with the objective of replicating the fundamental characteristics and performance of the respective index. Minimizing tracking error in portfolio construction is of primary importance, and they have processes in place designed to generate minimal tracking error. The portfolio is managed using replication and sampling strategies. The stratification process seeks to create bucket of securities that mirrors the performance characteristics of the comparable bucket of index securities. From a high level, the process begins by stratifying the index along the major parameters that drive performance: duration, quality/rating, sector, and convexity.

Pros:

- **Lower fee proposal as compared to competitors**
- **AUM for all passive fixed income mandates is sizable**
- **Experienced team of portfolio managers/researchers**

Cons:

- **Low amount of assets under management for passive Long Duration mandates**
- **BWC's assets would comprise a majority of MCM's passive long duration fixed income assets.**

Northern Trust

Organization Overview

- Northern Trust Corporation, found in 1889, has more than 116 years of experience. Northern Trust, based in Chicago, has a growing network of offices in 16 U.S. states and has international offices in 9 countries. As of June 30, 2006, Northern Trust had asset under investment management of $640 billion, assets under administration of $3.2 trillion and banking assets of more than $52 billion.

Experience

- Northern Trust has $4.3 billion in long duration passive indexed AUM as of June 30, 2006. They do not manage any long duration assets for public fund clients. There are eight key individuals that will be involved in the management of BWC portfolio, with an average of 18 years experience in the industry and 14 years with Northern Trust.

Philosophy and Process

- Northern Trust uses a process called Intelligent Indexing that is based on five key initiatives. They use a proprietary investment process that incorporates that maximization of liquidity in trade flows as the objective function of their portfolio construction. In addition they utilize multi-dimensional risk management that tightly constrains portfolios at the security, sector, and risk factor level. They also incorporate index change strategies that emphasize the elimination of wealth erosion. Lastly they utilize trading algorithms that employ technology to discover liquidity and thus minimize transactions costs.

Pros:

- **Lowest proposed fees as compared to the other candidates (.80 bps)**
- **Portfolio management team is very experienced and has been working together for a long time**
- **High long duration AUM compared to rest of candidates**
- **Have not lost any passive long duration clients over the last 3 ½ years**

Cons:

- **Do not manage any long duration assets for public fund clients**
- **Higher level of tracking error compared to other candidates**

Standish Mellon

Organization Overview

- Standish Mellon Asset Management's history dates back to 1933 when Standish, Ayer, & Wood was founded. In July 2001, Standish, Ayer & Wood become a wholly owned subsidiary of Mellon Financial Corporation and was renamed Standish Mellon Asset Management. Standish Mellon has three primary offices in Pittsburgh, Boston, and San Francisco. Their AUM as of June 30, 2006, is 146.3 billion in fixed income assets.

Experience

- Standish Mellon has $519 million in passive long duration indexed AUM as of June 30, 2006. They currently handle $210 million in public fund clients. Standish Mellon has six key personal that will be involved in the management of the portfolio. Their experience averages 21 years in the industry, and 14 years with the firm.

Philosophy and Process

- Standish Mellon uses a stratified sampling approach to index replication, which seeks to minimize the transaction cost and fees. The firm also seeks to add value by diversifying through security selection of the most attractive issues based on internal fundamental credit research and analysis. Standish Mellon also employs risk corridors that limit variance from the index.

Pros:

- **One of the oldest fixed income managers**
- **Low fee in comparison to other candidates**
- **Portfolio managers average over 21 years of experience**
- **High level of client retention**

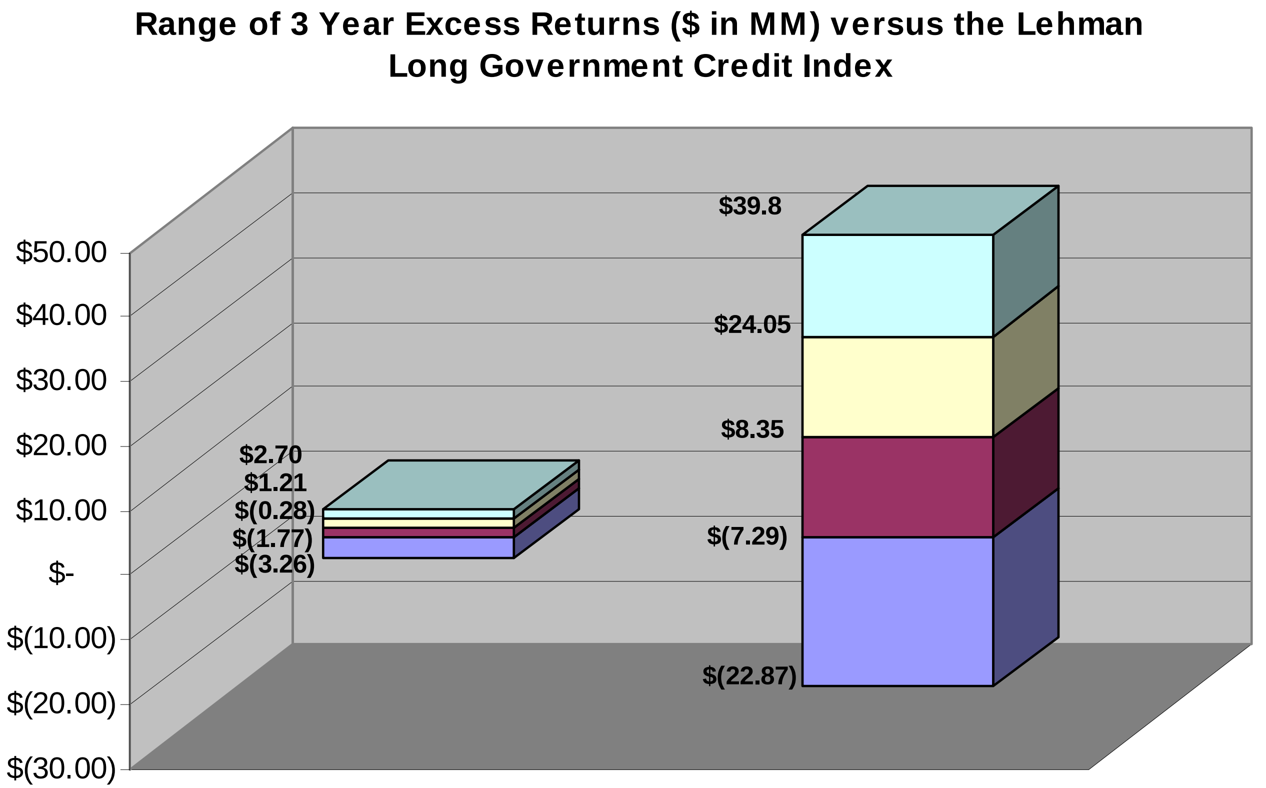
Cons:

- **Lowest passive long duration AUM among candidates**
- **BWC's mandate would comprise most of Standish's AUM for this product**

Appendix

Simulation of 3 Year Range of Expected Returns Using Historical Tracking Error

- BGI's ability to track the index closely provides insurance that warrants a tradeoff of low volatility of returns with respect to the index in return for higher fees



	BGI	Northern Trust	Differential
Initial Capital	$ 2,250,000,000	$ 2,250,000,000.00	
3 Year Annualized Gross Return (Actual)	5.090%	5.160%	
Annual Fees Using Fee Quoted to BWC	0.054%	0.008%	0.046%
Annual Fees (in $)	$ 1,210,500	$ 180,000	$ 1,030,500
Fees for 3 years	$ 3,631,500	$ 540,000	$ 3,091,500
3 Year Rolling Std Dev of Returns	0.02%	0.21%	-0.19%

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Long Duration Fixed Income Passive Index Manager RFP Process

January 25, 2007

RFP Process

Long Duration Fixed Income Passive Index Manager

Steps in the RFP Process

- Drafting of the RFP
- Evaluation and review of the RFP responses
- Evaluation Committee discussion of RFP responses and preferences
- On site due-diligence with recommended Finalists
- Consultation with Wilshire throughout the RFP process

RFP Updated Timeline

Long Duration Fixed Income Passive Index Manager

RFP ACTION ITEM	TIMELINE
OVERSIGHT COMMISSION MEETING	***Aug. 24 – Complete***
Send RFP Advertisement to Newspapers/Journal	Aug. 28 – Complete
Issue RFP	Sept. 13 – Revised Sept. 18 – Complete
Open period for respondent's questions via email	Sept. 18 - 20 – Revised Sept. 20 - 26 – Complete
OVERSIGHT COMMISSION MEETING	***Sept. 28 – Complete***
Respond to questions via website	Sept. 25 - 27 – Revised Oct. 3 – Complete
DEADLINE FOR RFP PROPOSALS (2:00 PM)	**Oct. 3 – Revised Oct. 10** – Complete
BWC staff initial review of proposals	Oct. 4 - 9 – Revised Oct. 11 - 31 – Revised Oct. 11 - Nov. 14
WCOC MEETING PACKET DEADLINE	Nov. 8 – Complete
Evaluation Committee review / Finalist candidates identified	Oct. 10 – Revised Nov. 1 – Revised Nov. 15 – Revised Nov. 21 -- Complete
OVERSIGHT COMMISSION MEETING	***Nov. 16 – Complete***
Finalist candidate Interviews / Re-grade Finalist candidates / Notify Finalist candidates	Oct. 18 - 19 – Revised Nov. 7 - 17 – Revised Nov. 27 - Dec. 8 – Revised Nov. 27 – Jan.12
WCOC MEETING PACKET DEADLINE	Dec. 6
On-Site visit of Finalist (tentative)	Oct. 24 - Nov. 3 – Revised Dec. 8 - Dec. 21 – Revised Dec 8 – Jan. 12
OVERSIGHT COMMISSION MEETING – WCOC Approval of First Finalist **Long Duration Fixed Income**	***Dec. 14 – Complete***
WCOC MEETING PACKET DEADLINE	Jan. 17
OVERSIGHT COMMISSION MEETING – WCOC Approval of Second Finalist **Long Duration Fixed Income**	***Jan. 25***

RFP Respondents and Evaluation

Long Duration Fixed Income Passive Index Manager

Steps in the RFP Process

- A Request for Proposals (RFP) was publicly issued on September 18, 2006 for the services of a Passive Index Long Duration U.S. Fixed Income Manager(s)

- BWC received six responses (see Appendix for descriptions of qualified firms shown below):
  1) BNY Asset Management
  2) Barclays Global Investors
  3) Mellon Capital Management
  4) Northern Trust Investments
  5) Standish Mellon Asset Management
  6) State Street Global Advisors

- RFP respondents were scored by the Evaluation Committee (EC) comprised of the BWC CIO, BWC Director of Investments, two BWC Investment Staff members, and Wilshire Associates

- Respondents were scored on specific questions with BWC respective weightings established by the BWC CIO pertaining to:
  - Organization / Experience (30%)
  - Philosophy / Process (20%)
  - Performance / Fees (50%)

- Conference calls between EC members were held to discuss the scoring and to establish the best candidates for Finalist on-site interviews

RFP Respondents Summary Evaluation Comments

Long Duration Fixed Income Passive Index Manager

- **BNY Asset Management**
  - Currently does not manage a Long Duration Fixed Income (LDFI) passive portfolio
  - Performance results provided evaluated as below average relatively
  - Did not provide management fee for managed separate account without securities lending

- **Barclays Global Investors**
  - Managed $81 billion of passive indexed U.S. Fixed Income assets on 6/30/06
  - Managed $7.4 billion of passive indexed LDFI assets on 6/30/06
  - Performance results provided evaluated as above average relatively
  - Management fee proposed highest among all respondents
  - Employs stratified sampling approach for indexing strategy

- **Mellon Capital Management**
  - Managed $9 billion of passive indexed U.S. Fixed Income assets on 6/30/06
  - Managed only $550 million to Lehman Long Duration U.S. passive indices on 6/30/06
  - Performance results provided evaluated as average relatively
  - Management fee proposed competitive

RFP Respondents Summary Evaluation Comments

Long Duration Fixed Income Passive Index Manager

- **Northern Trust Global Investments**
  - Managed $29 billion of passive indexed U.S. Fixed Income assets on 6/30/06
  - Managed $4.3 billion of passive indexed LDFI assets on 6/30/06
  - Virtually no public government LDFI indexed clients represented
  - Performance results provided evaluated as above average relatively
  - Management fee proposed very competitive

- **Standish Mellon Asset Management**
  - Managed $11 billion of passive indexed U.S. Fixed Income assets on 6/30/06
  - Managed only $500 million of U.S. Fixed Income assets to a long duration indexed benchmark on 6/30/06
  - Performance results provided evaluated as below average relatively
  - Management fee proposed competitive

- **State Street Global Advisors**
  - Managed $69 billion of passive indexed U.S. Fixed Income assets on 6/30/06
  - Managed $6.3 billion of passive indexed LDFI assets on 6/30/06
  - Almost one-half of assets under management represent public government clients for this mandate
  - Performance results provided evaluated as average relatively
  - Management fee proposed competitive

Evaluation Committee Conclusions and Strategy

Long Duration Fixed Income Passive Index Manager

- Experience and amount of assets under management very important for LDFI passive mandate
- Passive LDFI index management, in present passive indexed fixed income market universe, much smaller and more specialized compared to short and medium-term fixed income sectors (between 5-15% of total fixed income assets under management for respondents under consideration)
- Two Finalists to be selected by BWC for this important and large mandate (27% of total assets or $4.4 billion currently)
- BWC total assets directed to LDFI passive mandate proportionally large for any one manager in terms of total passive fixed income assets under current management
- Two Finalists also desired during temporary period when additional 27% of BWC assets ($4.4 billion), currently earmarked for **active LDFI manager**, are invested passively in order to rapidly achieve full 54% ($8.8 billion) target sector allocation by early 2007
- Evaluation Committee recommended first of two Finalists (State Street Global Advisors) at December 14, 2006 IC/WCOC meeting which was approved
- Evaluation Committee recommends Barclays Global Investors as second Finalist at January 25, 2007 IC/WCOC meeting

Evaluation Summary of non-Finalist RFP Respondents

Long Duration Fixed Income Passive Index Manager

BNY Asset Management

Currently does not manage a Long Duration Fixed Income (LDFI) passive portfolio and did not offer the option to manage a passive LDFI portfolio in a separate account structure without securities lending

Mellon Capital Management

Managed only $550 million to Lehman Long Duration U.S. passive indices on 6/30/06, including only $136 million managed to the Lehman Long Term Credit Index which comprises almost 50% of the Lehman LDFI Govt/Credit benchmark. BWC LDFI assets would be a very high proportion of assets managed under this mandate. Concern about management integration issues regarding parent company Mellon Financial acquisition by The Bank of New York.

Northern Trust Global Investments

Managed $4.3 billion of passive LDFI assets on 6/30/06 but concentrated with very few accounts (five), giving possibility of material shrinkage in assets under management if any one client departs. Unlike the two Finalists, Northern Trust does not have a large core portfolio comprising many smaller passive-indexed accounts that serves as a dependable and sustainable asset base to manage for this mandate. Northern Trust has no public fund client representation for this mandate whereas the two Finalists recommended have broad public client management experience for this mandate over past five years, with public client representation being 50% (Barclays) and 46% (State Street), respectively. Also higher level of tracking error compared to two recommended Finalists, as determined by Wilshire. These concerns cumulatively override low management fee (0.8 bp annualized) being offered.

Standish Mellon Asset Management

Managed only $500 million to this LDFI mandate on 6/30/06. BWC LDFI assets would be a very high proportion of assets managed under this mandate. Standish Mellon is primarily an active fixed income management shop with less than 10% of fixed income assets ($11.7 billion) being passively managed. Similar to Mellon Capital, there is concern about management integration issues regarding parent company Mellon Financial acquisition by The Bank of New York.

Recommended Finalist

Long Duration Fixed Income Passive Index Manager

State Street Global Advisors (SSGA)

- Very large passive LDFI manager with $6.3 billion under management, including $2.9 billion of public government client accounts
- Experienced and proven fixed income passive management team known to BWC Investment Staff
- Consistently provided excellent asset management services and performance to BWC over past year
- Large existing public government client base for this specific mandate
- Receptive and accommodative to manage to a BWC customized benchmark index
- Strong culture of fiduciary responsibility and strict compliance controls
- Recommendation of SSGA is for all but $1.5 billion of permanent SIF mandate (est. $2.5 billion), full permanent ancillary portfolio mandates (est. $0.4 billion) and all interim LDFI mandates (est. $5.7 billion) until active managers are funded
- Per annum management fee of 2.2 bp for permanent SIF recommended allocation (est. $2.5 billion) and less than 1.5 bp for SIF recommended interim $5.3 billion allocation

Recommended Finalist
Long Duration Fixed Income Passive Index Manager

Barclays Global Investors (BGI)

- Very large passive LDFI manager with $7.4 billion under management, including $3.7 billion of public government client accounts
- Experienced and proven fixed income passive management team
- Emphasis on rigorous risk management process and investment technology
- Strong concentration on disciplined corporate credit research a key reason for positive performance history versus benchmark
- Delivered realized tracking error of less than 5 bp annualized over past three years compared to annualized predicted tracking error of 15 bp for LDFI index benchmark strategy
- Receptive and accommodative to manage to a BWC customized benchmark index
- Strong culture of fiduciary responsibility and internal compliance controls
- Economies of scale exist for trading execution as largest LDFI index manager in world
- Recommendation of BGI is for $1.5 billion of SIF mandate totaling $4.0 billion currently
- Per annum management fee of 5.7 basis points or $850,000 for $1.5 billion recommended

Recommended Finalists Strategy Detail
Long Duration Fixed Income Passive Index Manager

- Barclays Global Investors (BGI) is recommended to manage **$1.5 billion** of the 27% of State Insurance Fund (SIF) transition fund assets representing the target asset allocation to the Passive LDFI mandate

- State Street Global Advisors (SSGA) is recommended to manage the remaining SIF assets of the target allocation to the LDFI mandate (approx **$2.5 billion**) which represents an approximate 62/38 split between SSGA/BGI

- SSGA is recommended to manage to the Passive LDFI mandate, <u>on an interim basis</u>, the 27% of SIF assets representing the Active LDFI target allocation mandate (approx **$4.0 billion**) until such time as Active LDFI managers are funded

- SSGA is recommended to manage to the Passive LDFI mandate, <u>on an interim basis</u>, the 5% of SIF assets representing the Active High Yield Fixed Income mandate (approx **$0.8 billion** currently) and the 3% SIF Equity assets holdback (approx **$0.5 billion**) until such time as Active High Yield Fixed Income managers are funded and the Private Equity asset sale is completed, respectively

- SSGA is recommended to manage all of the 27% of Disabled Workers Fund (DWRF) assets (approx **$300 million**) and the 54% Coal Workers Fund (CWF) assets (approx **$125 million**) targeted to the Passive LDFI mandate

- SSGA is recommended to manage to the Passive LDFI mandate, <u>on an interim basis</u>, the 32% of DWRF assets representing the combination of Active LDFI mandate (27% or approx **$300 million**) and Active High Yield Fixed Income mandate (5% or approx **$55 million**) until such time as those respective managers are funded

- SSGA is recommended to manage to the Passive LDFI mandate, <u>on an interim basis</u>, the 5% of CWF assets representing the Active High Yield Fixed Income mandate (**$11million)** until such time as Active High Yield Fixed Income managers are funded

Recommended Finalists Strategy Detail

Long Duration Fixed Income Passive Index Manager

The recommendations presented on the preceding page are based on a combination of (i) the existing positive relationship the BWC has had with SSGA in the passive fixed income management of over 95% of its invested assets since 4/01/06 and (ii) the lower management fees offered by SSGA compared to BGI.

For the SIF portfolio, the incremental difference in management fees between SSGA and BGI favoring SSGA is approximately 3.0 basis points for the first $2.5 billion or $300,000 per $1 billion per year or $25,000 per month per $1 billion.

The management fee differential between SSGA and BGI is believed to be especially important with respect to the interim management of funds. For passive managed LDFI funds in excess of $2 billion for SIF, the difference in fees is 2.575 basis points per annum (1.425 bp SSGA; 4.00 bp for BGI) which translates to $257,500 per $1 billion per annum or approximately $30,900 per month per $1 billion.

In summary, the recommendation presented herein will result in SSGA passively managing a total of approximately **$8.6 billion** of BWC assets ($7.8b SIF; $0.8b ancillary) to the LDFI benchmark, of which approximately **$5.7 billion** will be on an interim basis to be transitioned to other asset mandates (including $4.4 billion to Active LDFI) as managers are identified, approved and funded.

Appendix

- **BNY Asset Management**

  Headquartered in New York. BNY Asset Management is the investment management division of The Bank of New York. This division currently manages over $116 billion in assets that includes both active and passive management of equities, fixed income, real estate funds and a fund of hedge funds. Assets under management are currently divided between $52 bln fixed income, $36 bln equities and $28 bln other. In a late breaking development, The Bank of New York announced on December 4 it will acquire Mellon Financial Corp and will be known as The Bank of New York Mellon Corp.

- **Barclays Global Investors**

  Headquartered in San Francisco. Barclays Global Investors (BGI) is one of the largest and most successful investment managers in the financial services industry, with more than $1.6 trillion in assets worldwide under management. Assets under management are currently $1.1 trillion equity, $275 bln fixed income and $220 bln other. Parent company of BGI is Barclays Bank, PLC, one of the largest banks in the world based in the United Kingdom. Introduced the first equity index fund in 1971 and the first bond index fund in 1983. Also the leader in issuing Exchange Traded Funds with over 100 different ETF strategies launched. BGI manages over 2,000 funds benchmarked to more than 250 indexes worldwide. Represented to be the largest manager of indexed U.S. equity and U.S. fixed income assets in the world.

- **Mellon Capital Management**

  Headquartered in San Francisco, Mellon Capital Management is a wholly-owned subsidiary of Mellon Financial Corp which is headquartered in Pittsburgh, PA. Mellon Financial has $870 billion of assets under management. Mellon Capital was established in 1983 by two individuals who are recognized as the originators of index fund management and value-based tactical asset allocation. Mellon Capital manages $149 billion in assets divided between $82 billion in equity, $15 billion in fixed income, and $52 billion in other assets. Approximately $9 billion of fixed income assets are passively managed. The Bank of New York announced on December 4, 2006 it will acquire Mellon Financial Corp and will be known as The Bank of New York Mellon Corp.

Appendix (continued)

- **Northern Trust Global Investments**

  Headquartered in Chicago. Northern Trust Corporation is a large bank, custodian and investment manager with $640 billion in assets under investment management and banking assets of more than $52 billion. Its investment management subsidiary, Northern Trust Global Investments, manages more than $350 billion in assets divided by $181 bln equity, $55 bln fixed income and $117 bln other. Northern Trust is a recognized prominent index manager for both equities and fixed income assets. Almost two-thirds ($114 bln) of equity assets under management and over one-half ($29 bln) of fixed income assets under management are passively managed.

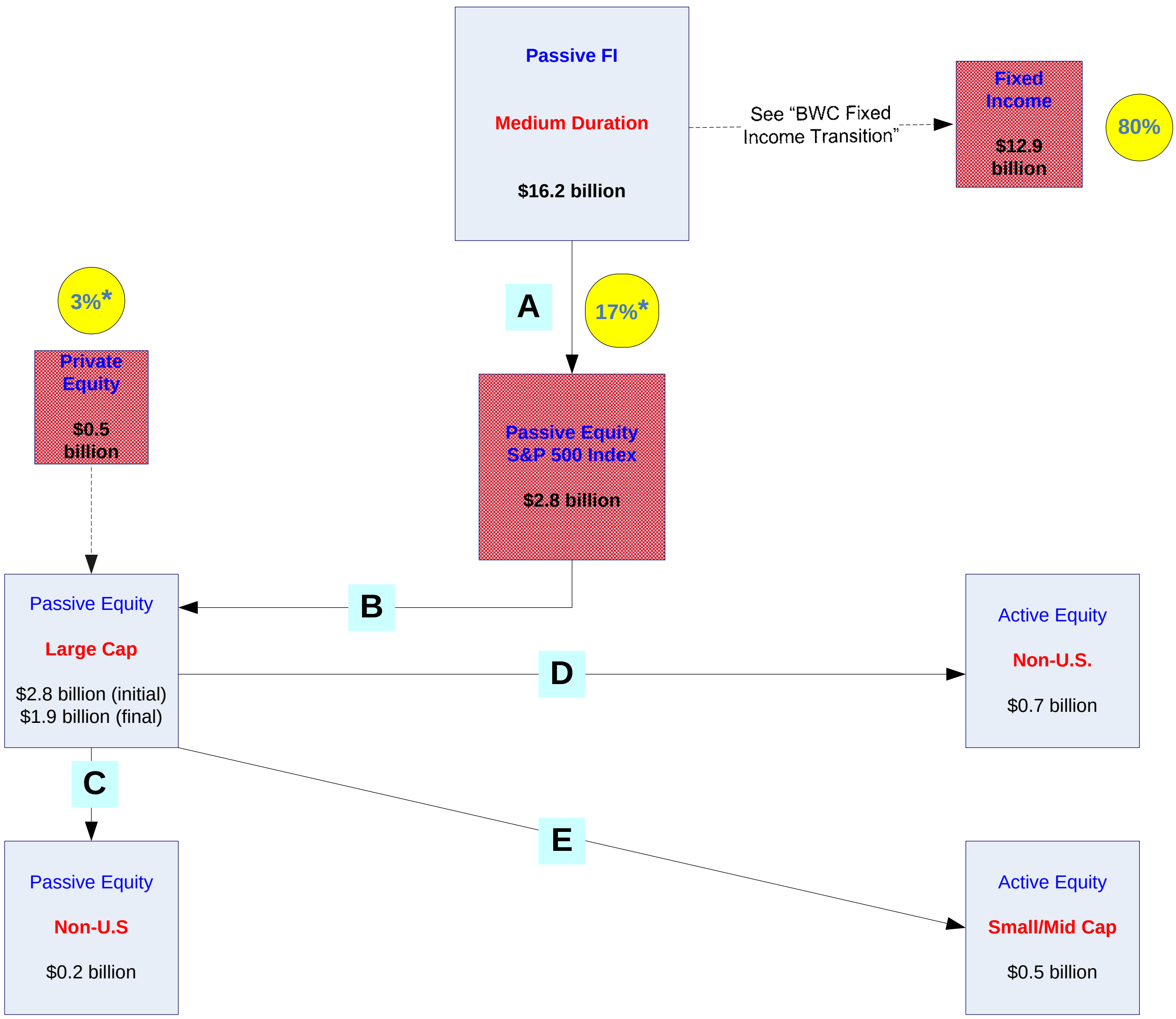
- **Standish Mellon Asset Management**

  Headquartered in Boston. Standish Mellon Asset Management is a wholly-owned subsidiary of Mellon Financial Corp. headquartered in Pittsburgh. The firm was founded in 1933 and independently owned under a prior name until being acquired by Mellon in 2001. Standish Mellon is a prominent institutional investment manager specializing in the management of fixed income assets. The firm currently manages $146 billion in fixed income assets, of which less than 10% or $11.7 billion are passively managed to indexed fixed income strategies. The Bank of New York announced on December 4, 2006 it will acquire Mellon Financial Corp and will be known as The Bank of New York Mellon Corp.

- **State Street Global Advisors**

  Headquartered in Boston. State Street Global Advisors (SSGA) is a subsidiary of State Street Bank and Trust which in turn is a subsidiary of State Street Corporation. SSGA is the largest institutional fund management company in the world with over $1.5 trillion in assets under management. The firm is one of the world’s largest managers of both U.S. and non-U.S. indexed assets with over $570 billion in indexed equity assets and over $130 billion in indexed fixed income assets.

BWC EQUITY TRANSITION
January 2007



* BWC will maintain a full 20% equity allocation per the Investment Policy Statement throughout all transitions and selling of Private Equity funds

A Transition into S&P 500 Passive Equity Index

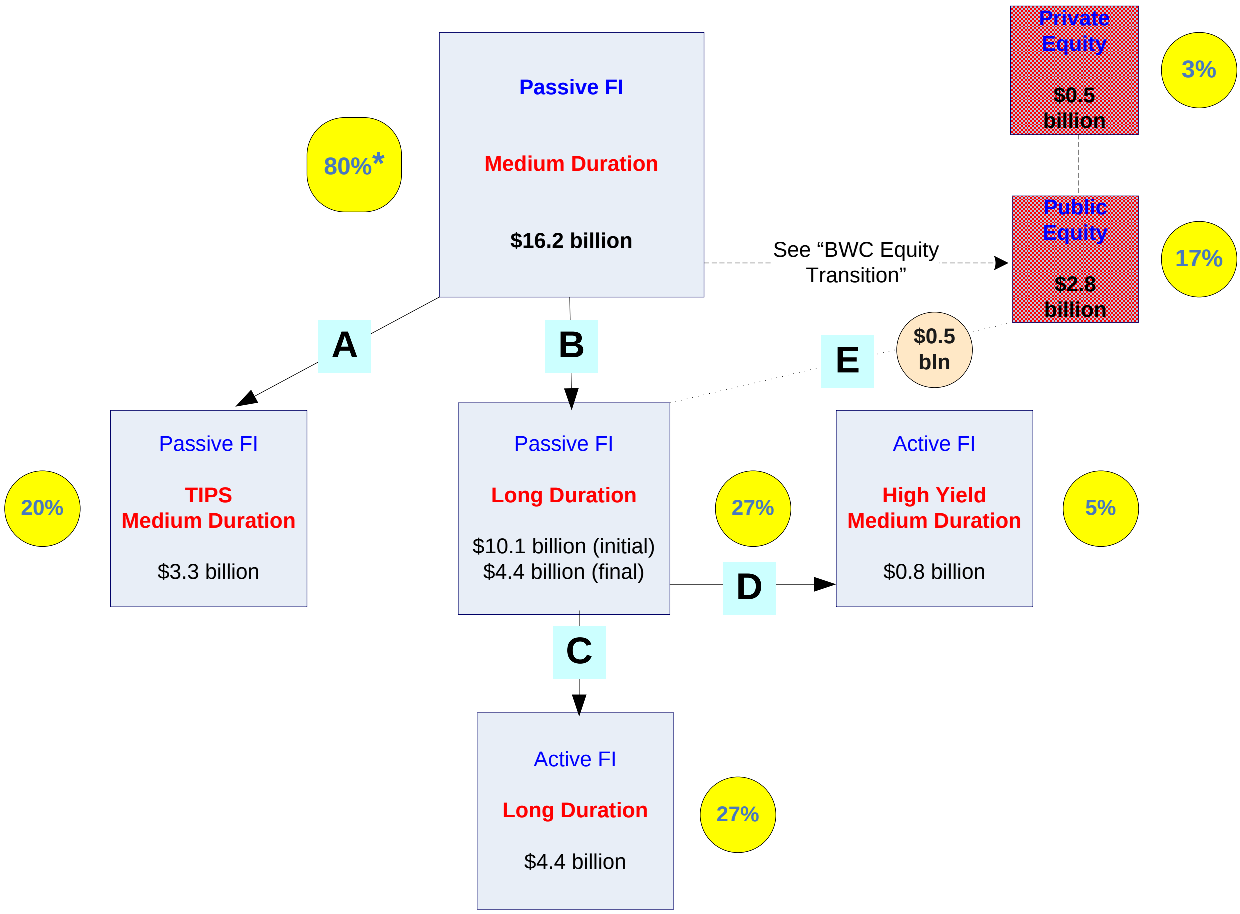
B In-kind transfer to approved S&P 500 Passive Equity Index Manager(s)

C Transition to approved Non-U.S. Passive Equity Manager(s)
[Recommend removal and transfer to Active Non-U.S. Equity Manager(s)]

D Transition to approved Active Non U.S. Equity Manager(s)

E Transition to approved Active U.S. Small/Mid Cap Equity Manager(s)

BWC FIXED INCOME TRANSITION
January 2007



*** BWC will maintain a full 80% fixed income allocation (includes 1% cash) per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

A	Transition to approved TIPS Medium Duration Passive Manager(s)
B	Transition to approved Long Duration Fixed Income Passive Manager(s)
C	Transition to approved Long Duration Fixed Income Active Manager(s)
D	Transition to approved High Yield Fixed Income Active Manager(s)
E	Transition to approved Equity Manager(s) (Represents $0.5 billion holdback until Private Equity sale completed)

BWC INVESTED ASSET SECTOR TRANSITION FUNDS

January 2007

Above excludes Cash Assets targeted at 1% of Total Assets

Above reflects Transition Funds for State Insurance Fund, Disabled Workers Fund and Coal Workers Fund combined

DATE: January 15, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **BWC Investment Asset Allocation Transition Strategy Overview**

The continuing focus of the BWC Investment Division is to achieve target representation of the major asset allocation mandates reflected in the new investment policy as soon as practical. The major asset allocation targets are defined as 80% Fixed Income (54% Long Duration Fixed Income, 20% TIPS, 5% High Yield Fixed Income, 1% Cash) and 20% Equity for each of the three relevant BWC portfolios. The three BWC portfolios subject to these major asset allocation targets are State Insurance Fund (SIF), Disabled Workers Fund (DWRF) and Coal Workers Fund (CWF).

The current strategy is to achieve target asset allocation through several major asset transitions for SIF during the first quarter of 2007. The achievement to target asset allocation for DWRF and CWF is expected to be completed in late 1Q07 or early 2Q07. This strategy will be initially achieved through the utilization exclusively of Passive managed portfolios. Some of these Passive managed portfolios would be interim in nature until appropriate assets are transferred to Active Managers after approval is obtained for each such Active manager by the Workers Compensation Oversight Commission (WCOC). Recommendations of all Passive Managers and Active Managers will be made by the BWC Investment Division and Wilshire Associates upon completion of each specific RFP process/selection.

As presented and endorsed at the December 14, 2006 Investment Committee, top priority is being given to achieving the major asset allocation targets for the large SIF transition portfolio ($14.8 billion) before focusing on achieving the similar major asset allocation targets for the much smaller DWRF ($1.1 billion) and CWF ($230 million) transition portfolios. The transition portfolios for these three BWC portfolios are defined as all assets invested in the customized commingled Ohio Bond Fund passively managed by State Street Bank and Trust Company (State Street) to the medium-duration Lehman Aggregate Index benchmark.

This strategy is designed to transition the maximum amount of BWC invested assets to target asset allocation in the shortest amount of time. Each specific asset transition from Legacy portfolio to Target portfolio involves significant advance planning and support from both Legacy/Target portfolio custodians (State Street and JP Morgan), Legacy/Target portfolio managers, the chosen transition manager, inside/outside counsels and the Ohio Treasurer of State Office. Each such transition is coordinated and overseen by BWC staff across several divisions.

The following is an update on the important steps to achieve these major BWC asset allocation targets. Specific dates for completion of projected transition periods to target asset allocation will not be provided herein to protect the value of BWC assets. The BWC Chief Investment Officer will report on the completion of specific asset allocation transitions to the Investment Committee when appropriate.

(1) **<u>Equity</u>** allocation target achieved for SIF via interim passive management by chosen transition manager of an S&P 500 indexed portfolio in a transition manager separate account custodied at JP Morgan. This SIF transition funded at $2.5 billion from legacy Ohio Bond Fund asset sales represents 17% of Ohio Bond Fund asset value to allow for 3% allocation currently reflected by private equity partnership investments targeted for sale. The S&P 500 stocks managed passively by the transition manager during this interim period for SIF are expected to be transferred in-kind to the Finalist Large Cap Equity passive index manager after approval of such manager by the WCOC. Equity allocation target of 20% for DWRF and CWF portfolios is to be achieved from sale of assets from the Ohio Bond Fund without any need for interim passive management by a transition manager because the Finalist Large Cap Equity manager is expected to be selected by then.

(2) **<u>Fixed Income - TIPS</u>** allocation target of 20% achieved for the three BWC portfolios via investment with approved TIPS passive index manager (State Street Global Advisors) from sale of assets in the Ohio Bond Fund.

(3) **<u>Fixed Income - Long Duration</u>** (LDFI) allocation target of 54% for SIF and DWRF achieved via (A) 27% Passive Manager LDFI target made with combination of Finalist A (State Street) approved at December 14, 2006 WCOC meeting and Finalist B, if approved at January 25, 2007 WCOC meeting, and (B) 27% Active Manager LDFI target investment *made on interim basis* with Finalist A and/or Finalist B until shortly after each Active LDFI manager is approved by the WCOC. The target LDFI allocation for the CWF portfolio is 54% Passive (0% Active) so no interim basis management is necessary. The entire CWF LDFI asset allocation will be achieved with Finalist A and/or Finalist B.

The transition steps described above (adding in 1% cash assumed) address 92% of SIF assets in transition from Legacy Portfolio to target asset allocation (17% Equity, 54% LDFI, 20% TIPS) and 95% of both DWRF and CWF assets in transition from Legacy Portfolio to target asset allocation (20% Equity, 54% LDFI, 20% TIPS). The BWC transition strategy for SIF must have an initial 3% holdback from Equity allocation to reflect approximate 3% asset allocation for private equity investments. The transition steps mentioned above also do not address the 5% Active High Yield Fixed Income target for each of the three portfolios.

It is the desire of the BWC Investment Division to liquidate all assets currently invested in the Ohio Bond Fund legacy portfolio as soon as practical to achieve major target asset allocation for these three portfolios. It is not expected that Active High Yield Fixed Income managers will be selected and approved by the WCOC until June or July 2007. The private equity investments are not expected to be sold until the second quarter 2007.

With the two remaining transition steps outlined below, all funds will be liquidated from the Ohio Bond Fund legacy portfolio.

(A) The Active High Yield Fixed Income allocation target of 5% for each of the portfolios will be invested, *on an interim basis*, with Passive LDFI Finalist A until the active High Yield Fixed Income Managers are chosen and approved by the WCOC.

(B) The 3% equity holdback of SIF transition assets will also be invested, *on an interim basis*, with Passive LDFI Finalist A until such time as the private equity partnerships are sold. Once the private equity investments are sold, an assessment will be made on whether this holdback amount needs to be reallocated to the other major asset classes. This holdback may not need an asset reallocation since the SIF transition assets invested in Fixed Income assets at the time at 82% transition asset allocation are actually at 79% total SIF asset allocation when the actual 3% private equity sale proceeds are directed to the Finalist Passive Large Cap Equity manager.

It is assumed that all Equity investments managed by the Finalist Passive Large Cap equity manager will remain with this manager until such time as 5% is reallocated to Non-U.S. Equity Managers approved and 3% is reallocated to Small/.Mid Cap Equity Managers approved. The remaining 12% Equity allocation will be retained by the Finalist Passive Large Cap Equity manager since it represents the target asset allocation.

OHIO BUREAU OF WORKERS' COMPENSATION
TOTAL FUND
December, 2006
Executive Summary

Market review

Overall, economic reports released in the fourth quarter pointed to a rebound in economic growth. Payrolls increased by an average of 106,000 in October and November compared to an upwardly revised third quarter average of 203,000, while the unemployment rate was 4.5% in November compared with a third quarter average of 4.7%. The four-week average of initial jobless claims edged up through most of the quarter only to come back down to their respectable start-of-the-quarter levels.

Consumer confidence remained healthy through December with the Conference Board Consumer Confidence Index ending the year at its highest level since April. Most manufacturing surveys signaled a slowing in the sector, with the national ISM manufacturing index falling below 50 in November for the first time since April of 2003, before rebounding in December back to 51.4.

Housing data reported in the same period generally suggested that the sector has already begun to bottom out. Existing home sales, which make up roughly 85% of the overall housing market, edged up in both October and November. New homes sales rebounded in November, essentially offsetting the decline reported for the previous month. Also, both September and October new home sales were revised up as August new homes sales were revised down. MBA purchase applications point to further increases in home sales in December. While housing demand has clearly bottomed, housing starts plunged in October and then reversed half of the decline in the following month and building permits continued to fall. Residential construction was a major drag on growth in the fourth quarter, but should be substantially less of a drag in the first quarter of 2007.

The Core CPI was flat in both October and November, pushing down the series' year-on-year increase to 2.6%, versus 2.9% in September. The core PCE deflator increased by 0.2% in October and remained flat in November, translating to a year-on-year increase of 2.2%.
The U.S. Treasury yield curve was slightly more inverted for the quarter, as the spread between two- and five-year Treasury notes ended December at -12 basis points (bps), down from -10 bps at the end of September.

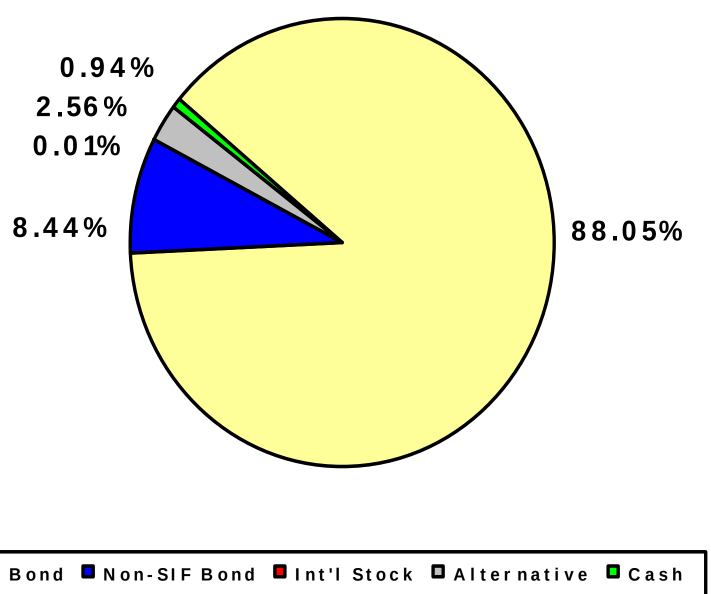
Outlook

We expect real disposable income growth to be above 5.0% in the fourth quarter of 2006 and strong bonus and stock option income growth to boost incomes further in the first quarter of 2007. This should lead to a pick-up in consumption, with solid consumer spending continuing through the second quarter. We look for residential construction to pose less of a drag on the first quarter than it was on the fourth quarter, and for the housing market correction to dissipate by the second quarter. This should set the stage for GDP to remain solid in the second quarter despite a small decline in consumption. The prospect of a Federal Reserve ease should fade by the end of the first half of 2007, with a mild increase of 25 basis points (bps) to the fed funds rate expected by year-end. Over the second half of the year, we anticipate that higher interest rates across the curve will slow growth back to the economy's trend growth rate of about 2.50% - 2.75%.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Portfolio Market Value & Asset Allocation
December, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	$14,780,353,753	88.05%
Non-SIF Bond Total	$1,416,034,230	8.44%
International Stock Total*	$1,518,876	0.01%
Alternative Asset Total	$429,826,088	2.56%
Cash Reserve Total	$157,503,506	0.94%
GRAND TOTAL	**$16,785,236,454**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending December, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total Fund Investments	-0.37%	-0.58%	0.21%	1.30%	1.24%	0.06%	7.15%
Total Fund ex Alternatives	-0.47%	-0.58%	0.11%	1.34%	1.24%	0.10%	7.07%
Non-SIF Bonds	-0.51%	-0.58%	0.07%	1.24%	1.24%	0.00%	5.07%
SIF Bonds	-0.49%	-0.58%	0.09%	1.32%	1.24%	0.08%	5.44%
International Stocks	0.28%	N/A	N/A	-4.76%	N/A	N/A	5.16%
Alternative	3.32%	N/A	N/A	-0.12%	N/A	N/A	6.75%
Cash	2.24%	0.44%	1.80%	3.25%	1.26%	1.99%	7.87%
Tranche #3 - TM	-12.24%	-0.58%	-11.66%	2.17%	1.24%	0.93%	2.30%

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

As a result of fee reversals credited to the Alternative Asset investments. Net investment manager fees for the period contributed to an increase in performance by 1 basis point at the Total Fund level.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending December, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total Fund Investments	-0.38%	-0.58%	0.20%	1.30%	1.24%	0.06%	7.23%
Total Fund ex Alternatives	-0.47%	-0.58%	0.11%	1.34%	1.24%	0.10%	7.18%
Non-SIF Bonds	-0.51%	-0.58%	0.07%	1.24%	1.24%	0.00%	5.07%
SIF Bonds	-0.49%	-0.58%	0.09%	1.32%	1.24%	0.08%	5.44%
International Stocks	0.28%	N/A	N/A	-4.76%	N/A	N/A	5.16%
Alternative	3.25%	N/A	N/A	-0.14%	N/A	N/A	6.75%
Cash	2.24%	0.44%	1.80%	3.32%	1.26%	2.06%	8.72%
Tranche #3 - TM	-12.24%	-0.58%	-11.66%	2.17%	1.24%	0.93%	2.30%

BENCHMARK INFORMATION:

•Lehman Brothers Aggregate Index

•M.L. 3 Month US T-Bill

Summary of Monthly Performance Attribution:

•BWC's Total Fund out performed its' Benchmark by 0.20% for the period.

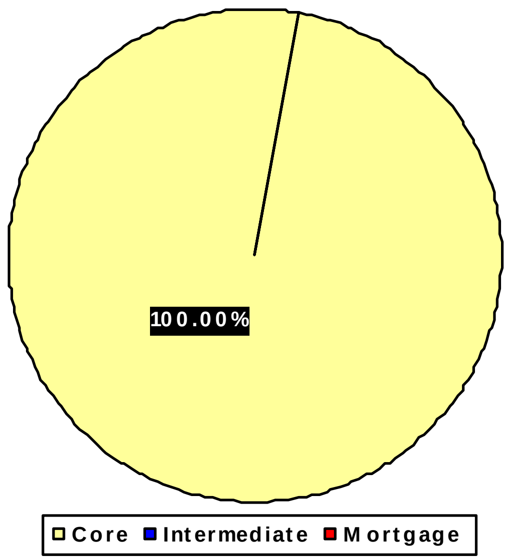
•Performance Relative to Benchmark:

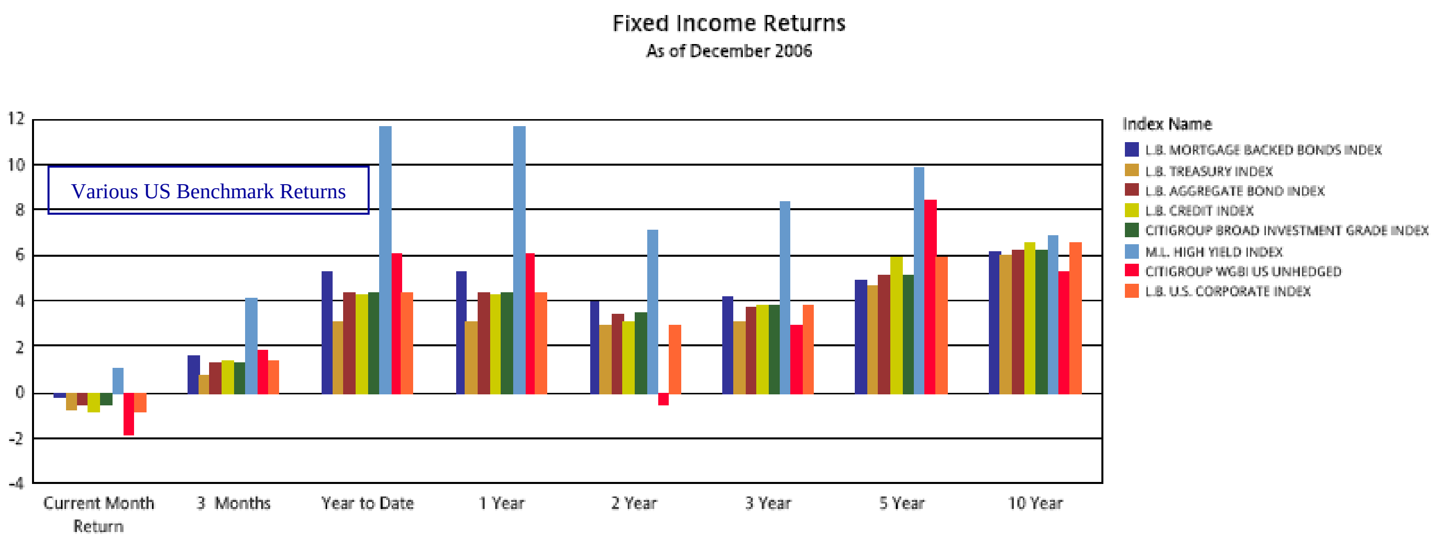
(+) BWC's Non-SIF Bond Portfolio out performed its' Benchmark for the current period.

(+) BWC's SIF Bond Portfolio out performed its' Benchmark for the current period.

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Fixed Income Allocation & Returns
December, 2006

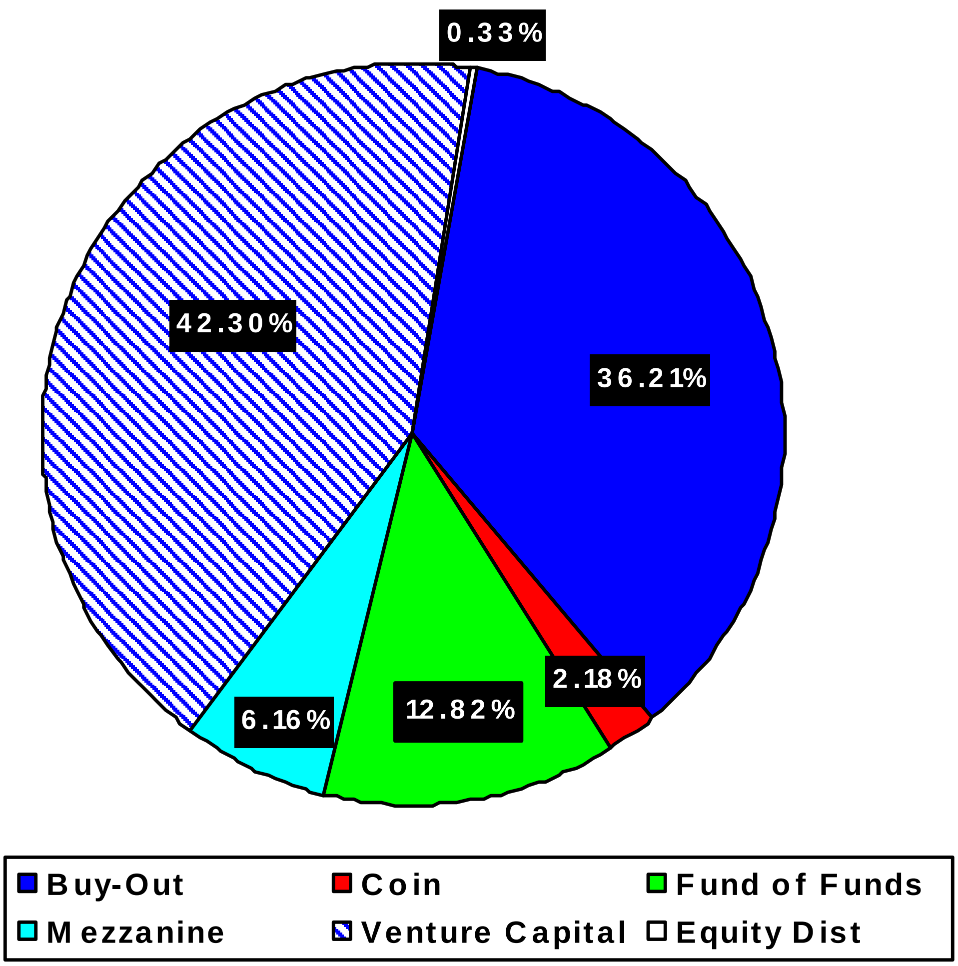




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Alternative Asset Allocation
December, 2006



Ohio Bureau of Workers' Compensation
TOTAL FUND
Fees Paid in the month of
December, 2006

Manager	Type	Fees Paid		Period Paid for
Quad C Partners VI	Private Equity	-$203,097.00		4Q 2006
Smith Whiley Pelham FD II	Private Equity	$43,764.00	*	4Q 2006
Carlyle Venture Partners II	Private Equity	$207,427.00	*	4Q 2006
Rosement Investment Prts II	Private Equity	$63,499.85	*	4Q 2006
Total Fees Paid		**$111,593.85**		

* Revisions of fees paid to managers from prior periods

OHIO BUREAU OF WORKERS' COMPENSATION
State Insurance Fund
December, 2006
Executive Summary

Market review

Overall, economic reports released in the fourth quarter pointed to a rebound in economic growth. Payrolls increased by an average of 106,000 in October and November compared to an upwardly revised third quarter average of 203,000, while the unemployment rate was 4.5% in November compared with a third quarter average of 4.7%. The four-week average of initial jobless claims edged up through most of the quarter only to come back down to their respectable start-of-the-quarter levels.

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Housing data reported in the same period generally suggested that the sector has already begun to bottom out. Existing home sales, which make up roughly 85% of the overall housing market, edged up in both October and November. New homes sales rebounded in November, essentially offsetting the decline reported for the previous month. Also, both September and October new home sales were revised up as August new homes sales were revised down. MBA purchase applications point to further increases in home sales in December. While housing demand has clearly bottomed, housing starts plunged in October and then reversed half of the decline in the following month and building permits continued to fall. Residential construction was a major drag on growth in the fourth quarter, but should be substantially less of a drag in the first quarter of 2007.

The Core CPI was flat in both October and November, pushing down the series' year-on-year increase to 2.6%, versus 2.9% in September. The core PCE deflator increased by 0.2% in October and remained flat in November, translating to a year-on-year increase of 2.2%.
The U.S. Treasury yield curve was slightly more inverted for the quarter, as the spread between two- and five-year Treasury notes ended December at -12 basis points (bps), down from -10 bps at the end of September.

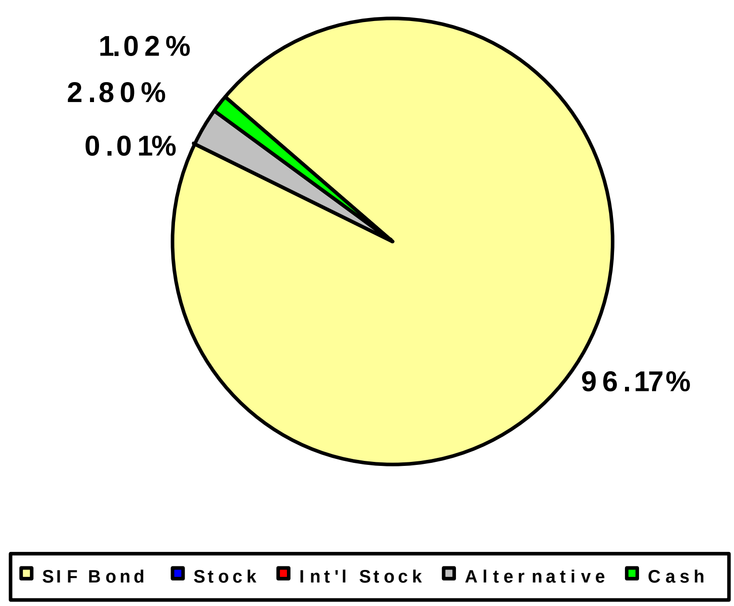
Outlook

We expect real disposable income growth to be above 5.0% in the fourth quarter of 2006 and strong bonus and stock option income growth to boost incomes further in the first quarter of 2007. This should lead to a pick-up in consumption, with solid consumer spending continuing through the second quarter. We look for residential construction to pose less of a drag on the first quarter than it was on the fourth quarter, and for the housing market correction to dissipate by the second quarter. This should set the stage for GDP to remain solid in the second quarter despite a small decline in consumption. The prospect of a Federal Reserve ease should fade by the end of the first half of 2007, with a mild increase of 25 basis points (bps) to the fed funds rate expected by year-end. Over the second half of the year, we anticipate that higher interest rates across the curve will slow growth back to the economy's trend growth rate of about 2.50% - 2.75%.

Ohio Bureau of Workers' Compensation
State Insurance Fund
Portfolio Market Value & Asset Allocation
December, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	$14,780,353,753	96.17%
International Stock Total*	$1,518,876	0.01%
Alternative Asset Total	$429,826,088	2.80%
Cash Reserve Total	$157,503,506	1.02%
GRAND TOTAL	**$15,369,202,223**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

JPMorgan

Ohio Bureau of Workers' Compensation
State Insurance Fund
Performance Measures
For the Month Ending December, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total SIF Investments	-0.36%	-0.58%	0.22%	1.30%	1.24%	0.06%	6.89%
Total SIF ex Alternatives	-0.46%	-0.58%	0.12%	1.35%	1.24%	0.11%	6.81%
SIF Bonds	-0.49%	-0.58%	0.09%	1.32%	1.24%	0.08%	5.44%
International Stocks	0.28%	N/A	N/A	-4.76%	N/A	N/A	5.16%
Alternative	3.32%	N/A	N/A	-0.12%	N/A	N/A	6.75%
Cash	2.24%	0.44%	1.80%	3.25%	1.26%	1.99%	7.87%
Tranche #3 - TM	-12.24%	-0.58%	-11.66%	2.17%	1.24%	0.93%	2.30%

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

Summary of Investment Manager Fee Impact:

- Investment Manager fees had no impact on the performance of the SIF for the period

Ohio Bureau of Workers' Compensation
State Insurance Fund
Performance Measures
For the Month Ending December, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total SIF Investments	-0.36%	-0.58%	0.22%	1.30%	1.24%	0.06%	6.97%
Total SIF ex Alternative	-0.46%	-0.58%	0.12%	1.35%	1.24%	0.11%	6.88%
SIF Bonds	-0.49%	-0.58%	0.09%	1.32%	1.24%	0.08%	5.44%
International Stocks	0.28%	N/A	N/A	-4.76%	N/A	N/A	5.16%
Alternative	3.25%	N/A	N/A	-0.14%	N/A	N/A	6.75%
Cash	2.24%	0.44%	1.80%	3.32%	1.26%	2.06%	8.72%
Tranche #3 - TM	-12.24%	-0.58%	-11.66%	2.17%	1.24%	0.93%	2.30%

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

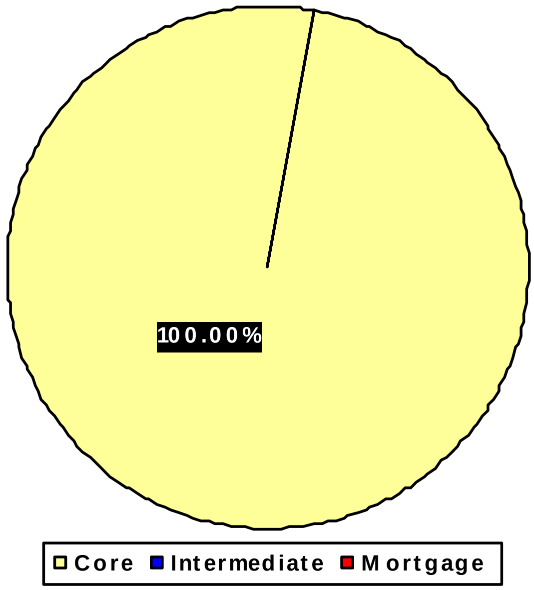
Summary of Monthly Performance Attribution:

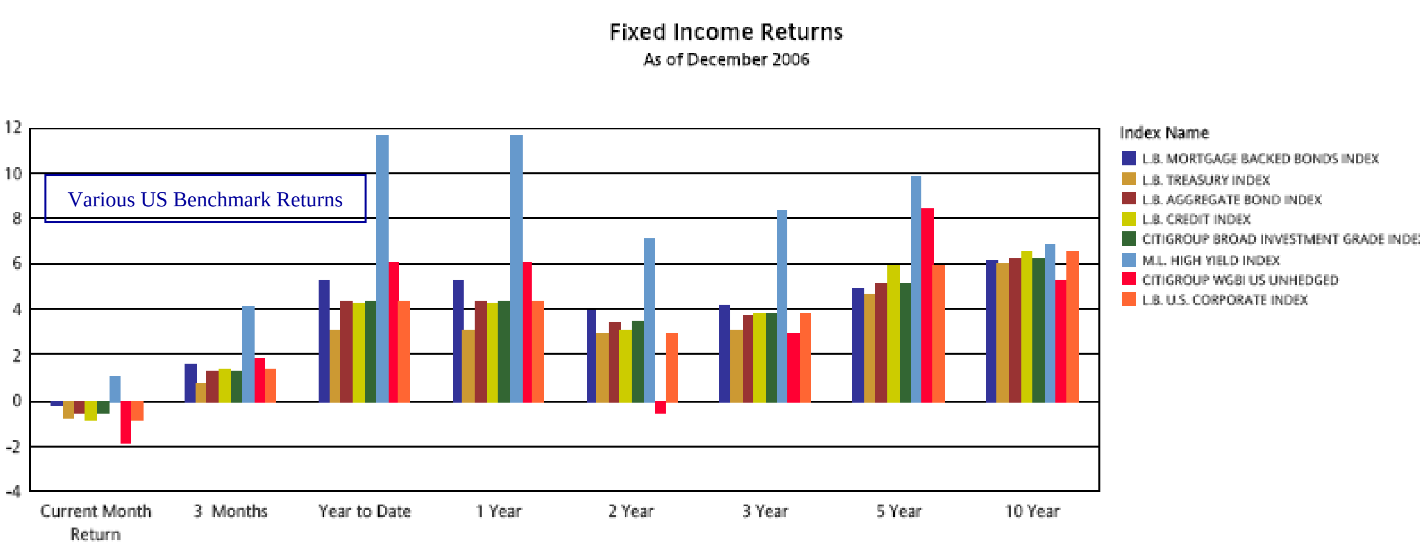
- **BWC's Total SIF performed underperformed its' Benchmark by 0.22% for the period.**
- **Performance Relative to Benchmark Performance:**

  (+) BWC's SIF Bond Portfolio out performed its' Benchmark for the current period.

JPMorgan

Ohio Bureau of Workers' Compensation
State Insurance Fund
Fixed Income Allocation & Returns
December, 2006

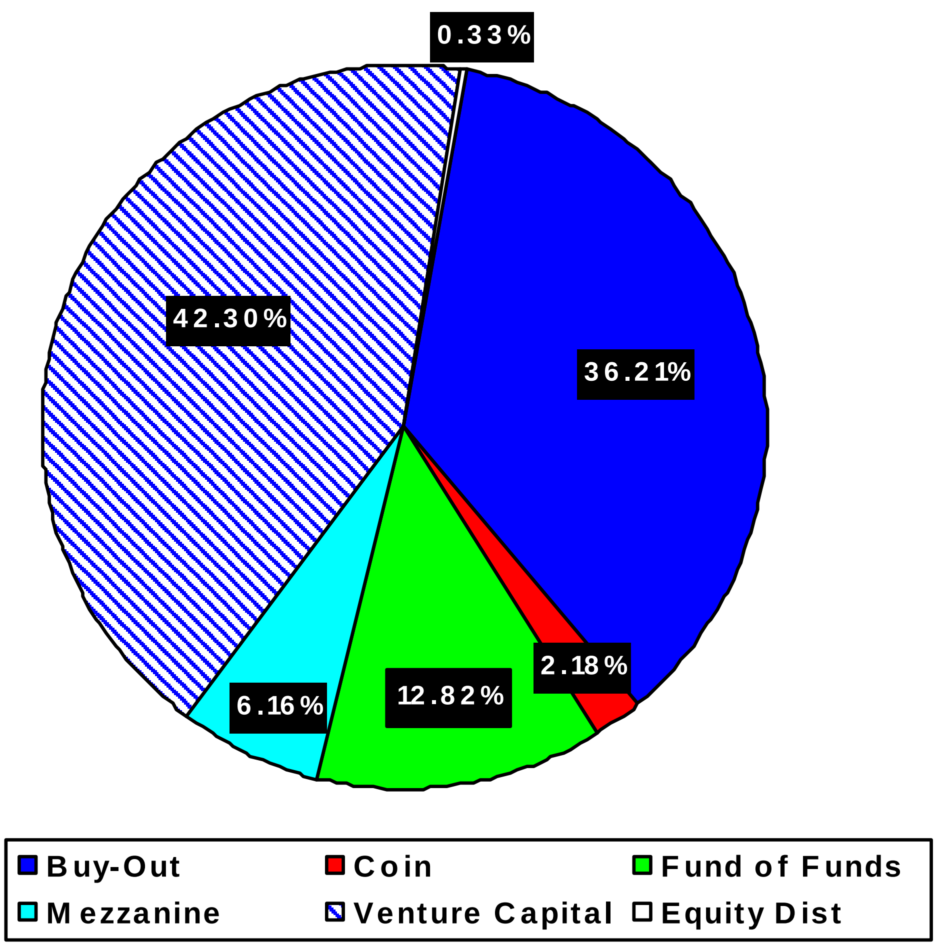




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
State Insurance Fund
Alternative Asset Allocation
December, 2006



Ohio Bureau of Workers' Compensation
State Insurance Fund
Fees Paid in the month of
December, 2006

Manager	Type	Fees Paid		Period Paid for
Quad C Partners VI	Private Equity	-$203,097.00		4Q 2006
Smith Whiley Pelham FD II	Private Equity	$43,764.00	*	4Q 2006
Carlyle Venture Partners II	Private Equity	$207,427.00	*	4Q 2006
Rosement Investment Prts II	Private Equity	$63,499.85	*	4Q 2006
Total Fees Paid		**$111,593.85**		

* Revisions of fees paid to managers from prior periods

OHIO BUREAU OF WORKERS' COMPENSATION
TOTAL FUND
November, 2006
Executive Summary

Market review

On balance, the economic reports released in November were mixed. Labor market conditions remained tight, with payrolls rising by a moderate 92,000 in October and the previous two months being revised up by an impressive 139,000. The three-month average of the series currently stands at 157,000, versus 115,000 at the end of the second quarter. Similarly, the unemployment rate edged down to a new cycle-low of 4.4%. However, initial jobless claims data increased throughout the month, with the four-week average climbing to 325,000, compared to 311,750 at the beginning of the month. Nevertheless, this should not necessarily be viewed as the start of an uptrend in the series, as the jump was likely the result of distortions caused by seasonal adjustments and temporary holiday layoffs.

Although both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment gauges slipped slightly throughout the month, they both remain at healthy levels given the standards of the past few years. In addition, the ABC Consumer Confidence Index currently stands at its highest level for the cycle. Although most regional manufacturing surveys were consistent with an ISM level of above 50, the national ISM manufacturing survey dipped below 50 for the first time since April 2003, raising concerns about the performance of that sector within the coming months.

Overall, housing data released throughout the month suggested that the worst in the housing market correction is now behind us. Existing home sales, which account for 85% of the housing market, rose for the first time in six months, while the median price in new home sales rebounded noticeably. MBA purchase applications were also up three out of the four weeks in November as mortgage interest rates edged down to their lowest level since January. Although demand has stabilized, building activity continues to decline as shown in the monthly housing starts data; however, this trend should level off in the next couple of months. Also, while nonresidential construction spending data came in weaker than expected in nominal terms, we believe that some of the drop may have been price-related.

Inflation pressures moderated in October with the core CPI edging up by a modest 0.1% – the series' smallest monthly gain since June of last year. On a three-month annualized basis, the index is now up only 2.3%, versus 2.7% in September. The core PCE deflator edged up by another 0.2% in the same period, leaving its year-on-year increase unchanged at 2.4%. The U.S. Treasury yield curve was slightly more inverted over the month, as the spread between two- and five-year Treasury notes ended November at -16 basis points (bps), down from -13 bps at the end of October.

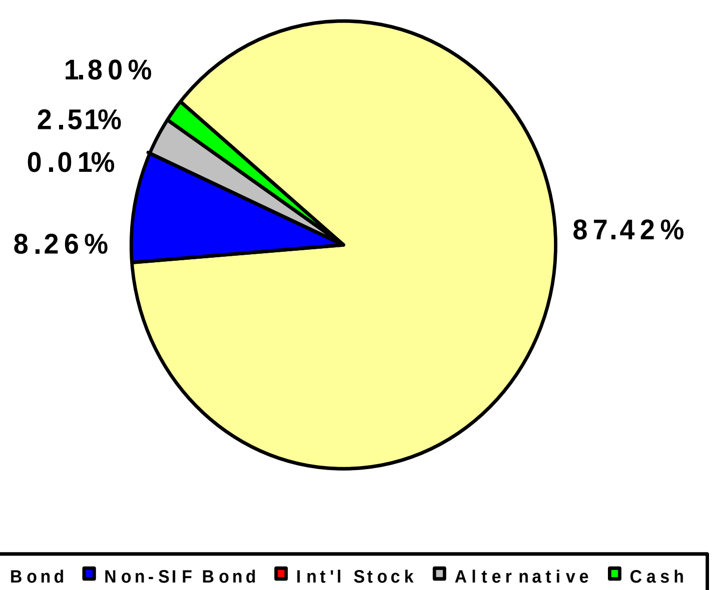
Outlook

We expect the Federal Reserve to stay on hold through the first quarter of next year, with the possibility of a move dependent on the degree of spillover from the housing market correction. We expect fourth quarter GDP growth to be similar to the third quarter – between 2.0% and 2.5% – with inventories and residential construction posing a significant drag and net exports, state and local government spending and capital spending adding to growth. Based on October's consumption data, we look for personal consumption expenditures to rebound to above 3.0% in the fourth quarter. We also anticipate the housing market correction to dissipate by the end of the second quarter next year.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Portfolio Market Value & Asset Allocation
November, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	$15,111,404,292	87.42%
Non-SIF Bond Total	$1,427,408,052	8.26%
International Stock Total*	$1,514,623	0.01%
Alternative Asset Total	$433,571,001	2.51%
Cash Reserve Total	$310,836,002	1.80%
GRAND TOTAL	**$17,284,733,970**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending November, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total Fund Investments	1.03%	1.16%	-0.13%	2.55%	2.72%	-0.17%	8.88%
Total Fund ex Alternatives	1.15%	1.16%	-0.01%	2.70%	2.72%	-0.02%	8.87%
Non-SIF Bonds	1.14%	1.16%	-0.02%	2.65%	2.72%	-0.07%	6.39%
SIF Bonds	1.15%	1.16%	-0.01%	2.72%	2.72%	0.00%	5.96%
International Stocks	2.78%	N/A	N/A	-6.44%	N/A	N/A	9.99%
Alternative	-3.39%	N/A	N/A	-2.85%	N/A	N/A	4.40%
Cash	0.63%	0.43%	0.20%	1.57%	1.27%	0.30%	5.91%
Tranche #3 - TM	2.50%	1.16%	1.34%	4.79%	2.72%	2.07%	N/A

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

Summary of Investment Manager Fee Impact:

- Investment Manager fees had no impact on the performance of the Total Fund for the period

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending November, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total Fund Investments	1.03%	1.16%	-0.13%	2.56%	2.72%	-0.16%	8.98%
Total Fund ex Alternatives	1.15%	1.16%	-0.01%	2.70%	2.72%	-0.02%	9.00%
Non-SIF Bonds	1.14%	1.16%	-0.02%	2.65%	2.72%	-0.07%	6.39%
SIF Bonds	1.15%	1.16%	-0.01%	2.72%	2.72%	0.00%	6.90%
International Stocks	2.78%	N/A	N/A	-6.44%	N/A	N/A	10.06%
Alternative	-3.34%	N/A	N/A	-2.80%	N/A	N/A	4.40%
Cash	0.63%	0.43%	0.20%	1.71%	1.27%	0.44%	6.75%
Tranche #3 - TM	2.50%	1.16%	1.34%	4.79%	2.72%	2.07%	N/A

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

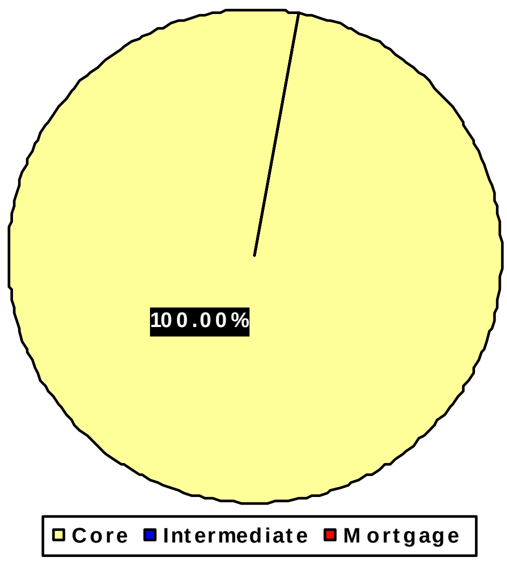
Summary of Monthly Performance Attribution:

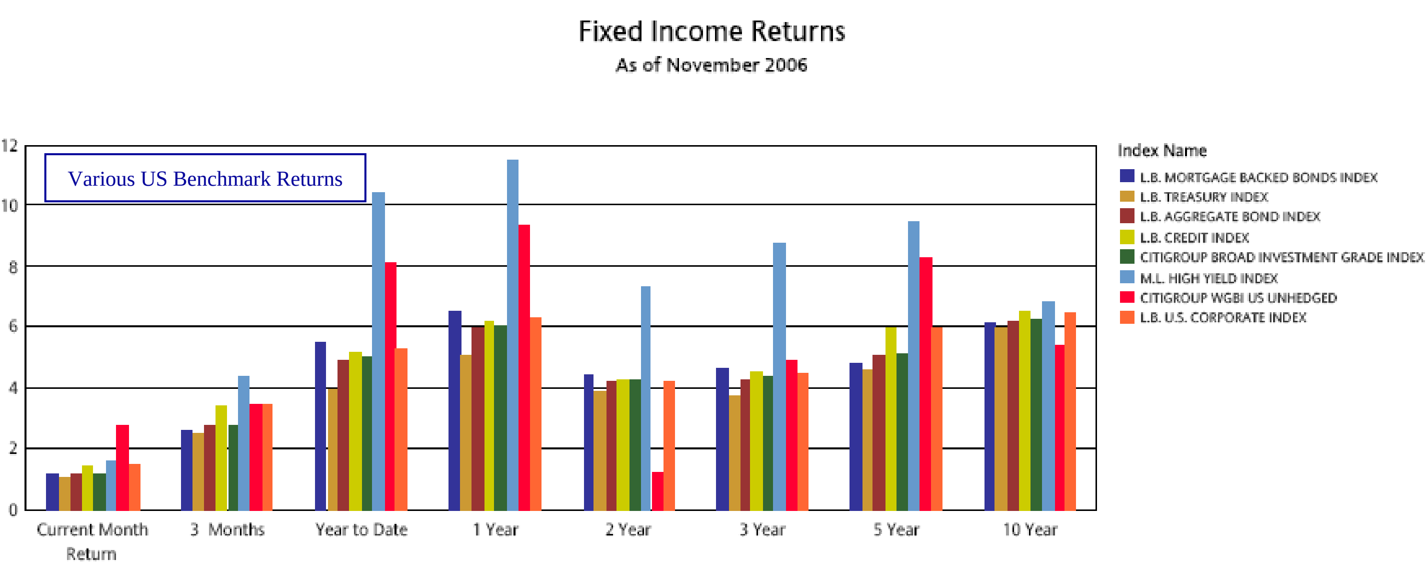
- **BWC's Total Fund underperformed its' Benchmark by 0.13% for the period.**
- **Performance Relative to Benchmark:**

  (-) BWC's Non-SIF Bond Portfolio underperformed its' Benchmark for the current period.

  (-) BWC's SIF Bond Portfolio underperformed its' Benchmark for the current period.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Fixed Income Allocation & Returns
November, 2006

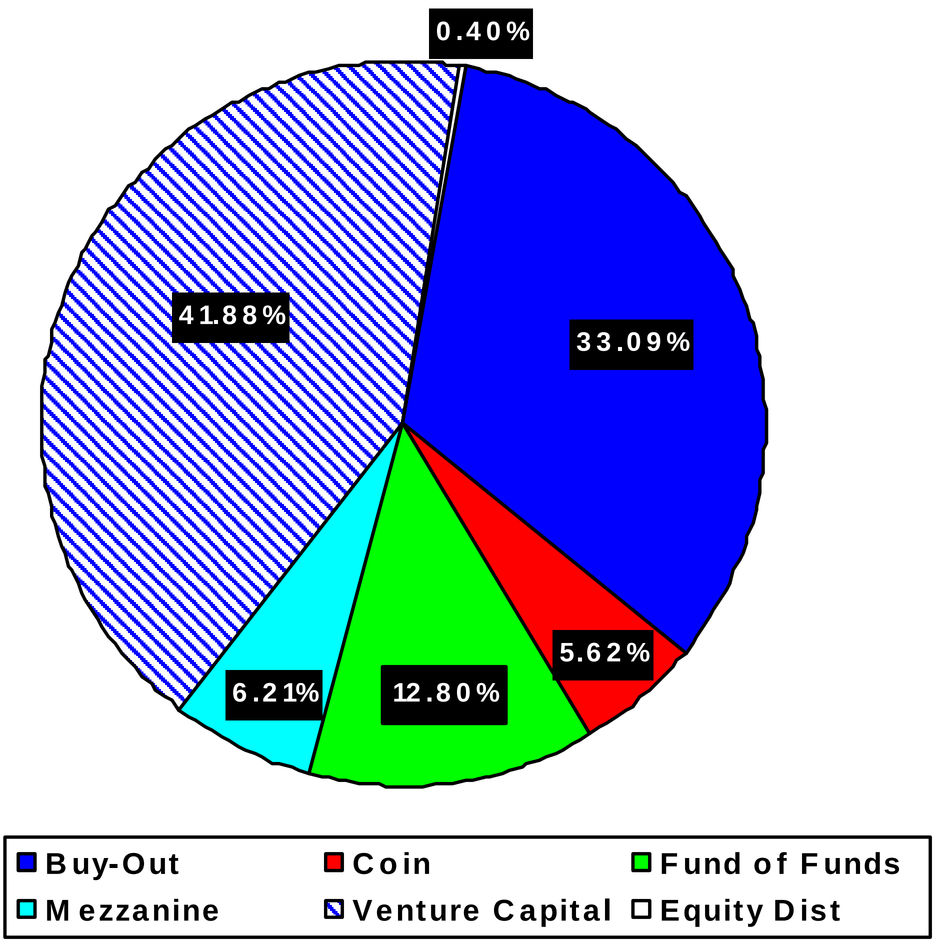




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Alternative Asset Allocation
November, 2006



JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Fees Paid in the month of November, 2006

Manager	Type	Fees Paid	Period Paid for
Smith Whiley Pelham FD II	Private Equity	$43,764.00	4Q 2006
Carlyle Venture Partners II	Private Equity	$207,427.00	4Q 2006
Rosemont Investment Prts II	Private Equity	$63,499.85	4Q 2006
Total Fees Paid		**$314,690.85**	

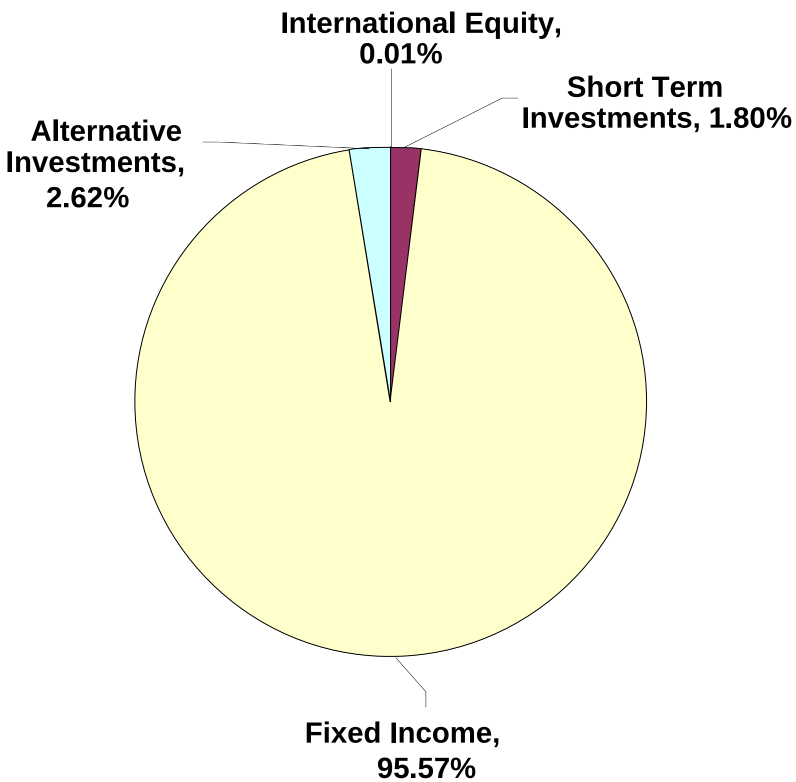
Ohio Bureau of Workers' Compensation

December 2006 Monthly Performance Flash Report

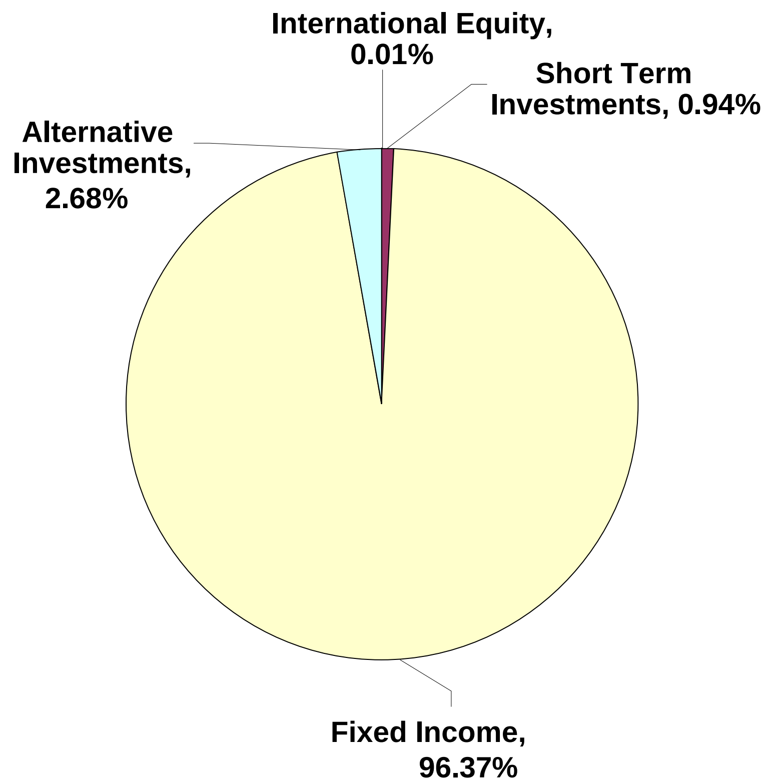
WILSHIRE CONSULTING

Asset Allocation – State Insurance Fund

As of November 30, 2006



As of December 31, 2006



Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 12/31/06

Manager	Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ohio BWC Total Fund ex Alts	-0.47	1.15	1.34	1.34			16,355,410	97.00
Ohio BWC Total Fund	-0.45	1.12	1.30	1.30	6.22	6.22	16,805,483	100.00
Total Fund Policy	-0.58	1.16	1.24	1.24	5.80	5.80		
State Insurance Fund ex Alts	-0.46	1.15	1.35	1.35			14.939,376	88.89
State Insurance Fund	-0.45	1.12	1.31	1.31	6.34	6.34	15,389,449	91.57
SIF Custom Policy	-0.58	1.16	1.24	1.24	5.80	5.80		
Ancillary Composite	-0.51	1.14	1.24	1.24	4.91	4.91	1,416,034	8.43
Lehman Aggregate	-0.58	1.16	1.24	1.24	4.33	4.33		
Indices								
91 Day T-Bill Index	0.41	0.43	1.24	1.24	4.83	4.83		
Lehman Aggregate	-0.58	1.16	1.24	1.24	4.33	4.33		
Standard & Poor's 500	1.40	1.90	6.70	6.70	15.81	15.81		
DJ Wilshire 5000	1.17	2.26	7.20	7.20	15.77	15.77		
MSCI EAFE Index (N)	3.14	2.99	10.35	10.35	26.34	26.34		

Returns are preliminary and subject to change.

State Insurance Total Fund
Monthly Performance and Market Value Summary
Periods Ended 12/31/06

Manager	Net of Fee Returns: Month	Prior Month	QTD	3 Months	YTD	1 Year	Market Value: $(000)	Percent
State Insurance Fund ex Alts	-0.46	1.15	1.35	1.35			14,939,376	97.08
State Insurance Fund	-0.45	1.12	1.31	1.31	6.34	6.34	15,389,449	100.00
SIF Custom Policy	-0.58	1.16	1.24	1.24	5.80	5.80		
SSgA Passive Agg Bond SI CTF	-0.49	1.15	1.32	1.32			14,774,790	96.01
Lehman Aggregate	-0.58	1.16	1.24	1.24				
Cash Composite	2.24	0.63	3.26	3.26	8.11	8.11	157,504	1.02
91-Day Treasury Bill	0.41	0.43	1.24	1.24	4.81	4.81		
Alternative Investments Composite	0.02	N/A	0.02	0.02	8.52	8.52	448,675	2.92
Restricted Stock - Liquidation	-5.70	0.01	1.41	1.41			1,397	0.01
Tranche #3							7,067	0.05
Tranche #4 - International Equity							15	0.00
Indices								
91 Day T-Bill Index	0.41	0.43	1.24	1.24	4.83	4.83		
Lehman Aggregate	-0.58	1.16	1.24	1.24	4.33	4.33		
Standard & Poor's 500	1.40	1.90	6.70	6.70	15.81	15.81		
DJ Wilshire 5000	1.17	2.26	7.20	7.20	15.77	15.77		
MSCI EAFE Index (N)	3.14	2.99	10.35	10.35	26.34	26.34		

Returns are preliminary and subject to change.

Ancillary Funds
Monthly Performance and Market Value Summary
Periods Ended 12/31/06

Manager	Net of Fee Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ancillary Composite	-0.51	1.14	1.24	1.24	4.91	4.91	1,416,034	100.00
Lehman Aggregate	-0.58	1.16	1.24	1.24	4.33	4.33		
Black Lung 2000	-0.59	1.16	1.22	1.22	4.75	4.75	232,856	16.44
Disabled Workers Retirement	-0.53	1.16	1.24	1.24	4.96	4.96	1,104,276	77.98
Marine 2005	-0.56	1.13	1.22	1.22	4.77	4.77	15,541	1.10
Public Workers Relief Fund	-0.58	1.15	1.22	1.22	4.61	4.61	21,424	1.51
Self Insured Bond Fund 200	0.44	0.42	1.30	1.30	4.97	4.97	41,938	2.96
Indices								
91 Day T-Bill Index	0.41	0.43	1.24	1.24	4.83	4.83		
Lehman Aggregate	-0.58	1.16	1.24	1.24	4.33	4.33		
Standard & Poor's 500	1.40	1.90	6.70	6.70	15.81	15.81		
DJ Wilshire 5000	1.17	2.26	7.20	7.20	15.77	15.77		
MSCI EAFE Index (N)	3.14	2.99	10.35	10.35	26.34	26.34		

Returns are preliminary and subject to change.

Custom Policy Benchmark Transition – State Insurance Fund

SIF Policy Benchmark Transition			
Start	**End**	**Percent**	**Description**
11/30/2005	1/31/2006	100%	Pre-Transition Policy
1/31/2006	2/28/2006	50%	Pre-Transition Policy
		50%	Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark	
S&P 500 Index	29%
MSCI EAFE Index	11%
Lehman Aggregate	57%
91 - Day T-Bill	3%

Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	**Domestic Equity**	**Domestic Equity**	**International Equity**
Manager	*Apex Capital Management, Inc.* *Bahl & Gaynor Investment Counsel* *Delancey Capital Group* *Gratry & Company* *Gries Financial LLC* *Charter Financial Group* *CIC Asset Management* *Dana Investment Advisors, Inc.* *Edgar Lomax Company* *JPMorgan Investment Management, Inc.* *Eubel Brady & Suttman Asset Management* *Cordillera Asset Management* *Fortaleza Asset Management, Inc.* *Great Northern Asset Management, Inc.* *GW Capital, Inc.* *Ariel Capital Management* *Buckhead Capital* *Daruma Asset Management, Inc.* *Ironwood Capital Management, LLC*	*ING Investment Management - Aeltus* *Lakepoint Investment Partners* *Lazard Asset Management* *Lynmark Capital Group, Inc* *New Amsterdam Partners, LLC.* *Rutland Dickson Asset Management* *Swarthmore Group* *Nottinghill Investment Advisers, Ltd.* *Paradigm Asset Management* *Putnam Advisory Company, Inc* *Sturdivant & Company, Inc.* *Union Heritage Capital Management* *Victory Capital Management Inc.* *Putnam Advisory Company, Inc* *James Investment Research, Inc.* *Quantum Legacy Capital Management, LLC* *Renaissance Investment Management* *Riverbridge Partners LLC* *UBS Global Asset Management, Inc* *Veredus Asset Management* *Loomis Sayles & Co., L.P.* *Opus Capital Management, Inc.* *Penn Capital Management Co., Inc.* *R. Meeder & Associates* *Tamro Capital Partners LLC* *Piedmont Investment Advisors, LLC (fixed income)*	*ING Investment Management* *Capital Gaurdian* *Clay Findlay* *Invesco Global* *Perigee (aka Legg Mason)* *Simms Capital Asset Management* *Lombard Odier* *Montgomery Int'l* *Oeschle* *Putnam Institutional* *Societe General Investment Management*

Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	**Domestic & International Equity**	**Fixed Income**	**Ancillary**
Manager	*State Street Global EAFE Index CTF* *SSgA S&P 500 Index CTF*	*Blackrock* *Pugh Capital Management* *Smith Graham Management* *Advent Capital Management* *Alliance Capital* *Blaylock Abacus Financial Group, Inc.* *John Hancock Advisers, LLC.* *LM Capital Group, LLC* *Morgan Stanley Investments LP* *Prima Capital Advisors* *Reams Capital Management, LLC* *Wasmer, Schroeder and Company, LLC* *Western Asset Management* *Banc One Managed 1030* *Fairport Asset Management, LLC* *Holland Capital Management* *Hughes Capital Management* *Taplin, Canida & Habacht*	*Self Insured Bond Fund 200* *Public Workers Relief Fund* *Marine Account 2005* *Disabled Workers Retirement* *Black Lung 2000*

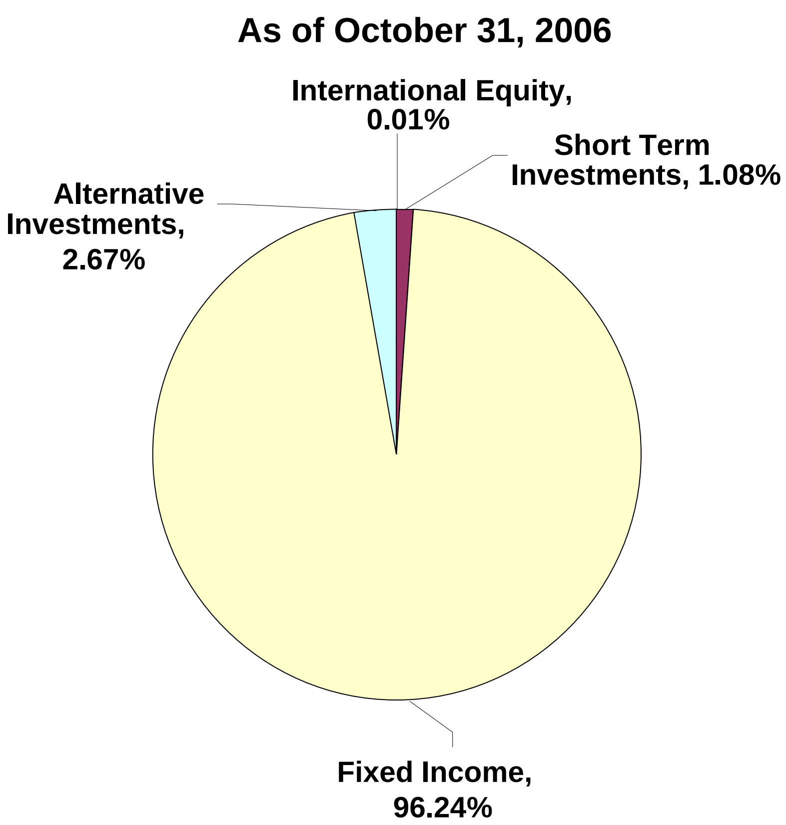
Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

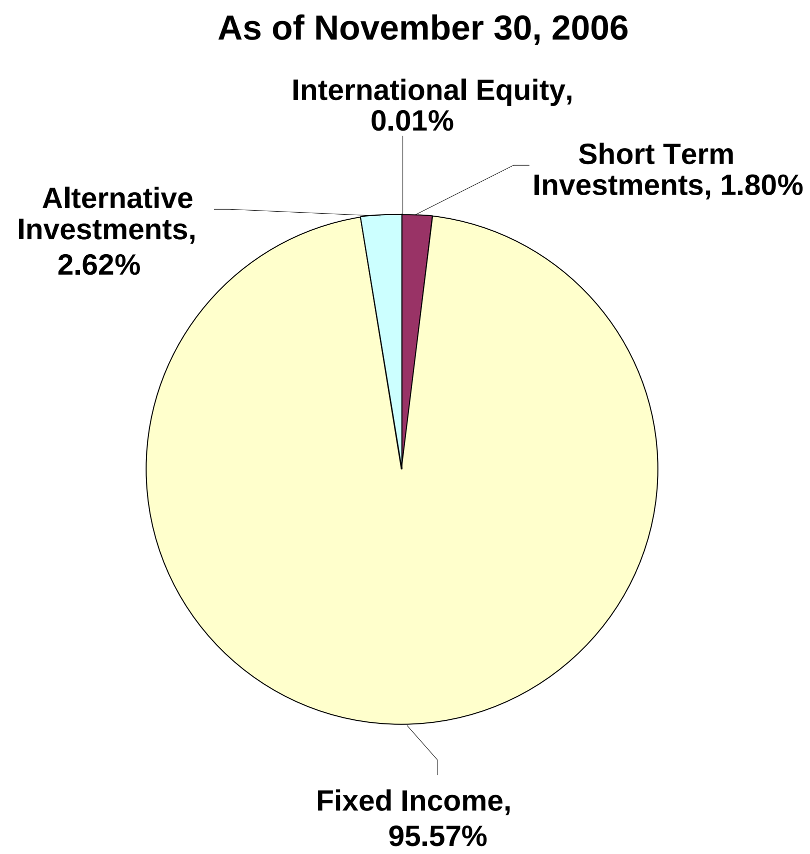
Ohio Bureau of Workers' Compensation

November 2006 Monthly Performance Flash Report

WILSHIRE CONSULTING

Asset Allocation – State Insurance Fund





Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 11/30/06

Manager	Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ohio BWC Total Fund ex Alts	1.15	0.66	1.81	2.70			16,851,163	97.38
Ohio BWC Total Fund	1.12	0.64	1.77	2.70	6.70	8.03	17,304,726	100.00
Total Fund Policy	1.16	0.66	1.83	2.72	6.42	7.56		
State Insurance Fund ex Alts	1.15	0.66	1.82	2.70			15,423,755	89.13
State Insurance Fund	1.12	0.64	1.77	2.70	6.82	8.20	15,877,318	91.75
SIF Custom Policy	1.16	0.66	1.83	2.72	6.42	7.56		
Ancillary Composite	1.14	0.62	1.76	2.65	5.44	6.22	1,427,408	8.25
Lehman Aggregate	1.16	0.66	1.83	2.72	4.94	5.94		
Indices								
91 Day T-Bill Index	0.43	0.39	0.83	1.27	4.40	4.72		
Lehman Aggregate	1.16	0.66	1.83	2.72	4.94	5.94		
Standard & Poor's 500	1.90	3.26	5.22	7.94	14.21	14.25		
DJ Wilshire 5000	2.26	3.63	5.97	8.29	14.44	14.59		
MSCI EAFE Index (N)	2.99	3.89	6.99	7.16	22.49	28.19		

Returns are preliminary and subject to change. Alternative investment returns are calculated quarterly and provided in a separate report.

State Insurance Total Fund
Monthly Performance and Market Value Summary
Periods Ended 11/30/06

Manager	Net of Fee Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
State Insurance Fund ex Alts	1.15	0.66	1.82	2.70			15,423,755	99.08
State Insurance Fund	1.12	0.64	1.77	2.70	6.82	8.20	15,566,482	100.00
SIF Custom Policy	1.16	0.66	1.83	2.72	6.42	7.56		
SSgA Passive Agg Bond SI CTF	1.15	0.66	1.82	2.72			15,098,397	96.99
Lehman Aggregate	1.16	0.66	1.83	2.72				
Cash Composite	0.63	0.37	1.00	1.58	5.75	6.15	310,836	2.00
91-Day Treasury Bill	0.43	0.39	0.82	1.27	4.38	4.70		
Alternative Investments Composite	N/A	N/A	N/A	2.66	8.50		451,827	2.90
Restricted Stock - Liquidation	0.01	7.52	7.54	11.31			1,735	0.01
Tranche #3							14,507	0.09
Tranche #4 - International Equity							15	0.00
Indices								
91 Day T-Bill Index	0.43	0.39	0.83	1.27	4.40	4.72		
Lehman Aggregate	1.16	0.66	1.83	2.72	4.94	5.94		
Standard & Poor's 500	1.90	3.26	5.22	7.94	14.21	14.25		
DJ Wilshire 5000	2.26	3.63	5.97	8.29	14.44	14.59		
MSCI EAFE Index (N)	2.99	3.89	6.99	7.16	22.49	28.19		

Returns are preliminary and subject to change. Alternative investment returns are calculated quarterly and provided in a separate report.

Ancillary Funds
Monthly Performance and Market Value Summary
Periods Ended 11/30/06

Manager	Net of Fee Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ancillary Composite	1.14	0.62	1.76	2.65	5.44	6.22	1,427,408	100.00
Lehman Aggregate	1.16	0.66	1.83	2.72	4.94	5.94		
Black Lung 2000	1.16	0.66	1.82	2.72	5.37	6.22	234,345	16.42
Disabled Workers Retirement	1.16	0.61	1.78	2.68	5.51	6.27	1,112,593	77.94
Marine 2005	1.13	0.65	1.79	2.68	5.36	6.13	15,621	1.09
Public Workers Relief Fund	1.15	0.65	1.81	2.71	5.22	6.30	21,571	1.51
Self Insured Bond Fund 200	0.42	0.44	0.86	1.30	4.52	4.88	43,278	3.03
Indices								
91 Day T-Bill Index	0.43	0.39	0.83	1.27	4.40	4.72		
Lehman Aggregate	1.16	0.66	1.83	2.72	4.94	5.94		
Standard & Poor's 500	1.90	3.26	5.22	7.94	14.21	14.25		
DJ Wilshire 5000	2.26	3.63	5.97	8.29	14.44	14.59		
MSCI EAFE Index (N)	2.99	3.89	6.99	7.16	22.49	28.19		

Returns are preliminary and subject to change. Alternative investment returns are calculated quarterly and provided in a separate report.

Custom Policy Benchmark Transition – State Insurance Fund

SIF Policy Benchmark Transition			
Start	**End**	**Percent**	**Description**
11/30/2005	1/31/2006	100%	Pre-Transition Policy
1/31/2006	2/28/2006	50%	Pre-Transition Policy
		50%	Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark	
S&P 500 Index	29%
MSCI EAFE Index	11%
Lehman Aggregate	57%
91 - Day T-Bill	3%

Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	Domestic Equity	Domestic Equity	International Equity
Manager	Apex Capital Management, Inc.	ING Investment Management - Aeltus	ING Investment Management
	Bahl & Gaynor Investment Counsel	Lakepoint Investment Partners	Capital Gaurdian
	Delancey Capital Group	Lazard Asset Management	Clay Findlay
	Gratry & Company	Lynmark Capital Group, Inc	Invesco Global
	Gries Financial LLC	New Amsterdam Partners, LLC.	Perigee (aka Legg Mason)
	Charter Financial Group	Rutland Dickson Asset Management	Simms Capital Asset Management
	CIC Asset Management	Swarthmore Group	Lombard Odier
	Dana Investment Advisors, Inc.	Nottinghill Investment Advisers, Ltd.	Montgomery Int'l
	Edgar Lomax Company	Paradigm Asset Management	Oeschle
	JPMorgan Investment Management, Inc.	Putnam Advisory Company, Inc	Putnam Institutional
	Eubel Brady & Suttman Asset Management	Sturdivant & Company, Inc.	Societe General Investment Management
	Cordillera Asset Management	Union Heritage Capital Management	
	Fortaleza Asset Management, Inc.	Victory Capital Management Inc.	
	Great Northern Asset Management, Inc.	Putnam Advisory Company, Inc	
	GW Capital, Inc.	James Investment Research, Inc.	
	Ariel Capital Management	Quantum Legacy Capital Management, LLC	
	Buckhead Capital	Renaissance Investment Management	
	Daruma Asset Management, Inc.	Riverbridge Partners LLC	
	Ironwood Capital Management, LLC	UBS Global Asset Management, Inc	
		Veredus Asset Management	
		Loomis Sayles & Co., L.P.	
		Opus Capital Management, Inc.	
		Penn Capital Management Co., Inc.	
		R. Meeder & Associates	
		Tamro Capital Partners LLC	
		Piedmont Investment Advisors, LLC (fixed income)	

Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	Domestic & International Equity	Fixed Income	Ancillary
Manager	State Street Global EAFE Index CTF	Blackrock	Self Insured Bond Fund 200
	SSgA S&P 500 Index CTF	Pugh Capital Management	Public Workers Relief Fund
		Smith Graham Management	Marine Account 2005
		Advent Capital Management	Disabled Workers Retirement
		Alliance Capital	Black Lung 2000
		Blaylock Abacus Financial Group, Inc.	
		John Hancock Advisers, LLC.	
		LM Capital Group, LLC	
		Morgan Stanley Investments LP	
		Prima Capital Advisors	
		Reams Capital Management, LLC	
		Wasmer, Schroeder and Company, LLC	
		Western Asset Management	
		Banc One Managed 1030	
		Fairport Asset Management, LLC	
		Holland Capital Management	
		Hughes Capital Management	
		Taplin, Canida & Habacht	

Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

OHIO WORKERS' COMPENSATION
OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

SCHEDULE OF PROJECTS

DECEMBER 14, 2006

1. Actuarial Consultant Request for Proposal
   Personnel Responsible: Tracy Valentino, Chief Financial Officer
   Date Assigned: September 28, 2006
   Status of Progress: Edwin McCausland prepared a proposal of items for reports from actuarial and other financial consultants for submission to BWC. BWC is to prepare a Request for Proposal (RFP). November status: Ms. Valentino promised to distribute the draft RFP by close of business, November 22. December: no report.

2. Fiduciary Insurance
   Personnel Responsible: James Barnes, Chief Legal Officer
   Date Assigned: September 28, 2006
   Status of Progress: Lloyd's of London has agreed to write the policy and has agreed to coverage limits. Final policy needs to be written and presented to BWC. November status: First, Mr. Barnes reported that certain contract terms need definition prior to finalizing the agreement. Second, BWC needs to ensure that Oversight Commission members and other fiduciaries are not responsible for the deductible of $75,000. Third, the contract should specify which BWC officers are covered by the policy. Mr. Barnes is to confirm finalization of this matter by email. December: no report.

3. Investment Division Requests for Proposal
   Personnel Responsible: Bruce Dunn, Chief Investment Officer
   Date Assigned: September 28, 2006
   Status of Progress: The Investment Division produced a chart regarding the asset allocation process and a timeline indicating anticipated completion dates for each item. The Investment Committee requested that the timeline chart be updated as each action is completed. December: The update is included with meeting materials. The project is complete.

4. Disclosure of BWC RFP Scoring Documents to the Investment Committee
   Personnel Responsible: John Williams, Assistant Attorney General
   Date Assigned: September 28, 2006
   Status of Progress: The Investment Committee has requested that it receive the scoring documents used by BWC to evaluated responders to RFPs prior to approving the contracts. The Attorney General has advised that disclosure prior to

finalizing contracts may invite litigation. December status: AAG Williams provided a further report.

5. Portfolio Noncompliance to Investment Policy Statement
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: September 28, 2006
Status of Progress: The Investment Committee has requested that BWC ensure the investment manager follow the Investment Policy Statement. November status: The Oversight Commission approved three resolutions which modify the Investment Policy; BWC will be conducting an audit of the manager, including an on-site visit. December status: Because of the imminent transfer of BWC assets to other management situations, the site visit is cancelled as unproductive. The audit will be completed after transfer.

6. Funds Commingling by State Street Bank & Trust
Personnel Responsible: James Barnes, Chief Legal Officer, and Tracy Valentino, Chief Financial Officer
Date Assigned: September 28, 2006
Status of Progress: The Investment Committee has requested that the written opinions of Mr. Barnes and Ms. Valentino be added to the meeting records. Michael Koetters acknowledged that he had received an email from Mr. Barnes with his opinion prior to the September meeting. November status: The opinion of Mr. Barnes was forwarded to the custodian of the meeting records; the opinion of Ms. Valentino was included in the November meeting materials. December status: Completed.

7. Schedule of Projects, Investment Committee Minutes
Personnel Responsible: Larry Rhodebeck, Secretary to Investment Committee
Date Assigned: November 16, 2006
Status of Progress: The Investment Committee has requested that from the September meeting onward, the minutes include a schedule of projects including: description, responsible persons, date assigned, and status of progress. November status: The minutes of September and November have had schedules prepared for submission to the Investment Committee at its December meeting. December status: The Schedule for November was distributed to Investment Committee members and others at the meeting. In the future, the Schedule will be distributed with all other meeting materials.

8. Portfolio Certification Reports
Personnel Responsible: Bruce Dunn, Chief Investment Officer; Joseph Bell, Chief of Internal Audit
Date Assigned: November 16, 2006
Status of Progress: The Investment Committee needs four reports: a monthly report from the Chief Investment Officer; a monthly report from BWC accountants; a quarterly report by Internal Audit; and the annual external audit. December status: BWC reports are ongoing. The external audit reports for fiscal years 2005 and 2006 are now due January 31, 2007. December status: Continuing reports.

9. Portfolio Transition to Approved Asset Allocation

Personnel Responsible: Bill Mabe, Administrator; Bruce Dunn, Chief Investment Officer

Date Assigned: November 16, 20006

Status of Progress: At the November meetings, the Oversight Commission and the Investment Committee approved three resolutions: The portfolio to be held by one custodian; that securities lending be suspended until completion of transition; and that 20% of the portfolio be invested in the State Street Bank & Trust S&P Index Fund. The Investment Committee further requested that BWC confer on other recommendations to be acted on at the next committee meeting. [At the December meeting, the Investment Committee approved a BWC request to select State Street Global Advisors as the manager for Treasury Inflation Protected Securities (TIPS) and a request to select State Street as one of the managers for LDFI .

10. Public Records Status of Private Equity Investment Documents

Personnel Responsible: Tom Sico, Director of Legal Operations; the Attorney General

Date Assigned: November 16, 2006

Status of Progress: About a dozen consent agreements have been received from general partners. Forty more need processing by the Attorney General. December status: the Ohio Attorney General continues to obtain agreements from the general partners.

11. Dividend on 2/2006 Payroll Report

Personnel Responsible: Bill Mabe, Administrator

Date Assigned: November 16, 2006

Status of Progress: By the December 14 meeting of the Oversight Commission, the Administrator will recommend a dividend or some other disposition of excess surplus. December status: Because of several factors, Bill Mabe did not recommend a dividend for the 2/2006 payroll reporting period.

12. Internal Cash Management

Personnel Responsible: Bruce Dunn, Chief Investment Officer

Date Assigned: December 14, 2006

Status of Progress: The Investment Committee requested a report on why cash is managed internally by BWC and if there is a cheaper alternative.

13. Investment Policy Statement Restriction on Investment Managers

Personnel Responsible: Bruce Dunn, Chief Investment Officer

Date Assigned: December 14, 2006

Status of Progress: The Policy restricts investment of the State Insurance Fund to no more than 5% of the total portfolio of each manager, unless circumstances warrant a larger portion. The Investment Committee issued an ongoing request that all applicants for managers be evaluated for appropriateness of the waiver.

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OHIO WORKERS' COMPENSATION
OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

SCHEDULE OF PROJECTS

DECEMBER 14, 2006

1. Project Area: Actuarial Consultant Request for Proposal
   Personnel Responsible: Tracy Valentino, Chief Financial Officer
   Date Assigned: September 28, 2006
   Project Description: Edwin McCausland prepared a proposal of items for reports from actuarial and other financial consultants for submission to BWC. BWC is to prepare a Request for Proposal (RFP). November status: Ms. Valentino promised to distribute the draft RFP by close of business, November 22.
   Project Status: No activity as of report

2. Project Area: Fiduciary Insurance
   Personnel Responsible: James Barnes, Chief Legal Officer
   Date Assigned: September 28, 2006
   Project Description: Lloyd's of London has agreed to write the policy and has agreed to coverage limits. Final policy needs to be written and presented to BWC. November status: First, Mr. Barnes reported that certain contract terms need definition prior to finalizing the agreement. Second, BWC needs to ensure that Oversight Commission members and other fiduciaries are not responsible for the deductible of $75,000. Third, the contract should specify which BWC officers are covered by the policy. Mr. Barnes is to confirm finalization of this matter by email.
   Project status: Complete

3. Project Area: Investment Division Requests for Proposal
   Personnel Responsible: Bruce Dunn, Chief Investment Officer
   Date Assigned: September 28, 2006
   Project Description: The Investment Division produced a chart regarding the asset allocation process and a timeline indicating anticipated completion dates for each item. The Investment Committee requested that the timeline chart be updated as each action is completed. December: The update is included with meeting materials.
   Project Status: Open request

4. Project Areas: Disclosure of BWC RFP Scoring Documents to the Investment Committee
   Personnel Responsible: John Williams, Assistant Attorney General
   Date Assigned: September 28, 2006

Project Description: The Investment Committee has requested that it receive the scoring documents used by BWC to evaluated responders to RFPs prior to approving the contracts. The Attorney General has advised that disclosure prior to finalizing contracts may invite litigation. December status: AAG Williams provided a further report.

Project Status: Open request

5. Project Area: Portfolio Noncompliance to Investment Policy Statement

Personnel Responsible: Bruce Dunn, Chief Investment Officer

Date Assigned: September 28, 2006

Project Description: The Investment Committee has requested that BWC ensure the investment manager follow the Investment Policy Statement. November status: The Oversight Commission approved three resolutions which modify the Investment Policy; BWC will be conducting an audit of the manager, including an on-site visit. December status: Because of the imminent transfer of BWC assets to other management situations, the site visit is cancelled as unproductive. The audit will be completed after transfer.

Project Status: Open request

6. Funds Commingling by State Street Bank & Trust

Personnel Responsible: James Barnes, Chief Legal Officer, and Tracy Valentino, Chief Financial Officer

Date Assigned: September 28, 2006

Project Description: The Investment Committee has requested that the written opinions of Mr. Barnes and Ms. Valentino be added to the meeting records. Michael Koetters acknowledged that he had received an email from Mr. Barnes with his opinion prior to the September meeting. November status: The opinion of Mr. Barnes was forwarded to the custodian of the meeting records; the opinion of Ms. Valentino was included in the November meeting materials.

Project Status: Complete

7. Project Areas: Schedule of Projects, Investment Committee Minutes

Personnel Responsible: Larry Rhodebeck, Secretary to Investment Committee

Date Assigned: November 16, 2006

Project Description: The Investment Committee has requested that from the September meeting onward, the minutes include a schedule of projects including: description, responsible persons, date assigned, and status of progress. November status: The minutes of September and November have had schedules prepared for submission to the Investment Committee at its December meeting. December status: The Schedule for November was distributed to Investment Committee members and others at the meeting. In the future, the Schedule will be distributed with all other meeting materials.

Project Status: Open request

8. Project Area: Portfolio Certification Reports
Personnel Responsible: Bruce Dunn, Chief Investment Officer; Joseph Bell, Chief of Internal Audit
Date Assigned: November 16, 2006
Project Description: The Investment Committee needs four reports: a monthly report from the Chief Investment Officer; a monthly report from BWC accountants; a quarterly report by Internal Audit; and the annual external audit. December status: BWC reports are ongoing. The external audit reports for fiscal years 2005 and 2006 are now due January 31, 2007.
Project Status: Open request

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Personnel Responsible: Bill Mabe, Administrator; Bruce Dunn, Chief Investment Officer
Date Assigned: November 16, 20006
Project Description: At the November meetings, the Oversight Commission and the Investment Committee approved three resolutions: The portfolio to be held by one custodian; that securities lending be suspended until completion of transition; and that 20% of the portfolio be invested in the State Street Bank & Trust S&P Index Fund. The Investment Committee further requested that BWC confer on other recommendations to be acted on at the next committee meeting. At the December meeting, the Investment Committee approved a BWC request to select State Street Global Advisors as the manager for Treasury Inflation Protected Securities (TIPS) and a request to select State Street as one of the managers for LDFI .
Project Status: Open request

10. Project Area: Public Records Status of Private Equity Investment Documents
Personnel Responsible: Tom Sico, Director of Legal Operations; the Attorney General
Date Assigned: November 16, 2006
Project Description: About a dozen consent agreements have been received from general partners. Forty more need processing by the Attorney General. December status: the Ohio Attorney General continues to obtain agreements from the general partners.
Project Status: Open request

11. Project Area: Dividend on 2/2006 Payroll Report
Personnel Responsible: Bill Mabe, Administrator
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Project Description: By the December 14 meeting of the Oversight Commission, the Administrator will recommend a dividend or some other disposition of excess surplus. December status: Because of several factors, Bill Mabe did not recommend a dividend for the 2/2006 payroll reporting period.
Project Status: Complete

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Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: December 14, 2006
Project Description: The Investment Committee requested a report on why cash is managed internally by BWC and if there is a cheaper alternative.
Project Status: No activity as of report

13. Project Area: Investment Policy Statement Restriction on Investment Managers
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: December 14, 2006
Project Description: The Policy restricts investment of the State Insurance Fund to no more than 5% of the total portfolio of each manager, unless circumstances warrant a larger portion. The Investment Committee issued an ongoing request that all applicants for managers be evaluated for appropriateness of the waiver.
Project Status: Open request

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Ohio Bureau of Workers' Compensation

Private Equity Sale Update

January 25, 2007

Private Equity Sale Update

- WCOC approval for RFP to sell BWC's private equity interests
  March, 2006

- WCOC approval of the RFP Finalist - UBS Investment Bank
  August, 2006

- BWC interviews and selects legal counsel - Benesch Friedlander
  September/October, 2006

- UBS/Benesch Friedlander initiates due diligence of private equity interests.
  October/November, 2006

- Project includes four phases:

  - Pre-Marketing - Completed
  - Marketing - Current Stage
  - Execution
  - Final Closing

- UBS apprises partnerships of sale process and assembles list of potential buyers
  November/December, 2006