Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: March 29, 2007
Time: 9:30 a.m.
Location: William Green Building, Second Floor, Room 2

Opening remarks

Acting Chairman's comments... Win McCausland

Old business

Approval of January 25, 2007 meeting minutes .... Win McCausland

New business

1. Portfolio performance

   a. 4Q 2006 Quarterly Performance ....Mark Brubaker
   b. Performance reconciliation - 2006 ....Mark Brubaker
   c. JP Morgan Monthly – Jan. 2007 and Feb. 2007................Bruce Dunn

2. Manage portfolio transition to approved asset allocation:

   Transition Strategy overview
   Pert/Gant chart timeline ....Bruce Dunn

3. Passive Index Manager recommendation:

   Large Cap U.S. Equity mandate, *vote to recommend approval to the WCOC* ....Bruce Dunn and Mark Brubaker

4. Intermediate Duration Bond Fund recommendation:

   BWC ancillary portfolios, *vote to recommend approval to the WCOC* ....Bruce Dunn and Mark Brubaker

5. Investment Policy recommendations – Benchmark Index:

   a. Intermediate Duration Fixed Income benchmark, *motion to amend* Section V.A. of the BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker

The next WCOC
Investment Committee meeting is scheduled for:

Date: April 26, 2007
Time: 8:45 a.m.
Location: William Green Building, Second Floor, Room 2

Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: March 29, 2007
Time: 9:30 a.m.
Location: William Green Building, Second Floor, Room 2

b. Customized Long Duration Fixed Income benchmark, *motion to amend* Section V.A. of the BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker

6. Investment Policy recommendations – High Yield Bonds:

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* Section IV.C.ii of BWC Investment Policy and Guidelines ....Bruce Dunn and Mark Brubaker

7. Actuarial Consultant recommendation............................ Win McCausland

8. Active Asset Managers discussion.................................. Win McCausland

9. Cash Management process summary..Bruce Dunn

10. Securities Lending activity final summary report....................Bruce Dunn

Report Updates

11. CIO reports – Jan. 2007 and Feb. 2007...................................Bruce Dunn

12. Index Managers RFP..Bruce Dunn

13. Private Equity sale..Bruce Dunn

14. Investment Division organization chart ....Bruce Dunn

Adjourn .... Win McCausland

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
Chief Investment Officer
Sigma Investments

The next WCOC
Investment Committee meeting is scheduled for:

Date: April 26, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: March 29, 2007
Time: 9:30 a.m.
Location: William Green Building, Second Floor, Room 2

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
Chief Investment Officer
Sigma Investments

Note: Written reports provided – *no prepared presentation*

Investment expenses – manager and operational fees

Investment Division department budget

Investment Policy dated January 25, 2007

The next WCOC
Investment Committee meeting is scheduled for:

Date: April 26, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

THURSDAY JANUARY 25, 2006, 8:00 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:

Bruce Dunn, Chief Investment Officer
John Williams, Esq., Assistant Attorney General
James Barnes, Esq., Chief Legal Officer
Tom Sico, Esq., Director, Legal Operations
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting
Liz Bravender, Actuarial Director
Mark E. Brubaker, Wilshire Consulting
Michael Patalsky, Wilshire Consulting
David Bruce, Barclays Global Investors
Matt Tucker, Barclays Global Investors

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 DECEMBER 14, 2006

Mr. McCausland moved that the minutes of December 14, 2006, be approved. Mr. Sopko seconded and the motion was approved by unanimous voice vote.

SCHEDULE OF PROJECTS

Mr. McCausland reported that there had been one response to the Request for Proposal (RFP) issued for an actuarial consultant to the Oversight Commission. Liz Bravender, Actuarial Director, and he had reviewed the response and found the candidate met the qualifications.

Mr. Koetters and other members of the Oversight Commission had not yet received email confirmation that BWC and Lloyd's of London had finalized the contract for the fiduciary insurance. James Barnes, Chief Legal Officer, reported the fiduciary coverage policy was in effect and included as insureds all fiduciaries, including the members of the Oversight Commission and BWC officers. Mr. Koetters requested that the confirming email be resent.

RECESS

Mr. McCausland moved that the meeting be recessed to permit conduct of the Audit Committee meeting. Mr. Sopko seconded and the motion was approved.

NEW BUSINESS

PORTFOLIO PERFORMANCE—NOVEMBER AND DECEMBER 2006 WILSHIRE MONTHLY FLASH PERFORMANCE REPORTS

Mr. Koetters reconvened the meeting at 9:45 a. m.

Mark Brubaker, Wilshire Consulting, reported on the performance of the BWC Total Fund, State Insurance Fund and Ancillary Fund investments for the months of November and December 2006. As of December 31, 2006, total assets have increased by 1.30% for the quarter and 6.22% for the year while net assets of the Total Fund were $16.8 billion.

Bruce Dunn, Chief Investment Officer, noted that the timing and accounting of what appears to be a one time payment may have caused the respective cash equivalent total returns listed on the Wilshire and JPMorgan Chase reports to be different.

Tom Sico, Director of Legal Operations, reported that BWC had received a payment from the WorldCom class action settlement. Mr. Sico indicated that BWC had already settled litigation separate from the class action and that the payment was sent by WorldCom in error.

Mr. Koetters requested that a one-page reconciliation be prepared for future meetings on the reports from Wilshire and JPMorgan Chase.

ACTUARIAL REQUEST FOR PROPOSAL

Mr. Koetters reported that Aon Risk Consultants, Inc., had been the sole candidate as the actuarial consultant for the Oversight Commission. Final selection will be made after check of references by Ms. Bravender. The selection committee consists of Mr. Koetters, Mr. McCausland, and Ms. Bravender. Mr. McCausland announced that there would be a phone conference with Aon next week.

MANAGE PORFOLIO TRANSITION TO APPROVAL ASSET ALLOCATION

Mr. Dunn reported on the BWC Investment Asset Allocation Transition Strategy by reviewing the January 15, 2007, memorandum he had drafted for the Investment Committee and included in the Investment Committee's materials.

Mr. Koetters requested that the time-lines chart include manager names and fund amounts in future updates.

PASSIVE INDEX MANAGER RECOMMENDATIONS

Mr. Dunn and Mr. Brubaker recommended selection of Barclays Global Investors (BGI) as the second Long Duration Fixed Income Passive Index (LDFI) manager. Mr. Dunn reviewed the report he submitted to the Investment Committee and reported that BWC will be allocating $1.5 billion to BGI, with the balance going to the first LDFI manager approved by the Oversight Commission on December 14, 2006, State Street Global Advisors (SSGA). Michael Patalsky, Wilshire, reviewed the report Wilshire submitted to the Investment Committee and reported that BGI had been recommended by Wilshire because of its history of management of long duration assets, its experience with other public entities, and its low tracking error with the benchmark index. The BWC investment will be 23.2% of the LDFI portfolio of BGI. BGI management fees are the highest, but other candidates other than SSGA are far less qualified and BGI will provide excellent services.

Mr. Koetters asked why Wilshire recommended BGI, given that SSGA will manage a LDFI portfolio to the same benchmark index and at lower management fees. Mr. Brubaker replied that BWC should not have just one manager for this class of assets. BGI will provide diversity by organization, analytical thought process, flexibility of investing, and capacity to remix assets.

Mr. McCausland commented that the BGI selection was further diversifying the portfolio and was the best alternative to SSGA.

David Bruce, Managing Director, BGI, and Matt Tucker, Fixed Income Asset Manager, BGI, reported on the services they would providing BWC. This division of BGI was obtained from Wells Fargo Bank in 1996. Wells Fargo was the pioneer in the indexing business in 1971. Forty percent of BGI clients are public funds, including $8 billion from the Ohio Public Employees Retirement System. In a volatile market, higher fees are merited for better research and portfolio management development to match benchmarks.

Mr. Koetters stated that he would follow the recommendation of Wilshire and add BGI as a manager of LDFI, for up to $1.5 billion of the State Insurance Fund portfolio. He requested that BWC provide a report at the February meeting of the Investment Committee on the allocation of investments to the managers, SSGA and BGI.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve the selection of Barclays Global Investors to serve as a Long Duration Fixed Income Passive Index manager for BWC for an amount up to $1.5 billion upon such terms as are outlined in Barclays' 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.

INVESTMENT POLICY RECOMMENDATIONS

Mr. Dunn and Mr. Brubaker recommended changes to the Investment Policy Statement (IPS) regarding asset allocation variances, and credit quality and sector allocations. Mr. Dunn included a memorandum in the materials to the Investment Committee and stated that he needed to instruct SSGA and BGI on specifics of BWC investment guidelines in order to continue to move along the BWC investment re-allocation transition strategy in an expeditious timeframe.

Mr. McCausland requested that the non-investment grade fixed income recommended changes to the IPS be tabled for future discussion. Mr. Koetters concurred and tabled the IPS recommended changes pertaining to non-investment grade fixed income assets.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve and adopt revisions to the Bureau of Workers' Compensation Statement of Investment Policy and Guidelines for purposes of implementing the revised asset allocation strategies recommended by Wilshire Consulting and the BWC Investment Department and in order to meet enhanced performance objectives set forth on the Appendix to this Motion, which is incorporated herein. Ms. Farkas seconded and the motion was approved by unanimous voice vote.

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 and the meeting was adjourned.

Prepared by: Larry Rhodebeck, BWC Attorney
H:\Word\ldr\WCOC InvC 0107.doc
February 1, 2007

WILSHIRE CONSULTING

Ohio Bureau of Workers' Compensation

Executive Summary of Investment Performance
Quarter Ending December 31, 2006

BWC Better Workers' Compensation Built with you in mind

Ohio Bureau of Workers' Compensation

Market Review (Periods Ending December 31, 2006)

Market Observations

The Federal Reserve kept rates constant at 5.25% during the 4th quarter. An inverted yield curve continued to describe the interest rate environment with the 2- and 10-year Treasuries yielding 4.8 and 4.7%, respectively. GDP Growth slowed to 2.0% in the 3rd quarter compared with growth of 5.6% and 2.6% during the 1st and 2nd quarters, respectively.

Oil prices stabilized from the high levels of volatility experienced earlier in the year, trading in a relatively narrow range throughout the quarter. The cost of a barrel of oil closed the year at $61, down more than 20% from its all-time high near $78 in August. Core CPI data signaled a reversal from an inflationary pattern seen through the first nine months of the year. After peaking at 2.9% in September (up from 2.2% in December 2005), Core CPI dipped to 2.6% in November.

Job growth remained moderate with a monthly average of 138,000 jobs created from September through November. With nearly six million jobs created over the past three years, the unemployment rate fell to 4.5%; a level not seen since June 2001. The housing market showed signs of a rebound, as existing home sales increased in October & November; the first consecutive month increase in over a year.

2006 was a record year for private equity buyouts. From a combination of raising large amounts of investment capital, low financing costs, and a willingness to take on additional leverage, private equity firms executed a record $738.1 billion of buyouts.

US Stock Market

The U.S. stock market posted its fourth consecutive annual advance in 2006, with the Dow Jones Wilshire 5000 up 15.77% for the year. The market rose 7.20% in the 4th quarter, its largest quarterly gain in two years. A fifth straight year of double-digit corporate earnings growth and an active mergers and acquisitions environment, fueled in part by record levels of private equity buyouts, encouraged equity investors to push stocks higher.

Small capitalization stocks led the way higher during the quarter with the DJW Small Cap Index up 8.67% versus 6.96% for the DJW Large Cap Index. While all capitalization segments generated impressive returns in 2006, the DJW Small Cap Index once again outpaced the DJW Large Cap Index; 16.98% vs. 15.62%, respectively. Value stocks maintained their dominance over growth for both the quarter and year, extending a secular style trend that has been in place for several years. For the year, the DJW Large Value Index was up 21.87% versus 9.14% for the DJW Large Growth Index, with comparative annualized returns over the past five years extending to 10.25% and 3.65%, respectively.

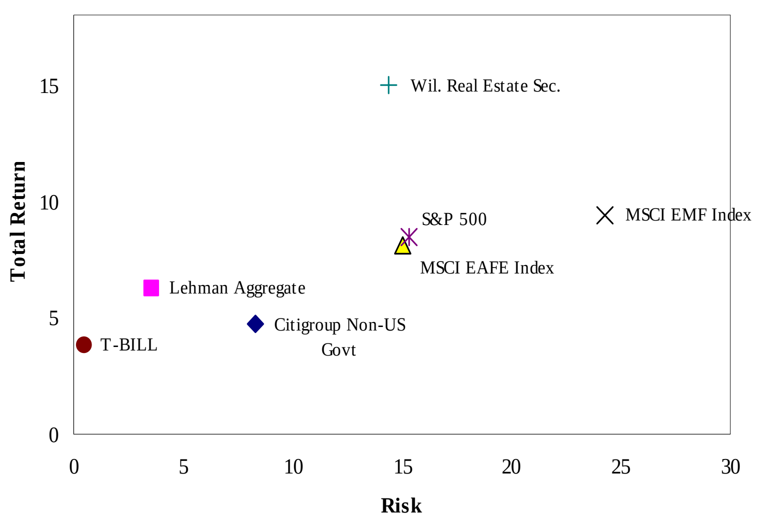
All industries closed both the quarter and year in positive territory. Materials and Energy led the way during the quarter with returns of 12.71% and 10.94%, respectively. Telecommunication stocks were the big winners for the year, as the industry rallied 36.50%. Even Health Care stocks, which represented the worst performing industry in 2006, managed a 7.14% gain.

Capital Markets Review (Periods Ending December 31, 2006)

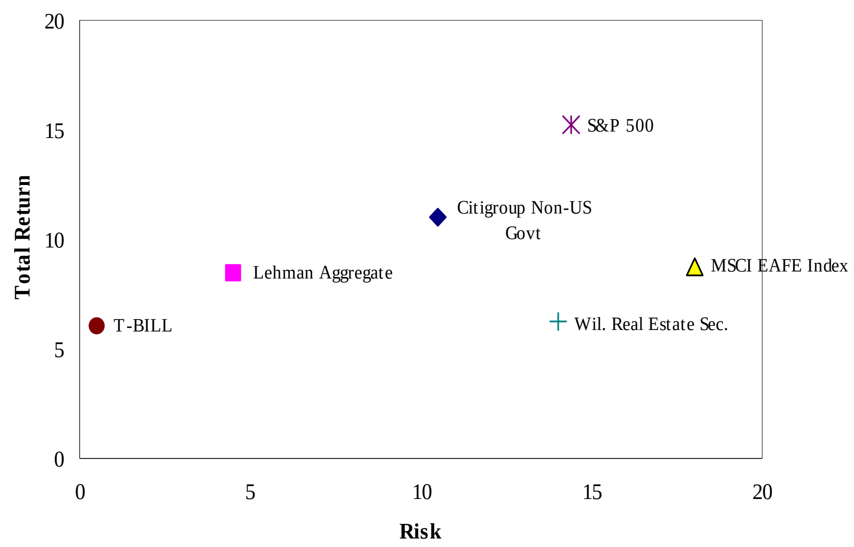
Major Asset Class Returns (%)

	QTR	1 yr	3 yr	5 yr	10yr
Equity					
Dow Jones - Wilshire 5000	7.2	15.8	11.5	7.6	8.7
Standard and Poor's 500	6.7	15.8	10.4	6.2	8.4
International Stock (MSCI EAFE)(USD)	10.4	26.4	19.9	15.0	7.7
Emerging Markets (MSCI EMF)(USD)	17.6	32.6	31.0	27.0	9.4
Dow Jones - Wilshire Real Estate Securities	8.9	35.7	27.7	24.0	15.0
Fixed Income					
Lehman Aggregate Bond	1.2	4.3	3.7	5.1	6.2
First Boston High Yield	4.5	11.9	8.6	11.1	7.1
International Bonds (Citigroup Non-US)	2.1	7.0	2.9	9.5	4.7
Treasury Bills (91 Day)	1.3	4.5	2.7	2.3	3.8
Consumer Price Index	-0.5	2.6	3.1	2.7	2.4

Risk versus Return (12/31/96 - 12/31/06)



Risk versus Return (12/31/86 – 12/31/96)



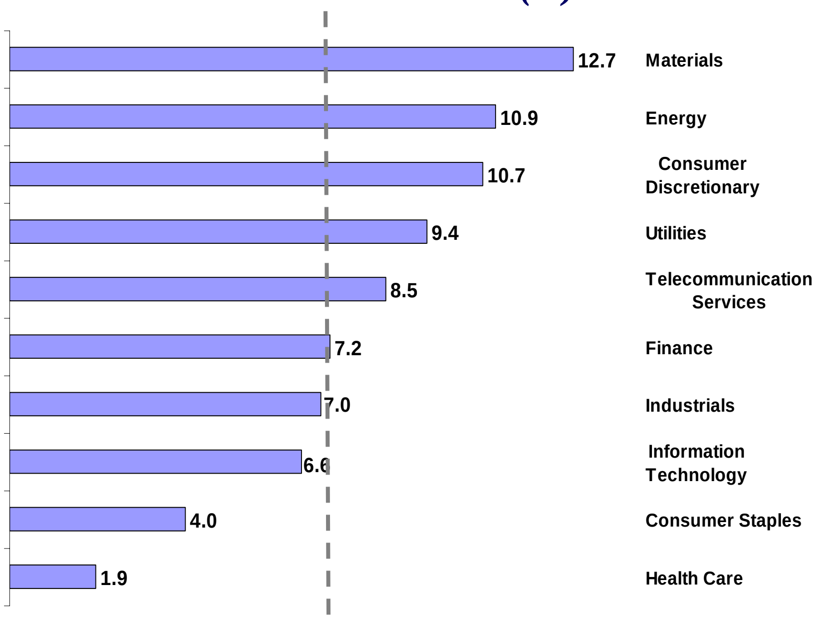
WILSHIRE CONSULTING

Domestic Equity Markets (Periods Ending December 31, 2006)

US Equity Returns (%)

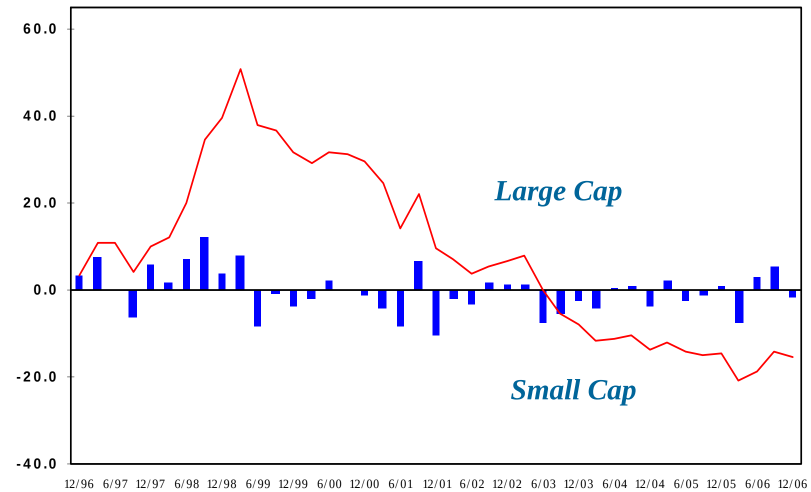
	QTR	1 yr	3 yr	5 yr	10yr
DJ Wilshire 4500	9.1	15.3	14.4	12.1	9.6
DJ Wilshire 5000	7.2	15.8	11.5	7.6	8.7
DJ Wilshire Real Est. Secs	8.9	35.7	27.7	24.0	15.0
DJ Wilshire Large Cap	7.0	15.6	11.1	6.9	8.5
DJ Wilshire Mid Cap	8.6	13.5	14.3	11.7	11.1
DJ Wilshire Small Cap	8.7	17.0	14.5	12.6	10.8
DJ Wilshire Micro Cap	9.6	14.9	10.9	17.9	14.1
DJ Wilshire Large Growth	6.2	9.2	8.6	3.7	6.3
DJ Wilshire Large Value	7.7	21.9	13.5	10.2	10.4
DJ Wilshire Mid Growth	8.6	11.6	15.7	10.9	7.7
DJ Wilshire Mid Value	8.5	15.7	12.9	11.9	12.9
DJ Wilshire Small Growth	8.6	13.8	14.1	9.9	7.2
DJ Wilshire Small Value	8.8	20.0	14.8	15.2	13.5

DJ Wilshire 5000 Sector Returns (%)

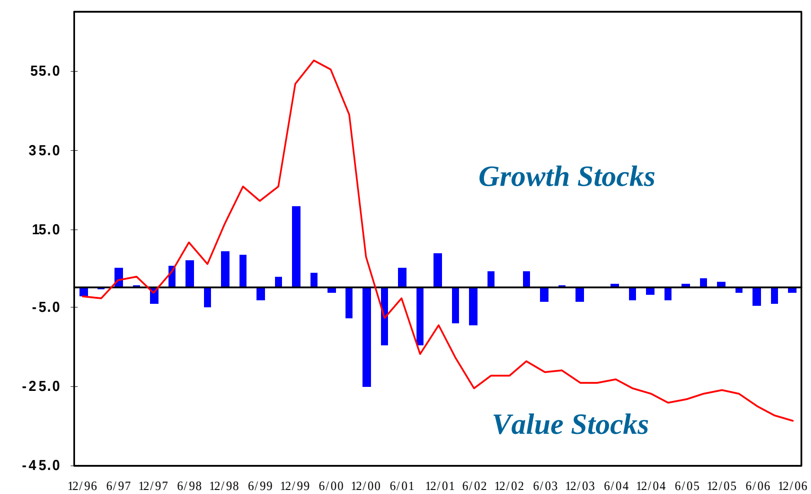


Represents DJ Wilshire 5000 Quarterly Return

Large Cap Vs. Small Cap



Growth Stocks Vs. Value Stocks



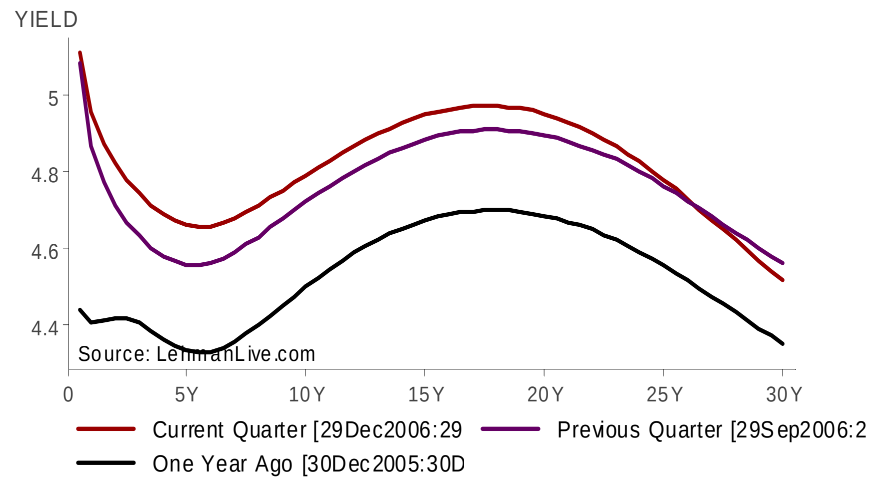
WILSHIRE CONSULTING

Domestic Fixed Income Markets (Periods Ending December 31, 2006)

US Fixed Income Returns (%)

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Lehman Aggregate	1.2	4.3	4.3	3.7	5.1	6.2
Lehman ABS	1.1	4.7	4.7	3.3	4.5	6.0
Lehman Credit	1.3	4.3	4.3	3.8	5.9	6.6
Lehman Gov't	0.8	3.5	3.5	3.2	4.6	6.0
Lehman Gov / Credit	1.0	3.8	3.8	3.4	5.2	6.3
Lehman Long Treasury	0.5	1.8	1.8	5.3	6.9	7.7
Lehman Mortgage	1.6	5.2	5.2	4.2	4.9	6.2
Lehman Agency	1.1	4.4	4.4	3.4	4.7	6.1
First Boston High Yield	4.5	11.9	11.9	8.6	11.1	7.1
Salomon Bros World Gov't Bond	1.8	6.1	6.1	2.9	8.4	5.2
Salomon Bros Non-US Bond	2.1	7.0	7.0	2.9	9.5	4.7
Lehman US TIPS	-1.3	0.4	0.4	3.9	7.2	

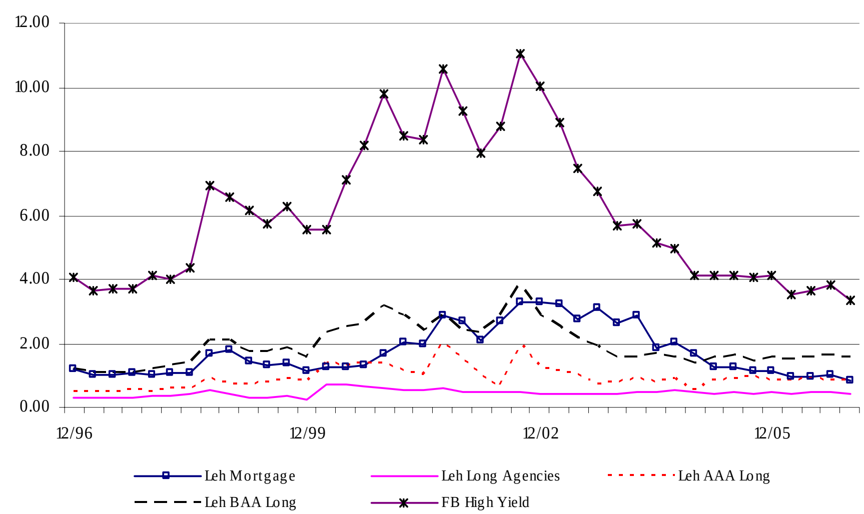
Treasury Yield Curve



Market Commentary

The Federal Open Market Committee stayed pat on short term interest rates during the fourth quarter by holding the federal funds rate at 5.25% while the yield on the 10-year Note experienced some notable volatility. The yield was as high as 4.80% and as low as 4.43% but finished the quarter at 4.71%, eight basis points higher than where it stood at the end of last quarter. During the fourth quarter the inversion of the yield curve became more pronounced as the spread between the 10-year Note and the 91-day T-Bill widened by 16 basis points to 31 basis points.

Historical Yield Spread Comparison to Treasuries



International Equity Markets (Periods Ending December 31, 2006)

International Index Returns (%)

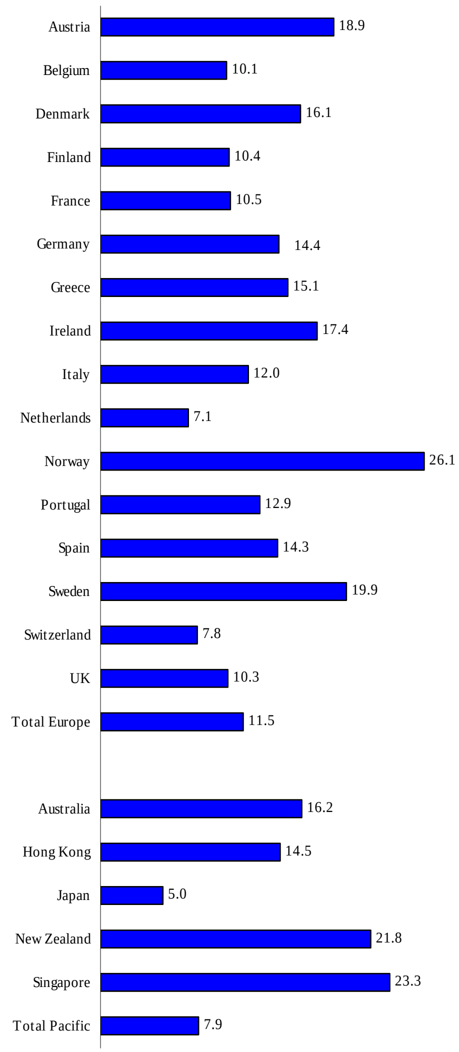
Equity (in U.S. $)	QTR	1 yr	3 yr	5 yr	10yr
Non U.S. (ACWI X U.S)	11.2	27.2	21.8	16.9	8.6
Developed (EAFE)	10.4	26.3	19.9	15.0	7.7
Emerging (EMF)	17.6	32.6	31.0	27.0	9.4
Europe	11.5	33.7	20.9	14.9	10.5
Pacific	7.9	12.2	17.9	15.5	3.2
France	10.5	34.5	20.5	14.1	11.4
Germany	14.4	36.0	20.2	13.7	8.9
Japan	5.0	6.2	15.6	13.5	2.2
United Kingdom	10.3	30.6	18.8	13.4	8.8
Currencies (% change)					
Euro vs Dollar	4.1	11.8	1.5	8.2	--
Yen vs Dollar	-0.9	-0.9	-3.5	1.9	-0.3
Pound vs Dollar	4.8	14.0	3.0	6.1	1.4

Market Commentary

The non-U.S. equity market closed the year strong, with a 3.11% advance in December. European and emerging market stocks led the way higher for a second consecutive quarter, posting USD based gains of 11.46% and 17.60%, respectively. Some market pundits argue that the relative performance of the emerging markets indicates the beginning of a decoupling from the U.S. economy and a shift towards greater reliance on local consumer demand. In contrast to last quarter, the U.S. dollar weakened notably and produced a windfall for unhedged U.S. investors, particularly on European equities where an additional 4.60% was gained due to currency movement. A relative disappointment for many investors this year was Japan's performance. Many investors had projected at the start of the year that Japan's stock market would benefit from its recovering economy. However, local consumer spending was less vigorous than expected, causing the annual return of Japanese equities to lag the ACWI ex U.S. index by 20.91%.

MSCI EAFE Index

Quarterly Returns in USD



Country	Weight
Austria	0.6
Belgium	1.3
Denmark	0.8
Finland	1.4
France	9.6
Germany	7.4
Greece	0.6
Ireland	0.9
Italy	3.9
Netherlands	3.9
Norway	0.9
Portugal	0.4
Spain	4.1
Sweden	2.6
Switzerland	6.8
UK	23.8
Total Europe	**68.9**
Australia	5.6
Hong Kong	1.7
Japan	22.6
New Zealand	0.2
Singapore	1.0
Total Pacific	**31.0**
Other Countries	**0.0**

WILSHIRE CONSULTING

Total Fund Results Summary

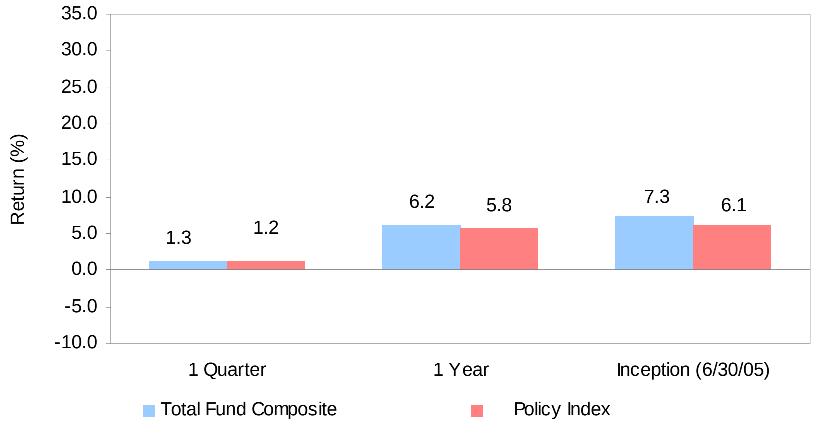
	$'000	Qtr %	1 Year %	3 Years %	5 Years %	Inception %
Ohio BWC Total Fund (6/30/05)	**16,805,483**	**1.3**	**6.2**	**--**	**--**	**7.3**
Ohio BWC Total Fund Ex Alts (6/30/06)	**16,355,410**	**1.3**	**--**	**--**	**--**	**5.2**
Total Fund Custom Policy		*1.2*	5.8	--	--	*6.1*
State Insurance Fund (6/30/05)	**15,389,449**	**1.3**	**6.3**	**--**	**--**	**7.6**
State Insurance Fund Ex Alts (6/30/006)	**14,939,376**	**1.4**	**--**	**--**	**--**	**5.2**
SIF Custom Policy		*1.2*	5.8	--	--	*6.1*
Fixed Income Composite (3/31/06)	**14,774,790**	**1.3**	**--**	**--**	**--**	**5.1**
Lehman Aggregate		*1.2*	--	--	--	*5.0*
SSgA Passive Aggregate Bond SI CTF (3/31/06)	14,774,790	1.3	--	--	--	5.1
Lehman Aggregate		*1.2*	--	--	--	*5.0*
Cash Composite (6/30/05)	**157,504**	**3.3**	**8.1**	**--**	**--**	**6.7**
91 Day T-Bill		*1.2*	*4.8*	--	--	*4.4*
Alternative Investments Composite (12/31/05)	**448,675**	**0.0**	**8.5**	**--**	**--**	**8.5**
Other Composite	**8,479**	**--**	**--**	**--**	**--**	**--**
Restricted Stock - Liquidation (3/31/06)	1,397	1.4	--	--	--	-1.4
Tranche #3 (12/31/05)	7,067	--	--	--	--	--
Tranche #4 (12/31/05)	15	--	--	--	--	--
Ancillary Composite (6/30/05)	**1,416,034**	**1.2**	**4.9**	**--**	**--**	**4.0**
Lehman Aggregate		*1.2*	4.3	--	--	*2.8*
Black Lung 2000 (6/30/05)	232,856	1.2	4.8	--	--	4.5
Disabled Workers Retirement (6/30/05)	1,104,276	1.2	5.0	--	--	3.9
Marine 2005 (6/30/05)	15,541	1.2	4.8	--	--	4.7
Public Workers Relief Fund (6/30/05)	21,424	1.2	4.6	--	--	4.1
Self Insured Bond Fund 200 (6/30/05)	41,938	1.3	5.0	--	--	4.6

Composite Results

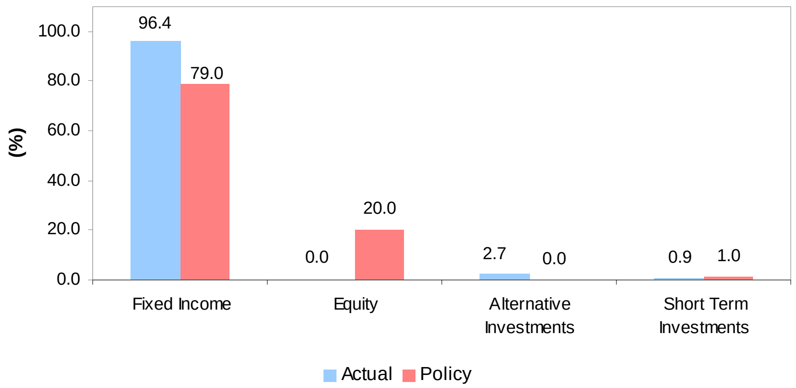
- Ohio BWC Total Fund
- State Insurance Fund
- Ancillary Total Fund

Total Fund Results

Investment Performance



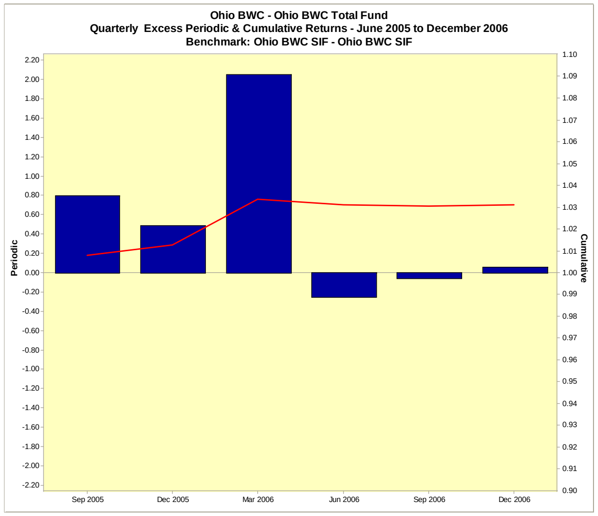
Asset Allocation vs. Policy



Quarter Results ($'000)

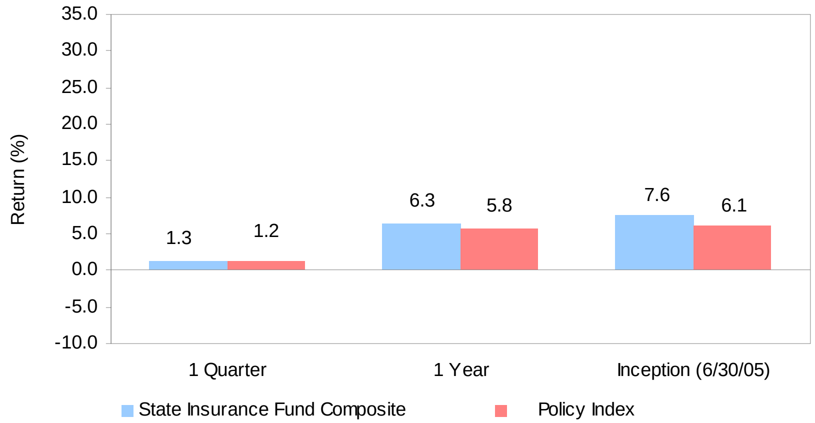
Quarter Results (Composites)	Ancillary Composite	State Insurance Fund	Total Composite
Beginning Value	$1,402,106	$15,619,479	$17,021,585
Cash Flow	($3,490)	($433,926)	($437,415)
Gains/Losses	$17,419	$203,896	$221,315
Ending Value	$1,416,034	$15,389,449	$16,805,483

Value Added Analysis

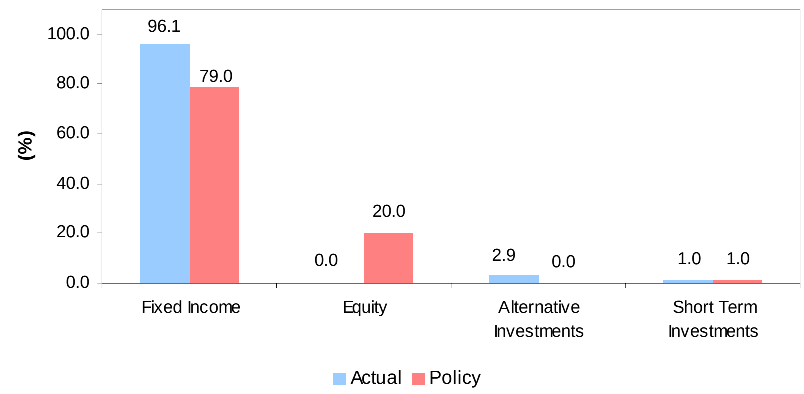


State Insurance Fund Results

Investment Performance



Asset Allocation vs. Policy

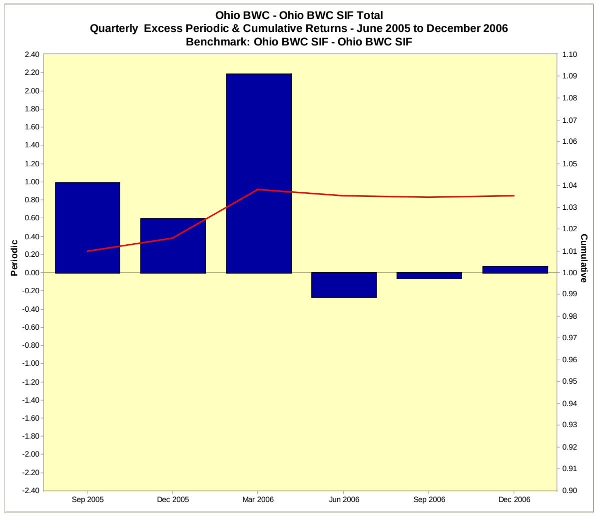


Quarter Results ($'000)

Quarter Results (Composites)	Fixed Income Composite	Alternative Investments	Cash Composite	Other Composite*	State Insurance Fund
Beginning Value	$14,828,466	$451,827	$324,987	$14,199	$15,619,479
Cash Flow	($250,005)	($3,231)	($174,649)	($6,041)	($433,926)
Gains/Losses	$196,329	$79	$7,166	$322	$203,896
Ending Value	$14,774,790	$448,675	$157,504	$8,479	$15,389,449

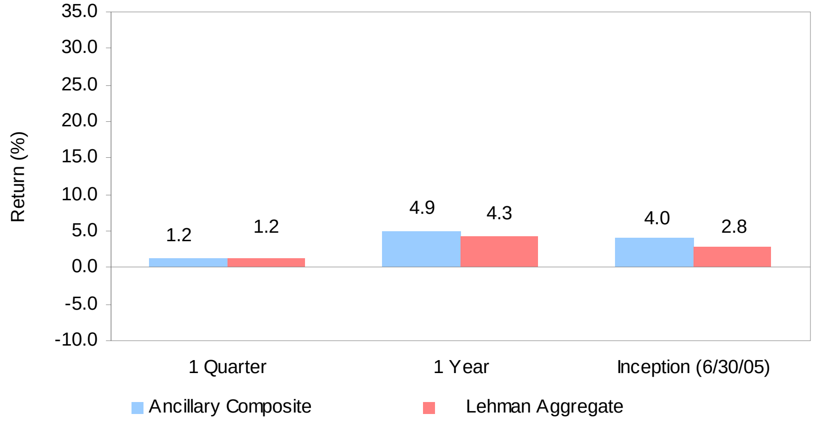
* This composite includes Restricted Stock, and residual monies left in Tranches 3-4

Value Added Analysis

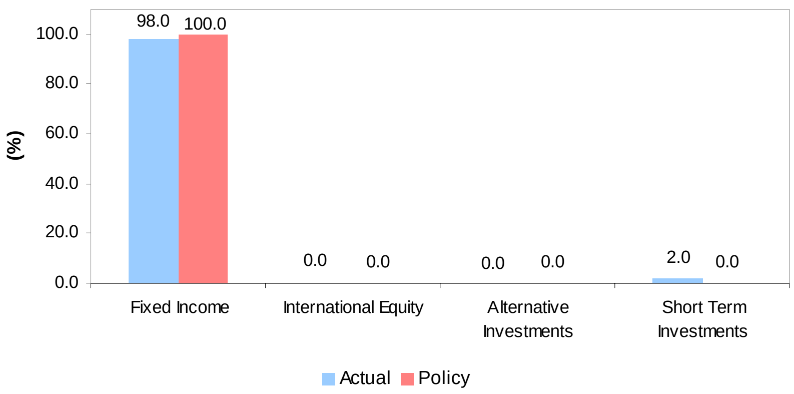


Ancillary Composite

Investment Performance



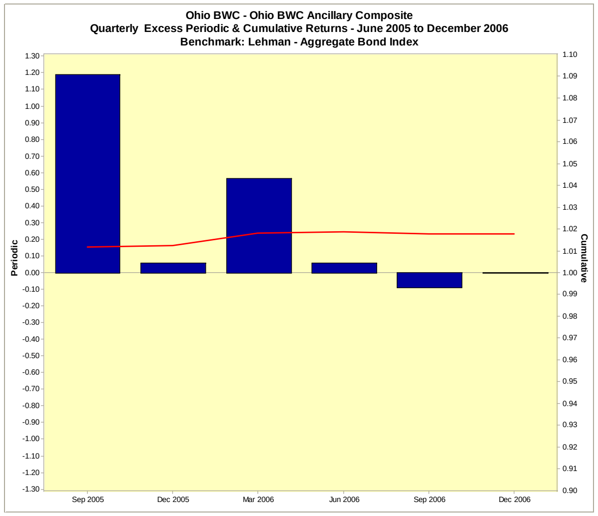
Asset Allocation vs. Policy



Quarter Results ($'000)

Quarter Results (Composites)	Black Lung 2000	Disabled Workers Retirement	Marine 2005	Public Workers Relief Fund	Self Insured Bond Fund 200	Ancillary Composite
Beginning Value	$229,935	$1,094,545	$15,300	$21,130	$41,196	$1,402,106
Cash Flow	$115	($3,882)	$53	$35	$188	($3,490)
Gains/Losses	$2,807	$13,612	$188	$258	$554	$17,419
Ending Value	$232,856	$1,104,276	$15,541	$21,424	$41,938	$1,416,034

Value Added Analysis

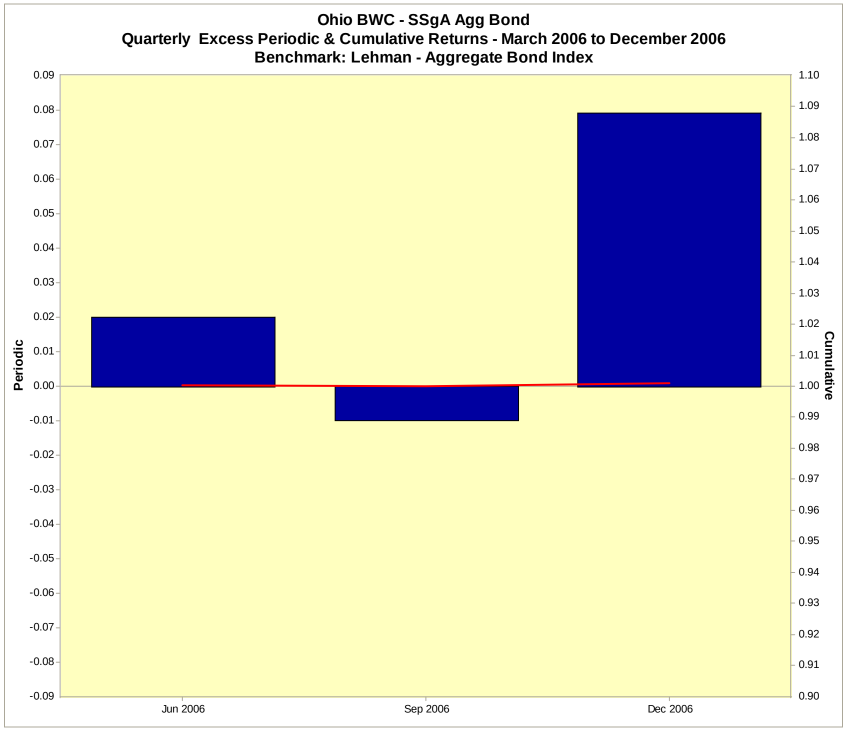


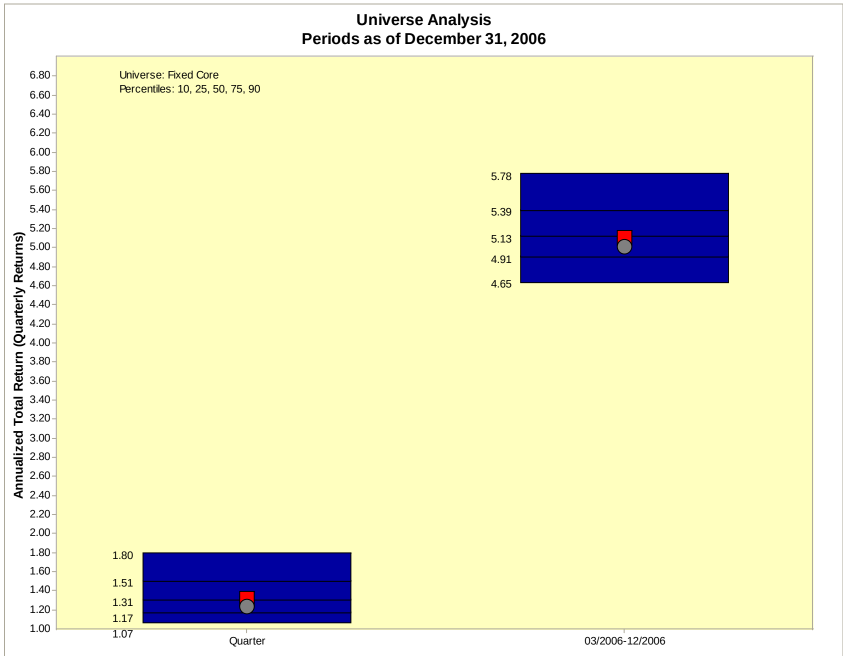
WILSHIRE CONSULTING

Manager Results

- **SSgA Passive Bond Fund**

SSgA Passive Aggregate Bond SI CTF





	Quarter	03/06-12/06
Ssga Agg Bond	1.32 (48)	5.11 (52)
Lb Aggregate	1.24 (66)	5.01 (64)
# of Products	291	291

SSgA Passive Aggregate Bond SI CTF Characteristics

Characteristics

Manager	Number of Issues	Avg Life	Avg Yield to Worst	YTM	Current Yield	Average Convexity	Modified Adjusted Duration	Avg Price	Avg Coupon	Avg Quality	Beta
SSgA Passive Bond Mkt SL CTF	2282	6.70	5.30	5.32	5.23	-0.26	4.46	101.15	5.35	AA2	1.0
Lehman Aggregate Index	7158	6.86	5.34	5.36	5.31	-0.22	4.46	100.96	5.36	AA2	--

Quality Breakdown

Manager	AAA	AA	A	BAA	>BAA	NR
SSgA Passive Bond Mkt SL CTF	81.46	4.47	7.70	6.37	0.00	0.00
Lehman Aggregate Index	78.86	4.98	8.71	7.46	0.00	0.00

Maturity Distribution

Manager	0-1 Year	1-2 Years	2-3 Years	3-5 Years	5-7 Years	7-10 Years	10-15 Years	15-20 Years	20-30 Years	30+ Years
SSgA Passive Bond Mkt SL CTF	1.10	11.38	9.74	23.27	18.11	24.86	3.01	2.34	6.06	0.14
Lehman Aggregate Index	0.02	12.43	9.47	23.45	16.02	26.80	3.32	2.18	6.02	0.27

Economic Sectors

Manager	Treasury	Agency	Finance	Industrial	Utility	Non-US Credit	MBS	ABS	CMBS	Cash/Other
SSgA Passive Bond Mkt SL CTF	26.06	13.91	8.17	8.75	1.80	0.84	34.72	0.79	4.06	0.90
Lehman Aggregate Index	24.68	11.05	8.40	9.13	1.87	3.67	35.05	1.18	4.96	0.00

Private Equity
September 30, 2006

Fund Summary

- As of September 30, 2006, the Ohio Bureau of Worker's Compensation total private equity portfolio has an estimated internal rate of return (IRR) of 4.7%. This return is above the median IRR of -1.3%[1] reported by VentureXpert (formerly Venture Economics) for all private equity funds with vintage years of 1999 to 2006.
- Ohio BWC's buyout fund composite IRR as of September 30 is 12.3%, which outperforms the 3.6%[1] median IRR for buyout funds with similar vintage years.
- Ohio BWC's fund-of-fund composite IRR as of September 30 is 3.8%, which is above the -2.1%[1] median IRR for fund-of-funds with similar vintage years.
- BWC's mezzanine fund composite IRR as of September 30 is 4.2%, which is below the 6.7%[1] median IRR for mezzanine funds with similar vintage years.
- BWC's venture capital partnerships have an overall composite level IRR of -2.5%, which is better than the -6.0%[1] median IRR for venture capital funds with similar vintage years.

[1] VentureXpert's performance data used in this report is as of June 30, 2006.

WILSHIRE CONSULTING

Composite Level Totals

Fund Type	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 9/30/06 [2]	Net Annualized IRR	Upper Quartile [3]	Median	Lower Quartile
Buyout Fund Total	**$285,000,000**	**$200,177,630**	**$97,635,712**	**$158,191,630**	**12.29%**	13.10%	3.60%	-5.00%
Fund-of Funds Total	**$100,000,000**	**$72,654,860**	**$25,563,344**	**$54,974,090**	**3.79%**	8.30%	-2.10%	-8.80%
Mezzanine Total	**$30,000,000**	**$62,175,255**	**$35,443,331**	**$30,315,345**	**4.15%**	12.30%	6.70%	0.20%
Venture Capital Total	**$368,450,000**	**$240,122,583**	**$42,385,902**	**$180,826,492**	**-2.51%**	0.40%	-6.00%	-10.90%
Total	**$783,450,000**	**$575,130,328**	**$201,028,290**	**$424,307,557**	**4.65%**	**8.70%**	**-1.30%**	**-9.60%**

[1]BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

[2]Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of September 30, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to September 30, accounting for contributions and distributions during the interim time period.

[3] As a benchmarking measure, the upper quartile, median, and lower quartile of IRRs at the composite level is presented for each fund category as taken from Venture Economics. Data is as of June 30, 2006. Venture Economics' returns are representative of the following periods:

-Buyout Funds: 1999-2006

-Fund-of-Funds: 2000-2006

-Mezzanine Funds: 1998-2006

-Venture Capital: 2000-2006

-Total Private Equity: 1999-2006

WILSHIRE CONSULTING

Buyout Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 9/30/06 [2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Buyout Fund Total				**$285,000,000**	**$200,177,630**	**$97,635,712**	**$158,191,630**	**12.29%**	
Brantley Partners	Brantley Partners IV, LP	Buyout	1999	$15,000,000	$15,684,411	$6,260,069	$12,250,976	4.42%	Sep-06
ABS Capital Partners	ABS Capital Partners IV, LP	Buyout	2000	$15,000,000	$13,312,840	$7,315,870	$11,730,953	14.92%	Sep-06
Behrman Capital	Behrman Capital III, LP	Buyout	2000	$20,000,000	$15,241,687	$6,678,038	$14,995,045	11.67%	Sep-06
Blue Point Capital Partners	Blue Point Capital Partners, LP	Buyout	2000	$10,000,000	$8,105,731	$7,658,926	$4,471,740	13.25%	Sep-06
Carlyle Group	Carlyle Partners III, LP	Buyout	2000	$15,000,000	$15,810,990	$17,846,718	$11,847,686	23.58%	Sep-06
Fremont Partners	Fremont Partners III, LP	Buyout	2000	$15,000,000	$9,798,726	$6,932,752	$3,676,687	6.30%	Sep-06
Halpern, Denney & Co.	Halpern Denny Fund III, LP	Buyout	2000	$20,000,000	$18,500,000	$12,082,967	$10,000,134	5.35%	Sep-06
Rosemont Investment Partners	Rosemont Partners I, LP	Buyout	2000	$5,000,000	$4,529,681	$1,643,699	$2,793,582	-0.59%	Mar-05
Quad C Advisors	Quad-C Partners VI, LP	Buyout	2001	$15,000,000	$11,064,871	$7,843,984	$13,871,007	33.57%	Sep-06
Castle Harlan Inc.	Castle Harlan Partners IV, LP	Buyout	2002	$15,000,000	$12,326,686	$2,250,200	$7,341,801	14.89%	Sep-06
Wind Point Partners	Wind Point Partners V, LP	Buyout	2002	$10,000,000	$8,711,701	$6,486,396	$4,936,452	14.99%	Sep-06
Freeman Spogli & Co.	FS Equity Partners V, LP	Buyout	2003	$15,000,000	$8,635,951	$2,849,058	$7,041,601	14.38%	Sep-06
Kirtland Capital Corporation	Kirtland Capital Partners IV, LP	Buyout	2003	$5,000,000	$2,665,837	$218,180	$2,447,484	0.00%	Sep-06
Levine Leichtman Capital Part	Levine Leichtman Capital Partners III, LP	Buyout	2003	$15,000,000	$9,777,352	$2,668,013	$8,536,848	12.65%	Sep-06
Sterling Partners	Sterling Capital Partners, LP	Buyout	2003	$15,000,000	$10,997,578	$3,000,098	$9,907,420	9.28%	Sep-06
Thayer Capital Partners	Thayer Equity Investors V, L.P.	Buyout	2003	$15,000,000	$12,669,927	$4,087,792	$11,251,224	12.47%	Sep-06
Carlyle Group	Carlyle Partners IV, LP	Buyout	2004	$20,000,000	$10,112,138	$1,058,391	$9,653,251	12.34%	Sep-06
MCM Capital Partners	MCM Capital Partners II, LP	Buyout	2004	$5,000,000	$1,394,460	$0	$1,187,792	-21.23%	Sep-06
Rosemont Investment Partners	Rosemont Partners II, LP	Buyout	2004	$10,000,000	$2,553,014	$299,161	$1,851,845	-17.16%	Sep-06
ABS Capital Partners	ABS Capital Partners V, LP	Buyout	2005	$20,000,000	$4,734,049	$0	$4,450,146	-14.27%	Sep-06
Harbourvest Partners	HarbourVest Partners VII - Buyout Partnership	Buyout	2003-2005	$10,000,000	$3,550,000	$455,400	$3,947,956	4.19%	Sep-06

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

[2] Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of September 30, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to September 30, accounting for contributions and distributions during the interim time period.

WILSHIRE CONSULTING

Fund-of-Funds and Mezzanine Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date[1]	Distributions	Market Value as of 9/30/06[2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Fund-of Funds Total				**$100,000,000**	**$72,654,860**	**$25,563,344**	**$54,974,090**	**3.79%**	
INVESCO Private Capital	Chancellor V, LP	Fund of Funds	2000	$20,000,000	$17,868,814	$3,801,711	$8,294,391	4.17%	Sep-06
Lexington Partners	Lexington Capital Partners V, LP	Fund of Funds	2002	$20,000,000	$17,649,792	$11,376,166	$14,140,437	25.21%	Sep-06
Peppertree Partners	The Peppertree Fund, LP	Fund of Funds	2000-2001	$10,000,000	$7,913,674	$3,763,000	$5,874,026	8.03%	Sep-06
Ft. Washington Capital	Fort Washington Private Equity Investors III	Fund of Funds	2000-2003	$15,000,000	$12,023,858	$3,549,859	$9,365,195	2.18%	Jun-06
INVESCO Private Capital	INVESCO Venture Partnership Fund III, LP	Fund of Funds	2000-2004	$12,000,000	$8,150,017	$914,169	$6,773,975	-2.12%	Sep-06
INVESCO Private Capital	INVESCO US Buyout & Expansion Cap. Fund III	Fund of Funds	2001-2003	$8,000,000	$3,498,190	$1,528,278	$5,056,355	22.85%	Sep-06
Ft. Washington Capital	Fort Washington Private Equity Investors IV	Fund of Funds	2003-2005	$15,000,000	$5,550,515	$630,161	$5,469,711	10.97%	Jun-06
Mezzanine Total				**$30,000,000**	**$62,175,255**	**$35,443,331**	**$30,315,345**	**4.15%**	
Smith Whiley & Company	SW Pelham Fund, L.P.	Mezzanine	1998	$20,000,000	$21,033,657	$6,429,824	$3,080,666	-23.98%	Sep-06
ABRY Partners	ABRY Mezzanine Partners, LP	Mezzanine	2001	$5,000,000	$9,203,562	$3,450,426	$4,365,517	11.43%	Sep-06
TCW/Crescent Mezzanine	TCW/Crescent Mezzanine Partners III, LP	Mezzanine	2001	$15,000,000	$14,192,188	$17,153,539	$9,340,884	36.88%	Sep-06
Babson Capital Mgmt, LLC	Tower Square Capital Partners, LP	Mezzanine	2002	$10,000,000	$9,660,190	$4,931,709	$6,693,667	11.81%	Sep-06
Smith Whiley & Company	SW Pelham Fund II, L.P.	Mezzanine	2003	$10,000,000	$8,085,659	$3,477,833	$6,834,611	15.12%	Sep-06

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

[2] Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of September 30, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to September 30, accounting for contributions and distributions during the interim time period.

WILSHIRE CONSULTING

Venture Capital Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 9/30/06 [2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Venture Capital Total				**$368,450,000**	**$240,122,583**	**$42,385,902**	**$180,826,492**	**-2.51%**	
Athenian Venture Partners	Athenian Venture Partners II, LP	Venture	2000	$17,500,000	$16,664,743	$6,280,197	$6,588,643	-10.67%	Mar-06
Blue Chip Venture Company	Blue Chip IV, LP	Venture	2000	$20,000,000	$18,400,000	$2,218,257	$10,509,318	-14.93%	Sep-06
Meritech Capital Partners	Meritech Capital Partners II, LP	Venture	2000	$11,250,000	$9,768,750	$1,820,870	$7,169,284	-3.13%	Sep-06
Perseus-Soros Mgmt Company	Perseus-Soros Biopharmaceutical Fund, LP	Venture	2000	$5,000,000	$4,000,933	$2,856,320	$3,613,988	20.21%	Sep-06
Pharos Capital Group	Pharos Capital Partners, LP	Venture	2000	$5,000,000	$4,775,000	$653,204	$4,232,357	0.55%	Sep-06
Primus Venture Partners	Primus Capital Fund V, LP	Venture	2000	$20,000,000	$15,270,000	$6,310,000	$14,733,128	10.74%	Sep-06
Technology Venture Partners	Technology Venture Partners, L.P.	Venture	2000	$16,000,000	$7,975,000	$578,885	$4,691,316	-29.11%	Sep-06
Ascend Venture Group	Ascend Ventures, LP	Venture	2001	$5,000,000	$5,010,235	$1,174,992	$1,947,011	-15.57%	Sep-06
Axxon Capital Advisors	Axxon Capital, LP	Venture	2001	$3,000,000	$2,501,350	$719,422	$1	-29.65%	Dec-05
Carlyle Group	Carlyle Venture Partners II, LP	Venture	2001	$25,000,000	$28,248,540	$11,187,654	$17,646,052	1.08%	Sep-05
Edgewater Funds	Edgewater Growth Capital Partners, LP	Venture	2001	$10,000,000	$10,500,000	$2,628,856	$10,636,461	13.51%	Jun-06
Meritage Private Equity Funds	Meritage Private Equity II, LP	Venture	2001	$15,000,000	9,755,322	1,734,159	$7,035,823	-4.17%	Sep-06
Adena Ventures	Adena Ventures, LP	Venture	2002	$500,000	$400,000	$38,606	$209,901	-20.25%	Dec-05
Apex Venture Partners	Apex Investment Fund V, LP	Venture	2002	$10,000,000	$8,344,158	$364,923	$9,239,929	6.58%	Sep-06
Early Stage Partners	Early Stage Partners, LP	Venture	2002	$9,000,000	$7,670,122	$0	$5,726,386	-13.60%	Sep-06
Edison Venture Fund	Edison Venture Fund V, LP	Venture	2002	$15,000,000	$11,700,000	$0	$13,133,692	5.22%	Sep-06
Buerk, Dale & Victor	Northwest Opportunity Fund, LP	Venture	2002	$20,000,000	$14,000,000	$35,386	$11,870,255	-8.27%	Sep-06
Prospector Equity Capital	Prospector Equity Capital, LP	Venture	2002	$15,000,000	$9,938,730	$0	$7,546,374	-13.72%	Sep-06
River Cities Capital Funds	River Cities Capital Fund III, LP	Venture	2002	$5,000,000	$3,681,526	$937,055	$3,578,165	9.58%	Sep-06
Adams Street Partners	Adams Street V, LP	Venture	2003	$8,000,000	$6,160,000	$783,964	$5,123,205	-2.94%	Sep-06
Athenian Venture Partners	AVP Ohio Technology I, LP	Venture	2003	$10,000,000	$4,455,581	$0	$3,712,179	-9.93%	Dec-05
Athenian Venture Partners	AVP Technology II, LP	Venture	2003	$2,200,000	$2,200,000	$0	$357,437	-43.66%	Dec-05
MK Capital Management	MK Capital, LP	Venture	2003	$10,000,000	$4,000,000	$866,103	$2,855,664	-5.03%	Jun-06
MWV Pinnacle Mgmt Co.	MWV Pinnacle Capital Fund, LP	Venture	2003	$2,000,000	$895,047	$0	$92,133	NA	Jun-06
Reservoir Venture Partners	Reservoir Venture Partners, LP	Venture	2003	$5,000,000	$2,234,413	$252,833	$1,582,110	-9.90%	Jun-06
Ascend Venture Group	Ascend Ventures II, LP	Venture	2004	$7,500,000	$2,665,336	$0	$2,076,455	-21.18%	Sep-06
Athenian Venture Partners	Athenian Venture Partners III, LP	Venture	2004	$25,000,000	$5,759,724	$0	$4,914,494	-13.46%	Mar-06
Charter Life Sciences	Charter Life Sciences, LP	Venture	2004	$5,000,000	$1,541,751	$0	$1,330,464	-14.06%	Sep-06
Draper Triangle Ventures	Draper Triangle Ventures II, LP	Venture	2004	$5,000,000	$1,105,743	$157,831	$728,063	-23.00%	Sep-06
EDF Ventures	EDF Ventures III, LP	Venture	2004	$10,000,000	$3,271,635	$0	$3,221,742	-1.47%	Sep-06
Seneca Partners	Seneca Health Partners, LP I	Venture	2004	$1,500,000	$555,000	$0	$419,514	-16.58%	Sep-06
Triathlon Medical Ventures	Triathlon Medical Ventures Fund, LP	Venture	2004	$5,000,000	$1,461,188	$0	$756,375	-30.94%	Sep-06
Edgewater Funds	Edgewater Growth Capital Partners II, LP	Venture	2005	$25,000,000	$4,000,000	$0	$3,742,440	-12.87%	Sep-06
Harbourvest Partners	HarbourVest Partners VII - Venture	Venture	2003-2005	$15,000,000	$5,625,000	$222,750	$5,532,215	1.92%	Jun-06
Sema4 Inc.	Midwest Economic Opportunity Fund, LP	Venture	N/A	$5,000,000	$5,587,758	$563,637	$4,273,918	-4.32%	NA

[1] BWC contributions to date reflect all contributions made to the general partner for each fund. These amounts may not represent the funded amount against the commitment, as not all contributions are applicable towards the committed amount.

[2] Market values utilized are unaudited market values provided by the general partner, when available. In the instances when managers did not provide market values as of September 30, estimates were calculated using actual market values as of the last date the market value was provided rolled forward to September 30, accounting for contributions and distributions during the interim time period.

WILSHIRE CONSULTING

Notes to Performance Report

- Market Values as of September 30, 2006 are unaudited market values provided by the manager, when available. In the instances when managers did not provide market values as of September 30, 2006, estimates were calculated using actual market values as of the last valuation provided rolled forward to September 30, accounting for contributions and distributions during that time period.
- Internal rates of return (IRR) presented are net of investment management fees and expenses
- IRR calculations are based on cash flow data submitted by each general partner, if available. In the few instances where general partners would not submit data or submitted incomplete data, information from Ohio Bureau of Workers' Compensation QED accounting system is utilized

Glossary

Total Fund Policy	Date	%	Description
	7/05-1/06	29.0	Standard & Poor's 500
		11.0	MSCI EAFE Index (N)
		57.0	Lehman Aggregate
		3.0	91 Day T-Bill
	1/06-2/06	14.5	Standard & Poor's 500
		5.5	MSCI EAFE Index (N)
		78.5	Lehman Aggregate
		1.5	91 Day T-Bill
	2/06-Present	100.0	Lehman Aggregate

SIF Policy	Date	%	Description
	7/05-1/06	29.0	Standard & Poor's 500
		11.0	MSCI EAFE Index (N)
		57.0	Lehman Aggregate
		3.0	91 Day T-Bill
	1/06-2/06	14.5	Standard & Poor's 500
		5.5	MSCI EAFE Index (N)
		78.5	Lehman Aggregate
		1.5	91 Day T-Bill
	2/06-Present	100.0	Lehman Aggregate

To: Ohio Bureau of Workers Compensation Investment Committee

CC: C. Bruce Dunn, CIO

From: Mark E. Brubaker, CFA and Michael D. Patalsky, CFA

Date: March 29, 2007

Re: Reconciliation with JP Morgan

Executive Summary

In the last Investment Committee meeting, Wilshire was asked to perform a reconciliation of returns with those of JP Morgan for 2006 given the approximately 1% discrepancy between the two valuations. This reconciliation process was undertaken in conjunction with JP Morgan. Through the reconciliation, we reconfirmed and remain comfortable with our performance calculations as stated in the previous meeting. JP Morgan, however, uncovered some irregularities in their previous calculations and as a result, adjusted their returns for January and February 2006.

At the time period in question, JP Morgan was operating in a very manual environment as the Ohio BWC accounts remained on the former Bank One system. Despite the manual environment, they maintained various checks and controls in place. In few occasions, however, they failed to identify discrepancies which were caused by erroneous manual calculations. For January, JP Morgan incorrectly calculated the return of the total fund and total SIF composites. For February, the traunch 5 account was incorrectly calculated, which then impacted the calculation of the composites. JP Morgan attributes the failure to identify the errors at that time as a result of the unprecedented levels of activity in the accounts. Additionally, BWC had not provided benchmarks at that time, which they would use to identify suspicious returns. The two structural flaws mentioned above (e.g. manual calculations and application of appropriate benchmarks) have already been remedied sometime ago.

As a result, for January 2006, JP Morgan restated their total fund returns from 3.54% to 1.0%, and for February 2006, JP Morgan changed their total fund returns from -1.05% to 0.57%. As a reference, Wilshire's returns for January and February 2006 are 1.26% and 0.21% respectively. **JP Morgan's resulting total fund return for 2006 would then be recalculated at 6.31% (from 7.23%), which is within 11 basis points of the 6.20% return calculated previous by Wilshire.**

Further, for the SIF, JP Morgan restated their returns of 3.78% in January 2006 to 1.09%, and for February 2006, JP Morgan changed their SIF returns from -1.49% to 0.26%. As a reference, Wilshire's returns for January and February 2006 are 1.38% and 0.23% respectively. **The resulting SIF return for 2006 would then be recalculated at 6.06%**

(from 6.97%), which is within 29 basis points of the 6.34% return calculated previous by Wilshire.

The attached spreadsheet outlines returns for both Wilshire and JP Morgan on a monthly basis for 2006.

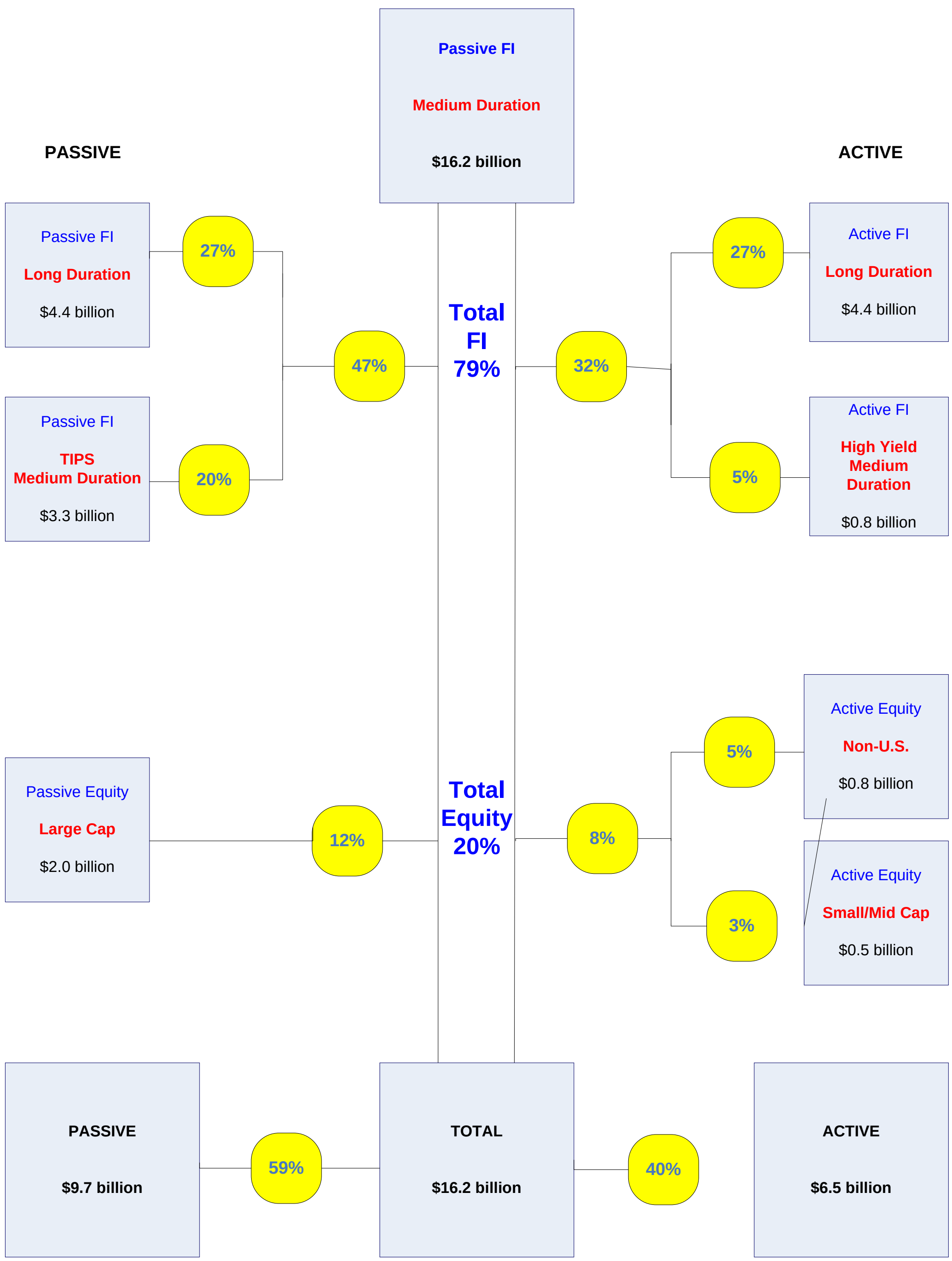
TOTAL FUND

	As Previously Stated			After Changes to Jan & Feb		
	JPM	Wilshire	Diff	JPM	Wilshire	Diff
january	3.54	1.26	2.28	1.00	1.26	-0.26
february	-1.05	0.21	-1.26	0.57	0.21	0.36
march	-0.45	-0.09	-0.36	-0.45	-0.09	-0.36
april	-0.14	-0.14	0.00	-0.14	-0.14	0.00
may	-0.02	-0.12	0.10	-0.02	-0.12	0.10
june	0.22	-0.06	0.28	0.22	-0.06	0.28
july	1.33	1.33	0.00	1.33	1.33	0.00
august	1.49	1.45	0.04	1.49	1.45	0.04
sept	0.86	0.91	-0.05	0.86	0.91	-0.05
oct	0.64	0.64	0.00	0.64	0.64	0.00
nov	1.03	1.12	-0.09	1.03	1.12	-0.09
dec	-0.38	-0.45	0.07	-0.38	-0.45	0.07
2006	**7.23**	**6.20**	**1.02**	**6.31**	**6.20**	**0.11**

SIF

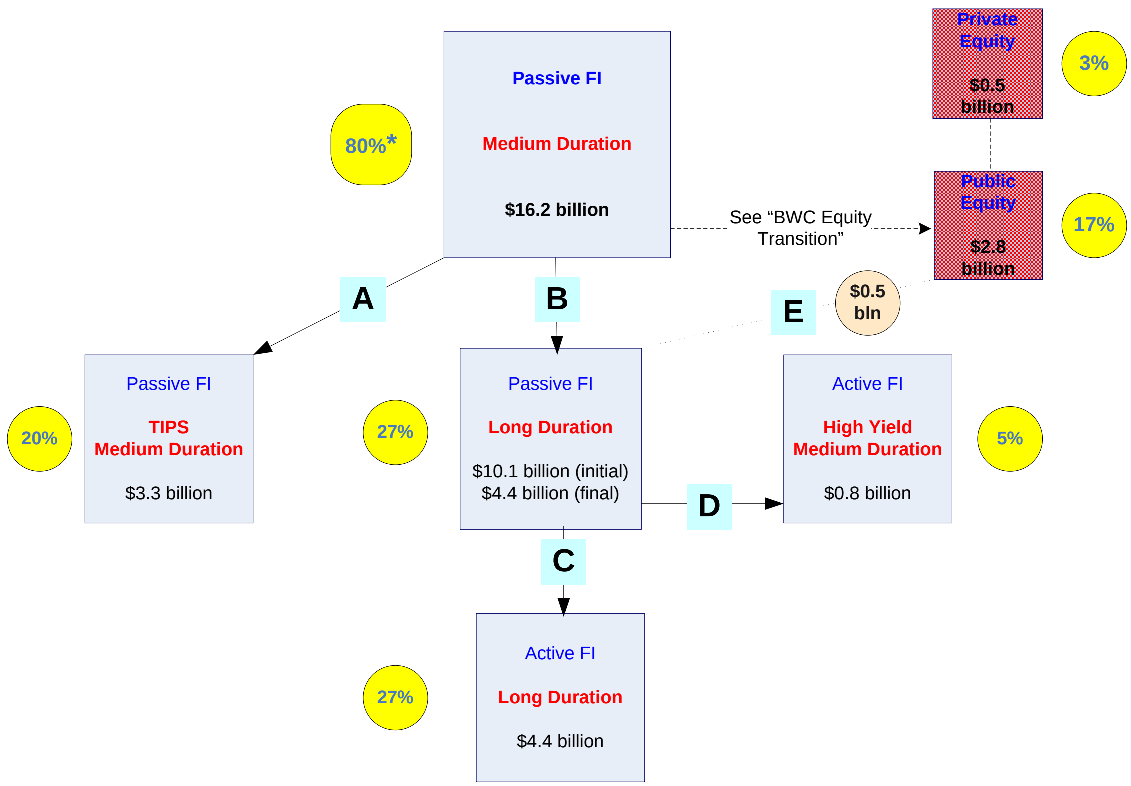
	As Previously Stated			After Changes to Jan & Feb		
2006	JPM	Wilshire	Diff	JPM	Wilshire	Diff
january	3.78	1.38	2.40	1.09	1.38	-0.29
february	-1.49	0.23	-1.72	0.26	0.23	0.03
march	-0.48	-0.08	-0.40	-0.48	-0.08	-0.40
april	-0.14	-0.14	0.00	-0.14	-0.14	0.00
may	-0.01	-0.12	0.11	-0.01	-0.12	0.11
june	0.21	-0.09	0.30	0.21	-0.09	0.30
july	1.33	1.33	0.00	1.33	1.33	0.00
august	1.49	1.45	0.04	1.49	1.45	0.04
sept	0.86	0.92	-0.06	0.86	0.92	-0.06
oct	0.65	0.64	0.01	0.65	0.64	0.01
nov	1.02	1.12	-0.10	1.02	1.12	-0.10
dec	-0.36	-0.45	0.09	-0.36	-0.45	0.09
	6.97	**6.34**	**0.67**	**6.05**	**6.34**	**-0.29**

BWC INVESTED ASSET SECTOR TRANSITION FUNDS
March 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

BWC FIXED INCOME TRANSITION
March 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

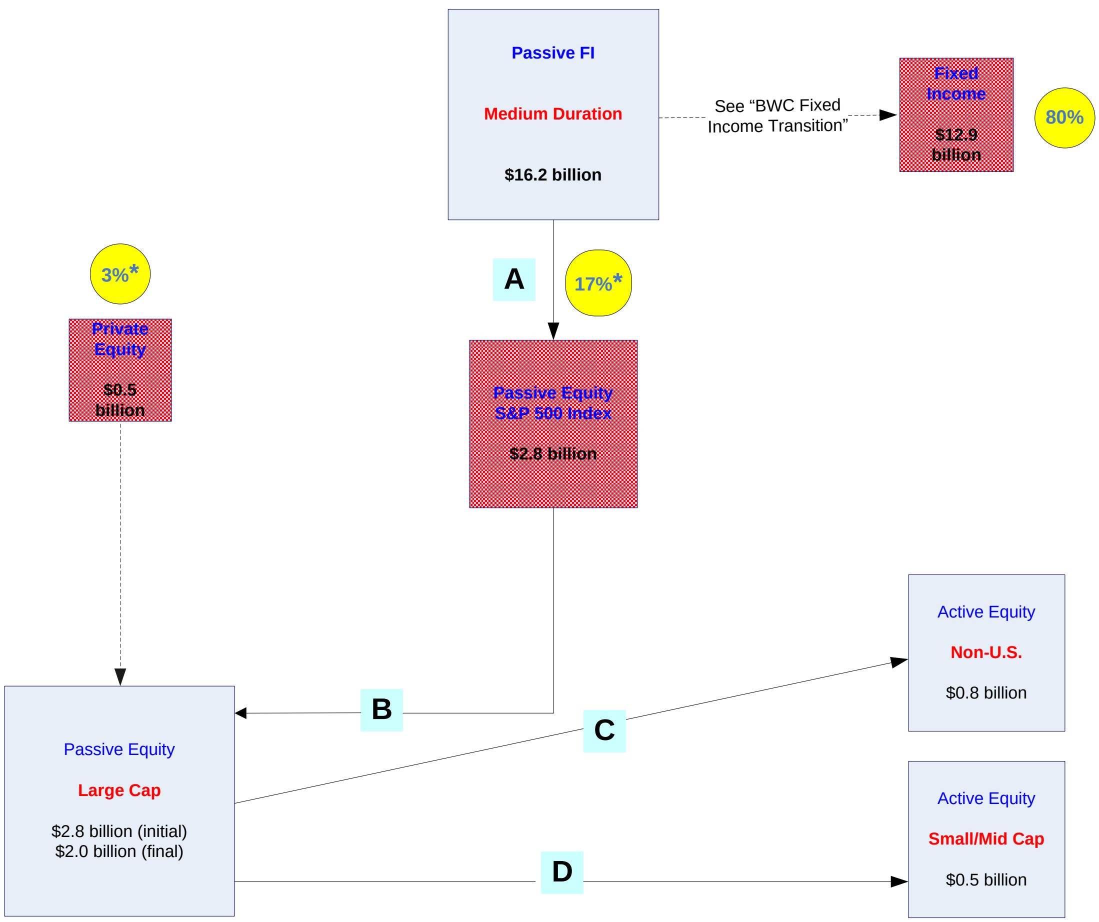
B Transition to approved Long Duration Fixed Income Passive Managers

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 EQUITY TRANSITION
March 2007



*** BWC will maintain a full 20% equity allocation per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

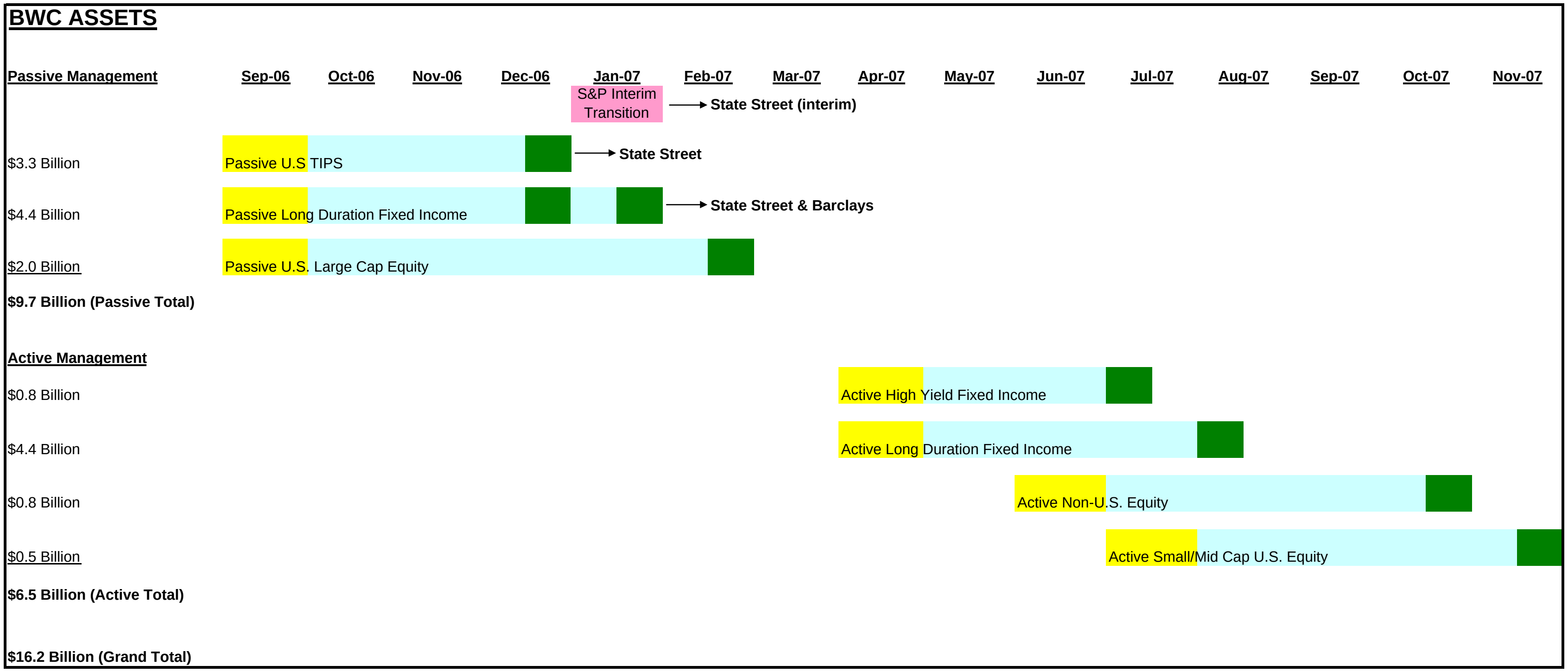
A Transition into S&P 500 Passive Equity Index

B In-kind transfer to approved S&P 500 Passive Equity Index Manager(s)

C Transition to approved Active Non-U.S. Equity Manager(s)

D Transition to approved Active U.S. Small/Mid Cap Equity Manager(s)

BWC Transition Funds
RFP Timelines
March 2007



Future RFP Timelines shown are estimated time periods from RFP issuance to RFP completion with respective recommendation for approval to the BWC Investment Committee and WCOC.

Transition Funds include State Insurance Fund (SIF), Disabled Workers Fund, and Coal Workers Fund Combined.

Asset sized based on approximate valuation of transition funds.

Issue RFP
Evaluate/Recommend RFP
Approval at WCOC monthly meeting
Interim Transition of approximately $2.8 Billion to S&P 500 at State Street. This represents full 20% equity allocation per current IPS ex 3% for SIF Private

Ohio Bureau of Workers' Compensation

Large Cap U.S. Equity Passive Index Manager RFP Process

March 29, 2007

RFP Process

Large Cap U.S. Equity 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

Large Cap U.S. Equity 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
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 – Revised Jan. 26 –Complete
On-Site visit of Finalist (tentative)	Oct. 24 - Nov. 3 – Revised Dec. 8 - Dec. 21 – Revised Dec 8 – Jan. 12 – Revised Feb. 1 –Complete
WCOC MEETING PACKET DEADLINE	Mar. 21
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist **Large Cap U.S. Equity**	***Mar. 29***

RFP Respondents and Evaluation

Large Cap U.S. Equity 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 Large Cap U.S. Equity Manager(s)

- BWC received six responses (see Appendix for descriptions of qualified firms shown below):
  1) AllianceBernstein L.P.
  2) BNY Asset Management
  3) Barclays Global Investors
  4) Mellon Capital Management
  5) Northern Trust Global Investments
  6) Standish Mellon Asset Management
  7) 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

Large Cap U.S. Equity Passive Index Manager

- **AllianceBernstein L.P.**
  - Managed $17 billion of passive indexed Large Cap U.S. Equity assets on 6/30/06
  - Management team experienced in managing customized passive portfolios
  - Did not offer management services without securities lending
- **BNY Asset Management**
  - Managed $13.8 billion of passive indexed Large Cap U.S. Equity assets on 6/30/06
  - Did not offer management services without securities lending
- **Barclays Global Investors**
  - Managed $304 billion of passive indexed Large Cap U.S. Equity on 6/30/06
  - Net outflow of Large Cap U.S. Equity AUM over each of 2004, 2005, 1H2006
  - Performance results provided evaluated as average relatively
  - Management fee proposed highest among all respondents
- **Mellon Capital Management**
  - Managed $28.6 billion of passive indexed Large Cap U.S. Equity assets on 6/30/06
  - Only $8 billion in separate accounts managed under this mandate, with only two accounts over $1 billion
  - Performance results provided evaluated as above average relatively
  - Management fee proposed was easily second highest among all respondents

RFP Respondents Summary Evaluation Comments

Large Cap U.S. Equity Passive Index Manager

- **Northern Trust Global Investments**
  - Managed $82 billion of passive indexed Large Cap U.S. Equity assets as of 6/30/06
  - Good 2/1 balance of commingled/separate account assets managed for this mandate
  - Sophisticated and leading edge risk management strategies employed
  - Performance results provided evaluated as above average relatively
  - Management fee proposed lowest cost of all respondents

- **Standish Mellon Asset Management**
  - Managed $8.8 billion of passive indexed Large Cap U.S. Equity assets as of 6/30/06
  - Only 4 separate accounts managed under this mandate
  - Firm largely known as a fixed income manager with passive management style not emphasized
  - Performance results provided evaluated as below average relatively
  - Management fee proposed very competitive

- **State Street Global Advisors**
  - Managed $93 billion of passive indexed Large Cap U.S. Equity assets on 6/30/06
  - Separate account assets under management represent only 15% ($14 billion) of total assets managed under this mandate
  - Only one separate account over $2 billion managed to this mandate
  - Performance results provided evaluated as average relatively
  - Management fee proposed very competitive

RFP Respondents Conclusions

Large Cap U.S. Equity Passive Index Manager

- Respondents below did not offer management services without securities lending. These respondents were eliminated from further consideration once it became evident during the RFP process that separate account management without securities lending was the desired BWC investment management structure for this and all other mandates
  - AllianceBernstein
  - BNY Asset Management

- Although its management fee proposal was competitive, Standish Mellon Asset Management was eliminated as the Finalist because (i) the firm managed less than $10 billion of passive indexed Large Cap U.S. equity assets with only a few separate accounts, (ii) its performance results were comparatively below average, (iii) the firm does not emphasize the passive management style of asset management and (iv) the firm is mostly known as a fixed income management shop.

- Although Mellon Capital Management had performance results that were above average and comparable to the Finalist manager, the firm was eliminated as the Finalist because (i) it managed only two separate accounts over $1 billion and only $8 billion in total for separate accounts and (ii) its management fee was between $150,000-200,000 higher per annum than the Finalist for the full mandate.

- Barclays Global Investors is the largest manager of passive indexed Large Cap U.S. Equity assets with $304 billion versus $93 billion for State Street and $82 billion for Northern Trust as of 6/30/06. However, all of these three firms were deemed to have sufficient assets under management to easily absorb the size of BWC assets being directed to this mandate. Passive management to the S&P 500 index is a replication style of indexing that has been present for several decades where all assets in the index will be represented in very close proportions to the index. As a result, management fee differentials between firms assume greater significance when compared to many fixed income indexing strategies (including Long Duration Fixed Income) and to broad equity indices such as the Russell 3000 or Wilshire 5000 where stratified sampling management skills are required to track benchmark index performance.

RFP Respondents Conclusions

Large Cap U.S. Equity Passive Index Manager

- Barclays Global Investors was eliminated as the Finalist primarily because its management fee was the highest of all respondents at approximately 2.1 basis points per annum versus 0.75 basis points per annum for the Finalist which represents a difference of $433,000 per annum at the interim 20% asset allocation ($3.3 billion) and $271,000 per annum at the targeted 12% asset allocation for this mandate.

- State Street Global Advisors proposed management fee was competitive with the Finalist (Northern Trust Global Investments). The management fee of State Street was $30,000 per annum higher than the Finalist at both the interim full mandate amount ($3.3 billion) and the final target full mandate amount ($2.0 billion).

- Finalist is believed to be more structured and oriented to the passive management of separate accounts to the S&P 500 benchmark index when compared to State Street. Finalist had $27 billion of separate account assets under passive management to Large Cap U.S. Equity indices on 6/30/06, representing 1/3 of total assets managed to these indices, including four accounts at over $2.0 billion each. State Street had $14 billion of separate accounts under passive management to Large Cap U.S. Equity indices on 6/30/06, which represented only 15% of total assets managed to these indices.

- Performance of the Finalist was evaluated to be somewhat better than State Street over a 3-year and 5-year comparative period.

- There is a desire of the BWC Investment staff to form a strong asset management working relationship with at least three large quantitative-oriented passive index managers. Northern Trust is the third largest institutional index manager in the world (Barclays and State Street being larger) and is especially well experienced in managing large sums of funds to broad equity indexes.

Recommended Finalist
Large Cap U.S. Equity Passive Index Manager

Northern Trust

Northern Trust Global Investments

- third largest passive S&P 500 index manager in the world with $62 billion of assets under passive management to this benchmark index at end of 2006
- very experienced team of equity index managers and traders
- consistent year-to-year superior performance versus benchmark index since 2001
- full replication index management strategy to benchmark index to control tracking error
- outperformance versus benchmark index for full replication commingled funds managed was positive and tightly consistent at 1.5 bp (2004), 1.9 bp (2005) and 2.3 bp (2006) over past three years, net of securities lending income and futures income (futures used to equitize cash and dividend accruals)
- sophisticated multi-dimensional risk management strategies employed to ensure indexed portfolios are tightly constrained at security, sector and risk factor level
- focus on proprietary trading strategies that employ innovative technology and optimization techniques to maximize liquidity and minimize trading costs
- more oriented to separate account management than all other RFP respondents with significantly higher proportion (1/3) of separate account assets under passive management to Large Cap U.S. Equity indices than all others

Recommended Finalist
Large Cap U.S. Equity Passive Index Manager

Northern Trust

Northern Trust Global Investments

- current passive manager of ten accounts of over $2 billion each to the benchmark index, including four separate accounts

- good mix of public client accounts, represented by over 20% of total assets managed under this mandate

- quantitative management team of firm, from CIO to back office managers, eager and committed to offer top quality investment management service to the BWC

- Lowest per annum management fee of all RFP respondents at 0.75 bp which equates to $250,000 at interim full 20% mandate amount ($3.3 billion) and to $150,000 at final target full mandate amount ($2.0 billion)

- Recommendation is for Northern Trust Global Investments to be the only passive index manager for Large Cap U.S. Equity for the BWC, with an estimated $3.3 billion invested at interim 20% asset allocation and an estimated $2.0 billion invested at final target mandate that will occur after the selection and funding of Active Non-U.S. Equity managers ($0.8 billion) and Active Small/Mid Cap Equity managers ($0.5 billion) later this year

Appendix

- **AllianceBernstein L.P.**

  Headquartered in New York. AllianceBernstein L.P. is 60.6% owned by AXA Financial, a global financial services company based in France. This partnership is a large investment manager that manages over $625 billion in assets including $443 billion in equities with a large bias towards active investment management. Passively managed Large Cap U.S. Equities represented only $17 billion of assets under management.

- **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.

Ohio Bureau of Workers' Compensation

S&P 500 Index Manager Search

Mark Brubaker, CFA
Managing Director

Michael Patalsky, CFA
Senior Associate

Manager Search Specifications

- Approximately $2 billion mandate
- Benchmarked to the S&P 500 Index
- Manager candidates responded to a public RFP which was issued on September 18, 2006
- 7 respondents to this search
  - Alliance Bernstein
  - Bank of New York
  - Barclays Global
  - Mellon Capital
  - Mellon Equity
  - Northern Trust
  - State Street Global Advisors

Recommendation

- Wilshire recommends the Ohio Bureau of Workers' Compensation hire Northern Trust to manage the entire passive S&P 500 allocation
  - Northern Trust has a long history managing passive S&P investments
  - Northern Trust's fee proposal for S&P 500 indexing is the lowest
  - The fund's tracking error relative to the S&P 500 index has been 0.13% since inception (12/31/89), but approximately 0.03% over the past 3-year period
  - Utilizing Northern Trust provides manager diversification across the Fund's investment classes

Product Summary

Manager	Firm AUM	Total Fixed Income AUM	% of Total AUM	Total Equity AUM	% of Total AUM	S&P Passive AUM	Ohio BWC % of S&P AUM[3]	Actual Fee (bps)	Estimated Fee in $
	Assets Managed ($MM)[2]							Fees Based On Full $2 B Mandate[1]	
Alliance Bernstein	$ 625,158	$ 162,825	26%	$ 443,220	71%	$ 17,315	10.4%	2.82	$ 564,200
Barclays Global Investors	$ 1,622,714	$ 273,523	17%	$ 1,129,417	70%	$ 303,805	0.7%	2.26	$ 451,200
Bank of New York	$ 116,070	$ 52,020	45%	$ 36,215	31%	$ 13,822	12.6%	1.31	$ 261,600
Mellon Capital	$ 148,861	$ 14,743	10%	$ 82,297	55%	$ 28,630	6.5%	2.00	$ 400,000
Mellon Equity	$ 20,972	$ -	0%	$ 19,933	95%	$ 8,831	18.5%	0.88	$ 175,600
Northern Trust	$ 352,835	$ 54,694	16%	$ 181,436	51%	$ 81,750	2.4%	0.75	$ 150,000
State Street Global Advisors	$ 1,534,246	$ 650,685	42%	$ 689,375	45%	$ 95,274	2.1%	0.91	$ 181,200

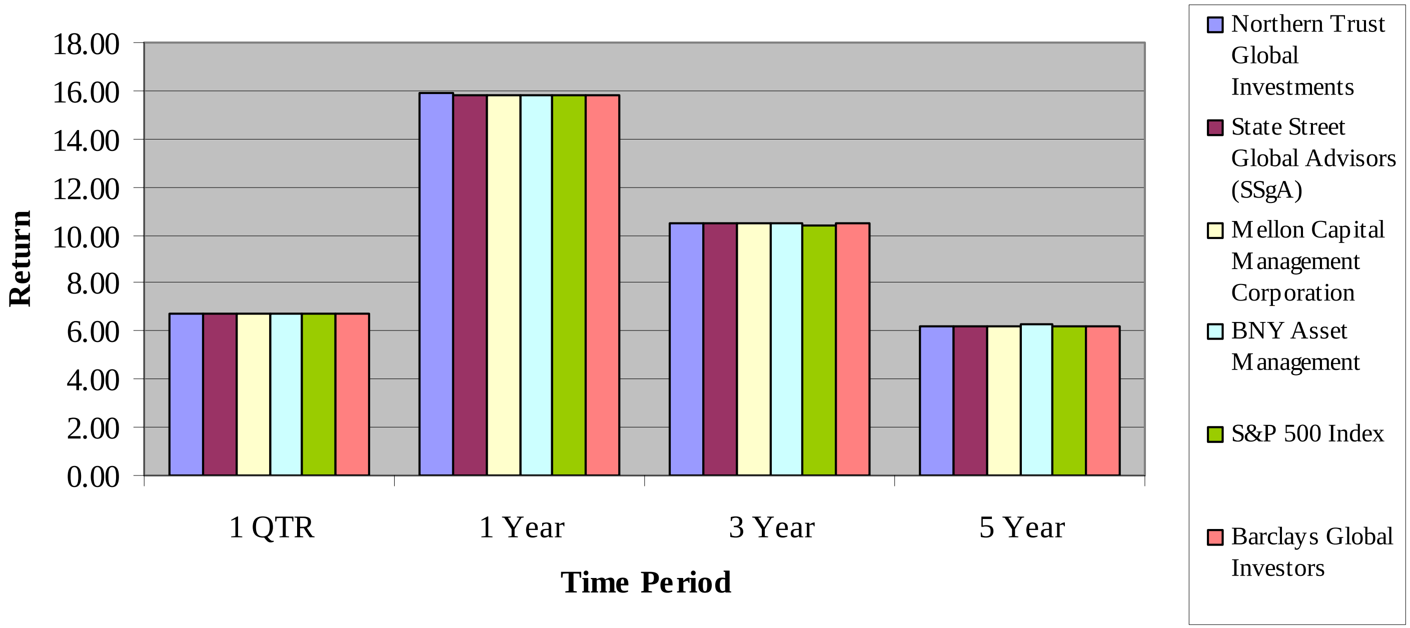
[1]Fees are based on proposed fee schedule provided by the manager. These are estimated based on a proposed fee for a separate account without securities lending.

[2]Assets managed as of 6/30/2006

WILSHIRE CONSULTING

Annualized Returns as of 12/30/06

Manager	Annualized Returns: 1 QTR	1 Year	3 Year	5 Year
Barclays Global Investors	6.71	15.84	10.49	6.24
BNY Asset Management	6.71	15.83	10.49	6.26
Mellon Capital Management Corporation	6.71	15.85	10.49	6.24
Northern Trust Global Investments	6.71	15.87	10.47	6.24
State Street Global Advisors (SSgA)	6.71	15.82	10.46	6.22
S&P 500 Index	**6.70**	**15.81**	**10.43**	**6.18**



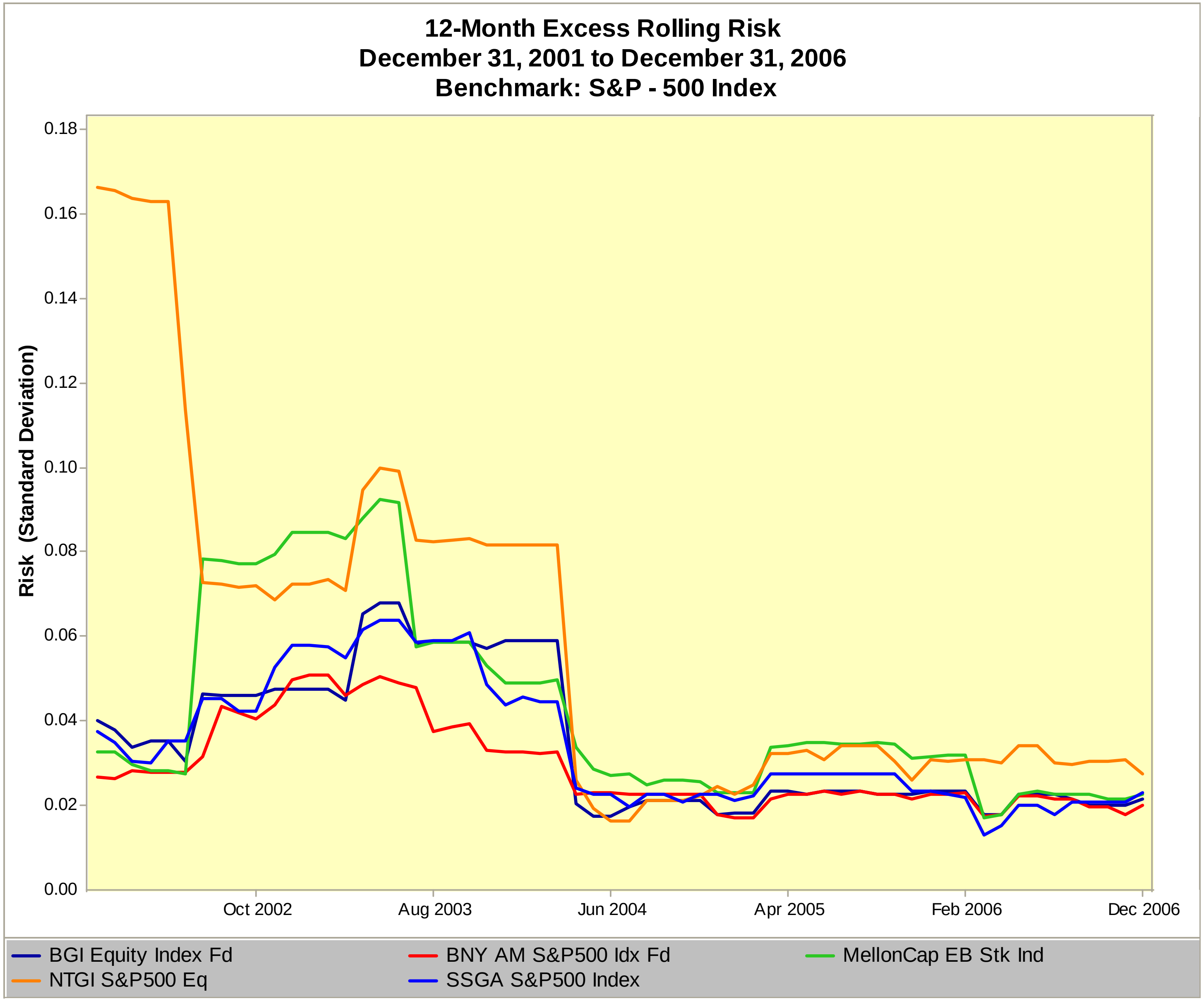
Note: Alliance Bernstein and Mellon Equity do not report return information for this product to the Wilshire Odyssey database. Annualized returns as of 12/31/05 as presented in their RFPs are included in the appendix.

Annual Returns

Manager	Calendar Years				
	2006	**2005**	**2004**	**2003**	**2002**
Barclays Global Investors	15.84	4.97	10.93	28.75	-22.05
BNY Asset Management	15.83	4.97	10.95	28.78	-22.02
Mellon Capital	15.85	4.97	10.93	28.70	-22.05
Northern Trust	15.87	4.96	10.85	28.74	-22.02
State Street Global Advisors	15.82	4.94	10.88	28.73	-22.05
S&P 500 Index	**15.81**	**4.89**	**10.87**	**28.69**	**-22.12**

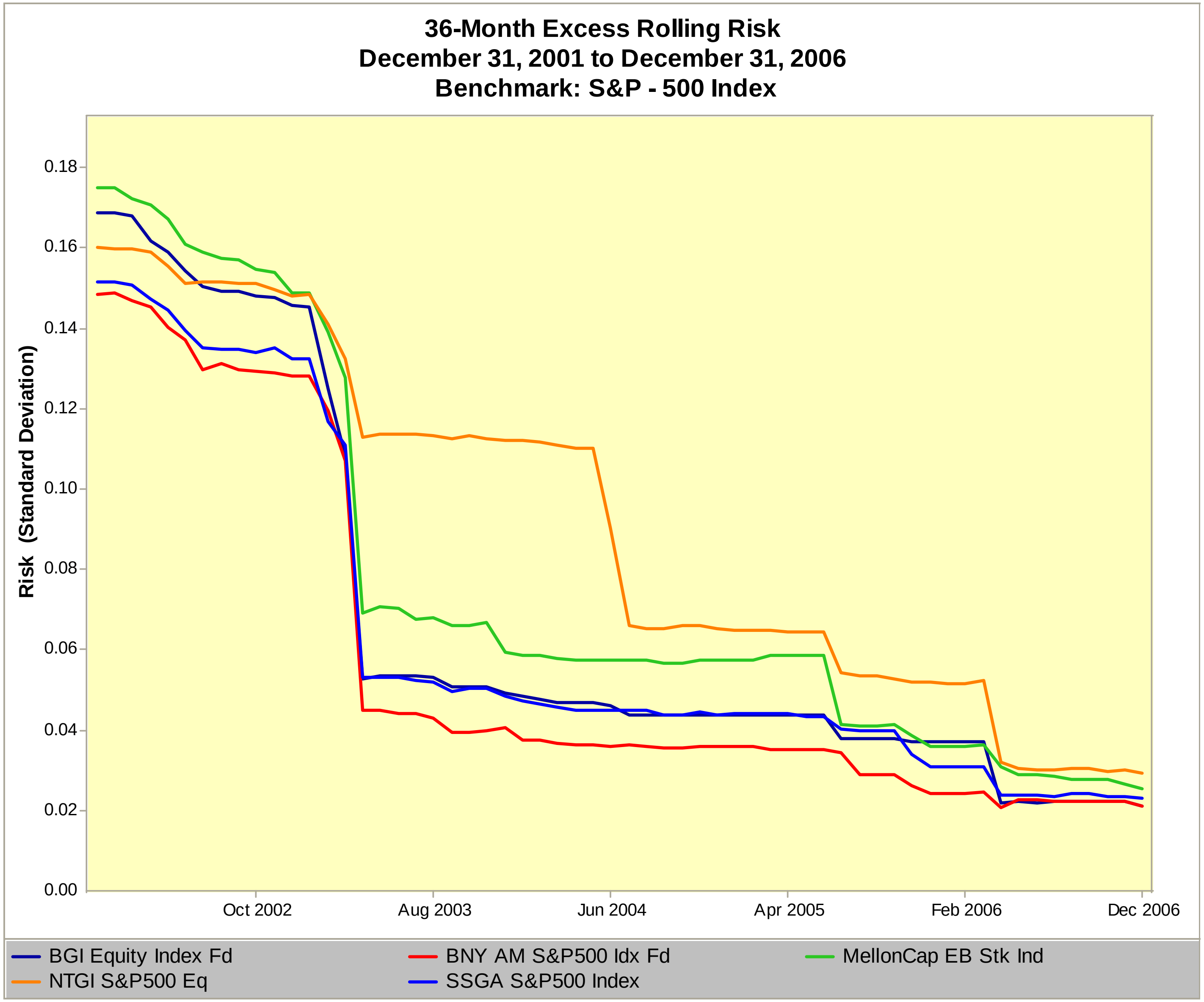
Note: Alliance Bernstein and Mellon Equity do not report return information for this product to the Wilshire Odyssey database. Annualized returns as of 12/31/05 as presented in their RFPs are included in the appendix.

1 Year Rolling Tracking Error



Note: Alliance Bernstein and Mellon Equity do not report return information for this product to the Wilshire Odyssey database.

3 Year Rolling Tracking Error



Note: Alliance Bernstein and Mellon Equity do not report return information for this product to the Wilshire Odyssey database.

AllianceBernstein

Organization Overview

- AllianceBernstein was originally founded under the name Alliance Capital on January 17, 1971 as a result of the merger of the investment management department of Donaldson, Lufkin, and Jenrette and Moody's Investors Service investment advisory business. Alliance Capital acquired Sanford Bernstein in 2000. In February 2006, the firm changed its name to AllianceBernstein L.P. Their total firm AUM as of June 30, 2006, is $625 billion in assets.

Experience

- AB has $17.3 billion in large cap US Equity indexed AUM as of June 30, 2006. $7.4 billion of this total is for public fund clients. AB has nine key personal that will be involved in the management of the portfolio. Their experience averages 19 years in the industry, and 13 years with the firm. This team falls within the Blend Strategies team.

Philosophy and Process

- AB uses a full index replication approach, holding all stocks in the index at their index weight.

Pros:

- **Team members involved in indexing have over 19 years of average experience, with 13 years on average with AllianceBernstein**
- **Large, deep organization with a high level of AUM across multiple asset classes**

Cons:

- **Highest fee of any of the candidates (2.82 bps)**
- **Low amount of AUM for indexed US Equity as compared to other candidates**
- **Not a dedicated indexer**

Bank of New York

Organization Overview

- In 1784, Alexander Hamilton founded the Bank of New York. In 1832, the Bank of New York formed its first investment division, which is today known as BNY Asset Management. Their total firm AUM as of June 30, 2006, is $116 billion in assets.

Experience

- BNY has 13.8 billion in large cap US Equity indexed AUM as of June 30, 2006. $5 billion of this total is for public fund clients. BNY has five key personal that will be involved in the management of the portfolio. Their experience averages 14 years in the industry, and 9 years with the firm.

Philosophy and Process

- BNY uses a full index replication approach. The BNY Quantitative Equity Management team utilizes full replication wherein all stocks and sectors in the index are held in proportion to their weights in the benchmark index.

Pros:

- **Portfolio managers average over 14 years of experience**
- **Low Tracking Error to benchmark**

Cons:

- **Low amount of AUM for indexed US Equity as compared to other candidates**
- **Proposed fee is not as low as other candidates**

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 U.S. Equity index funds since 1973. 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 three US Equity Index portfolio managers who manage $303.8 billion in passive U.S. Equity mandates average 15 years of experience and 12 years with the firm. The firm manages over $176 billion in US Equity mandates for public clients.

Philosophy/Investment Process

- BGI utilizes a full replication approach to provide the risk and return profile of the benchmark. BGI's index investment philosophy focuses on three objectives: minimizing tracking error, minimizing transaction cost, and minimizing investment and operational risk. The firm works with major index providers to understand and influence index changes including at the market and security levels.

Pros

- **Long history as an index provider**
- **Highest assets under management among candidates for passive U.S. Equity (~$303 billion)**
- **Low turnover on team**

Cons

- **High fee compared to other candidates (2.26 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 managed index funds since 1978, and fixed income index funds since 1987. SSgA has over $95 billion in S&P passive indexed AUM as of 6/30/06, 28% of which is from public fund clients. The portfolio management team averages 14 years of investment experience, and 10 years with the firm.

Philosophy/Investment Process

- SSgA's passive US Equity index is constructed utilizing a full replication approach, and seeks to match all characteristics of the index. The firm maintains a risk-controlled process with tracking error as the top-down risk control. Monthly internal reviews are performed to ensure compliance to the portfolio's philosophy. Additionally, the firm leverages its size in the marketplace to keep transaction costs low.

Pros

- **Long history as an index provider**
- **Experienced and deep portfolio management team**
- **Has experienced significant growth in AUM over last four years**
- **Large amount of passive US Equity Assets Under Management ($95 billion)**
- **Competitive Fee Proposal**

Cons

- **Organizational risk due to significant OBWC allocation to other SSgA products**

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 $81.7 billion in S&P passive indexed AUM as of June 30, 2006. The currently manage $17.6 billion for public fund clients. Experience of the team averages ~11 years in the industry and 5 years with the firm.

Philosophy and Process

- Northern trust uses a process called Intelligent Indexing that is based on five key initiatives. In the case of US Equities, Northern uses a replication approach.   The objective function of their model is the maximization of liquidity in trade flows while utilizing multi-dimensional risk management to tightly constrains portfolios at the stock, sector, and risk factor level. They also incorporate Index change strategies that emphasize the elimination of wealth erosion. Lastly the utilize trading algorithms that employ technology to discover liquidity and thus minimize transactions costs.

Pros:

- **Lowest proposed fees as compared to the other candidates (.75 bps)**
- **Large amount of passive US Equity Assets Under Management ($82 billion), with 22% of AUM ($17.6 billion) dedicated to Public funds**
- **Personnel additions including a new Director of the Global Equity Index Management Group (2000) and a new Domestic Equity Team Leader (2004) viewed as enhancements to team**

Cons:

- **Some organization changes in recent past**
- **Slightly higher tracking error in longer term periods**

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 $28.6 billion in U.S. Equity indexed AUM as of June 30, 2006. Mellon Capital has five key personal that will be involved in the management of the portfolio. Their experience averages 13 years in the industry, and 13 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 full replication.

Pros:

- **Experienced team of portfolio managers which have long history on the Mellon Capital team (average 13 years in industry, and 13 years with Mellon Capital)**

Cons:

- **Low amount of assets under management for passive US Equity mandates as compared to other candidates**
- **Fee proposal is high compared to other candidates**

Mellon Equity

Organization Overview

- Mellon Equity is an independently run, wholly owned subsidiary of Mellon Financial Corporation. The group became a separate legal entity from the equity management group of Mellon Bank Trust Department in January 1987, managing domestic equity accounts for US tax-exempt clients. Their AUM as of June 30, 2006, is 20.9 billion in assets.

Experience

- Standish Mellon has 8.83 billion in large cap US Equity indexed AUM as of June 30, 2006. They currently do not handle any money for public fund clients. Mellon has six key personal that will be involved in the management of the portfolio. Their experience averages 17 years in the industry, and 9 years with the firm.

Philosophy and Process

- Mellon Equity uses a full index replication approach.

Pros:

- **Long history managing domestic equity**
- **Low fee in comparison to other candidates**
- **Portfolio managers average over 17 years of experience**

Cons:

- **Lowest amount of AUM of any candidates**
- **Does not manage any S&P Index mandates for public clients**

Appendix

Annualized Returns as Presented in RFP Responses

		Annualized Returns		
Manager	**YTD as of 6/30/06**	**1 Year**	**3 Year**	**5 Year**
Alliance Bernstein	2.72	4.96	14.37	0.60
Barclays Global Investors	2.72	4.95	14.42	0.58
BNY Asset Management	2.73	4.97	14.47	0.62
Mellon Capital Management Corporation	2.74	4.96	14.43	0.59
Mellon Equity	2.70	4.95	14.41	0.55
Northern Trust Global Investments	2.74	4.95	14.43	0.61
State Street Global Advisors (SSgA)	2.72	4.94	14.42	0.58
S&P 500 Index	**2.71**	**4.91**	**14.38**	**0.54**

1, 3, and 5-Year Annualized Returns as as of 12/31/05

DATE: March 14, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Investment Recommendation**
Public Work-Relief Employees' Fund
Marine Industry Fund

The following is an outline and explanation regarding the investment recommendation being proposed herein by the Chief Investment Officer with respect to the target portfolio desired for the two small BWC ancillary portfolios. These two portfolios are currently invested in the Ohio Bond Fund managed on a customized commingled basis by State Street Global Advisors (SSGA). This recommendation is endorsed by Mark Brubaker of Wilshire Associates.

Background

The BWC Investment Division is nearing completion of the asset allocation transition of approximately $14.8 billion of State Insurance Fund (SIF) investment assets from the Ohio Bond Fund managed by SSGA to its defined interim targeted asset allocation under passive indexed management styles. It is expected that 40% of these SIF investment assets will be transitioned to targeted active management styles per the BWC Investment Policy and Guidelines ("IPS") dated January 25, 2007 over the second half of this year once active managers are selected and approved.

Soon after this large SIF asset transition is completed, the transition of the invested assets of the BWC ancillary portfolios (except for Self-Insured Employers Guarantee Fund 100% invested in cash equivalents) totaling approximately $1.4 billion of invested assets will occur. Each of these ancillary portfolios currently remain invested in the Ohio Bond Fund but each will be liquidated out of the Ohio Bond Fund in their respective transitions.

The two larger ancillary portfolios, Disabled Workers Fund ($1.1 billion) and Coal Workers Fund ($235 million), have defined target asset allocation mixes similar to SIF because their respective liability duration targets are also long-term in nature in the 10-11 year range. The two smaller ancillary portfolios, Public Work-Relief Employees' Fund (PWF) and Marine Industry Fund (MIF), differ from the three larger BWC portfolios in that their liabilities are intermediate-term in nature with an approximate duration of 3-4 years. The Asset/Liability Valuation study presented by Wilshire Associates in July 2006 represents the liability duration for both PWF and MIF as 3.4 years.

Review

The BWC Investment Division conducted research to determine what target portfolio would be most suitable for PWF and MIF from an asset/liability matching, cost and current investment guidelines perspective. The small size of both PWF ($21 million) and MIF ($15 million) led to the conclusion that a passive management style of funds in a commingled common trust fund structure managed to a widely accepted high credit quality fixed income benchmark closely matching their liability duration was the best investment strategy for the invested assets of these two portfolios.

The Lehman Intermediate Government/Credit Index is determined to be the most appropriate fixed income benchmark index for PWF and MIF. The sector weightings and characteristics of this proposed benchmark index, as compared to the Lehman Aggregate index serving as the current legacy benchmark, is provided at the end of this report. The proposed benchmark has an effective duration of 3.65 years which is well within the 3-4 year range defined as the liability duration for PWF (per Appendix X.E of IPS) and for MIF (per Appendix X.C of IPS).

The Investment Division compared fixed income funds managed to the proposed benchmark index that were offered by the BWC custodian JPMorgan and its two passive indexed fixed income managers, SSGA and Barclays Global Investors (BGI). The JPMorgan Fund ($1.1 billion) is actively managed under a commingled structure and has a higher management fee/expense ratio and significantly higher tracking error compared to the SSGA and BGI funds reviewed. The JPMorgan Fund also employs the use of futures to manage cash and securities lending to achieve higher total return.

The BGI Fund ($3.0 billion) is passively managed under a commingled structure, performs securities lending and has the ability to use futures but does not currently utilize futures. It has reasonably low tracking error. BGI quoted the BWC a per annum management fee of 6 basis points.

SSGA passively manages assets currently in excess of $16 billion to the proposed benchmark index under a commingled structure and offers both a Securities Lending Fund ($14.8 billion at YE06) and Non-Securities Lending Fund ($1.3 billion at YE06). Both SSGA Funds are permitted to use futures to manage cash to further reduce tracking error but has never utilized futures since its 1997 inception date. The historical tracking error for these SSGA combined funds is low and has been less than 3 basis points for each of the past three years 2004-2006. SSGA quoted a per annum management fee of 4 basis points per annum or a minimum of $10,000 per account, whichever is higher. The relevant management fee is thus $10,000 per account for each of PWF and MIF unless one or both exceed $25 million in assets. The only other fees charged by the SSGA Funds are an annual custody fee of 2.0 basis points and incidental per trade fees and annual administration fee. Both SSGA Funds have been managed under the direction of John Kirby for the past five years. Mr. Kirby has served as portfolio manager of the Ohio Bond Fund for BWC and will be serving as the head portfolio manager of the passively managed Long Duration Fixed Income assets targeted to SSGA on behalf of BWC.

Recommendation

It is recommended that all invested assets of both the Public Work-Relief Employees' Fund and the Marine Industry Fund be invested in the Non-Lending Intermediate U.S. Government/Credit Index Common Trust Fund (the "Fund") passively managed by SSGA to the Lehman U.S. Intermediate Government/Credit benchmark index under the terms described herein. This Fund will be managed under a commingled trust structure with State Street Bank and Trust serving as the master custodian of the Fund and JPMorgan serving as BWC custodian under a unit pricing accounting structure.

This Fund is being recommended for the following reasons:

(a) very low cost ($10,000 management fee per portfolio plus modest additional costs);
(b) excellent asset/liability duration match offered;
(c) low historical tracking error;
(d) option provided investors for non-securities lending commingled trust fund selection;
(e) lead PM and portfolio manager team well known to an respected by BWC

Management of the Fund under a commingled trust structure implies that all securities within all sectors of the benchmark index are permitted investments. Permitted investments will therefore include Non-U.S. Government issues which currently comprise slightly less than 6.5% of the identified benchmark index, as reflected in the attached table of benchmark index Sector Weightings. The aggregate value of such non-U.S. Government issues represented in the two small ancillary portfolios combined will initially be approximately $2.35 million.

The Recommendation provided herein by the BWC Chief Investment Officer will require the following addition to the IPS:

Intermediate Duration Fixed Income Benchmark

It is recommended that the Lehman Intermediate U.S. Government/Credit index be added and identified as the Intermediate Duration Fixed Income Benchmark index to Section V.A. of the IPS. As a result of this recommendation, Appendix X.C. and X.E. which identifies the 99% Intermediate Duration Asset Class for MIF and PWF, respectively, will link in to this benchmark index. It will be understood that approving this benchmark index will allow investments in Foreign Government issues only for BWC portfolios managed in a commingled trust fund structure to this referenced index.

LEHMAN FIXED INCOME BENCHMARKS

Sector Weightings
February 28, 2007

SECTOR	% Lehman Aggregate		% Lehman Intermediate Govt/Credit	
U.S. Treasury	24.48		41.40	
U.S. Agencies	10.97		21.52	
MBS Pass-Thrus	35.24		0.00	
Commercial MBS	5.09		0.00	
Asset-Backed (ABS)	1.18		0.00	
CMOs	0.00		0.00	
U.S. Corporates	16.50		26.40	
Financials		7.43		13.47
Industrials		7.33		10.54
Utilities		1.74		2.39
		16.50%		26.39%
Non-U.S. (Yankees)	6.54		10.68	
Corporates		2.83		4.23
Local Govt/Agcy		1.76		2.87
Sovereigns		1.01		1.71
Supranationals		0.94		1.87
		6.54%		10.68%
TOTAL	100.0%		100.0%	

Source: Lehman Brothers

LEHMAN FIXED INCOME BENCHMARKS

Quality Analysis
February 28, 2007

	% Lehman Aggregate	% Lehman Intermediate Govt/Credit
AAA	78.94	67.35
AA	5.33	8.99
A	8.38	12.95
BBB	7.35	10.71
BB or lower	0.00	0.00
Avg. Quality	AA1/AA2	AA1/AA2

LEHMAN FIXED INCOME BENCHMARKS

Portfolio Characteristics
February 28, 2007

	Lehman Aggregate	Lehman Intermediate Govt/Credit
Effective Duration	4.60 yrs	3.65 yrs
Avg Maturity/Avg Life	6.96 yrs	4.48 yrs
Avg Effective YTM	5.01%	4.88%
Current Yield	5.30%	5.01%
Avg. Effective Convexity	-0.37	1.84
Portfolio Avg Bond Price	101.59	100.81
Avg Coupon	5.38%	5.05%
Number of Issues	7,277	3,073

Effective implies option adjusted

Source: Lehman Brothers

Intermediate US Government/Credit Bond Index Strategy

31 December 2006

Investment Objective

The Intermediate US Government/Credit Bond Index Strategy seeks to match the total rate of return of the Lehman Brothers Intermediate Government/Credit Bond Index during a calendar year.

Description

The strategy seeks to match the return of the Lehman Brothers Intermediate Government/Credit Bond Index by investing in a well-diversified portfolio of government and corporate securities with a maximum final maturity of ten years. It is managed duration neutral to the Index at all times. Overall sector and quality weightings are also matched to the Index, with individual security selection based upon criteria generated by our credit and research group, security availability, and our analysis of its impact on portfolio weightings.

Key Features

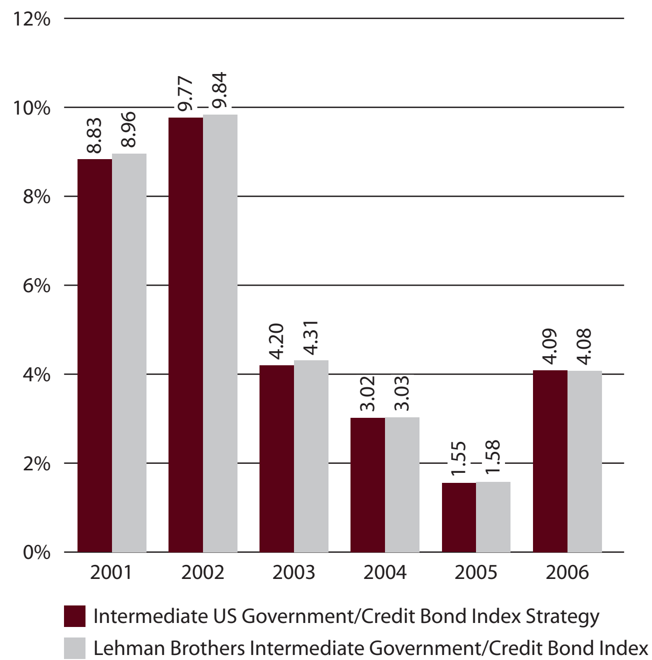
- Duration neutral
- Credit quality matching the chosen benchmark
- Risk/return characteristics matching the chosen benchmark
- Lower fee structure than actively managed funds
- Broad exposure to the intermediate U.S. government and credit markets
- Low tracking error

Performance

Total Return	Intermediate US Government/ Credit Bond Index Strategy	Lehman Brothers Intermediate Gov't/ Credit Bond Index
Q4 2006	1.04%	1.03%
YTD	4.09%	4.08%
1 Year	4.09%	4.08%
3 Year	2.88%	2.89%
5 Year	4.49%	4.53%
10 Year	N/A	N/A
Since Inception†	5.72%	5.75%

† Inception Date: September 30, 1997

Calendar Year Returns



Performance data may not be shown without the accompanying footnotes on the second page of this document. All numbers greater than 1 year are annualized.

Risk Management

The primary goal of a fixed income index strategy is to minimize tracking error. While complete replication of the Index is not possible, a stratified sampling approach is employed to build a portfolio whose broad characteristics match those of the Index. Individual security holdings may differ from the Index, but tracking error is continually monitored as the strategy seeks to ensure that investors are receiving the Index returns.

Characteristics

Average Quality	AA2
Yield to Worst	5.08%
Modified Adjusted Duration	3.59
Convexity	0.12

Sector Weights

Treasury	42.07%
Corporates	36.18
Agency	21.53
Other	0.22

Bond Quality

Aaa	67.99%
Aa	8.37
A	13.30
Baa	10.33

To: Ohio Bureau of Workers Compensation Investment Committee

CC: C. Bruce Dunn, CIO

From: Mark E. Brubaker, CFA and Michael D. Patalsky, CFA

Date: March 28, 2007

Re: Investment Recommendation for the Public Work-Relief Employees' Fund (PWRF) and the Marine Industry Fund (MIF)

Executive Summary

It is Wilshire's recommendation that the Ohio BWC invest the assets comprising both the Public Work-Relief Employees' Fund (PWRF) and the Marine Industry Fund (MIF) in State Street's Lehman Intermediate Government/Credit index product. Both of these ancillary plans have relatively short durations of 3 to 4 years, which is best approximated by the Lehman Intermediate Government/Credit Index, which has duration of 3.6 years. State Street's product closely replicates the index, with characteristics that are in line with those of the benchmark and returns that exhibit low tracking error to the index. The product has run at 2 basis points of tracking error over the previous rolling 3-year period. State Street has also proposed an attractive fee for this product, which is lowest among the firms considered. Wilshire also recommends that given the smaller size of these plans, the Investment Committee permit the investment to be managed in a commingled vehicle.

Wilshire Recommends Utilizing State Street's Intermediate Government/Credit Index Product

The liabilities of both the PWRF and the MIF are intermediate-term in nature, with an approximate duration of 3-4 years. This resembles the duration of the Lehman Intermediate Government/Credit Index, which has duration of 3.6 years. Thus, an appropriate investment choice would be an index fund benchmarked to the Lehman Intermediate Government/Credit Index that closely mimics the index's characteristics and returns, thus providing a good match to the liabilities of these two plans. State Street's combination of their ability to closely replicate the index along with a competitive fee proposal makes them an optimal candidate to manage assets for the PWRF and the MIF.

State Street is one of the strongest index managers in the marketplace. They have a long history managing assets passively across multiple asset classes, producing results that closely track the respective benchmarks to which they manage. State Street's Intermediate Government/Credit Index product has historically resembled the index, both in terms of product characteristics and returns. As can be seen in the table below, the product's characteristics as of December 31, 2006 closely mimic that of the benchmark.

	SSgA	Lehman Intermediate Gov/Credit Index
Characteristics		
Average Quality	AA2	AA
Yield to Worst	5.08	5.08
Modified Adjusted Duration	3.59	3.60
Bond Quality		
Aaa	67.99	67.39
Aa	8.38	8.49
A	13.30	13.42
Baa	10.33	10.70

Additionally, the products' returns track the benchmark closely, especially in nearer term periods. Since the fund's inception in September 1997, tracking error has run at 14 bps versus the benchmark, however, over the previous rolling five-year period, tracking error has been approximately 4 basis points. Over the previous rolling three-year period, tracking error has been approximately 2 basis points.

State Street has also proposed an attractive fee for this product, offering a fee of 4 basis points with a $10,000 minimum per account. Being that the asset levels for both the PWRF (~$21 MM) and the MIF (~$15 MM) would require the minimum charge of $10,000, the effective fee in basis points would be ~4.8 bps for the PWRF and ~6.7 bps for the MIF. The effective total fee for the two plans would be ~5.4 bps. This fee is lower than other competitors with similar product offerings.

Thus, State Street's strong index replication ability in combination with an attractive fee proposal enables Wilshire to recommend the use of this product for the Public Work-Relief Fund Employees' Fund and the Marine Industry Fund.

Wilshire Recommends Implementing the Strategy with Commingled Funds

Wilshire also recommends that the Investment Committee permit the investment to be managed in a commingled vehicle. Given the smaller size of these plans, a cost efficient vehicle is recommended as to not be a detractor from the value of the fund from higher fees that are associated with having a separate account. The most cost efficient means of managing these assets would be in a commingled arrangement.

DATE: March 19, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Investment Recommendation**
Customized Index
Long Duration Fixed Income Portfolio Management

Background

The BWC Chief Investment Officer has been engaged with Lehman Brothers in constructing a customized index modifying the Lehman U.S. Long Government/Credit Index. The Lehman U.S. Long Government/Credit Index (the "Reference Index") currently serves as the BWC benchmark index for the Long Duration Fixed Income asset class, as approved by the WCOC on July 20, 2006 when the new BWC asset allocation investment policy was proposed by Wilshire Associates. The purpose of this effort is to create a customized benchmark index that exhibits the bond issuer restrictions of the current BWC Statement of Investment Policy and Guidelines (IPS), yet preserves each of the important characteristics of the Reference Index.

It is the desire of the BWC Investment Division and the two Long Duration Fixed Income (LDFI) passive index managers now under contract with BWC (State Street and Barclays) to manage to a customized benchmark that reflects the restrictions of the IPS. This would provide greater assurance that the IPS restrictions would be consistently met by each LDFI manager as well as allowing for effective performance attribution by both the investment manager and BWC. It would not be fair or appropriate to have BWC LDFI investment managers manage to an index and be judged on performance and tracking error to that index whereby such manager was restricted from purchasing a number of issues in that index.

Lehman Brothers is now finalizing a customized index (the "Customized Index") that reflects the bond issuer restrictions of the IPS but is very similar to the Reference Index with respect to the following important characteristics:

- average quality
- quality distribution mix by credit ratings
- yield (current yield, yield to maturity, yield to worst)
- option adjusted yield spread
- option adjusted (effective) duration
- average maturity
- number of issues

The Customized Index being designed addresses the two prominent restrictions of the IPS that requires its creation:

(a) Non-U.S. (Foreign) Government issues not permitted as investments
(b) individual security maximum limits by Credit Quality bond rating

The Reference Index currently has a representation of 18 different Foreign Government credits totaling 41 different issues. These issues are excluded in the Customized Index because the IPS prohibits ownership of Non-U.S. governmental issues. The combined market value of these 41 prohibited issues currently represents approximately 3.8% of the Reference Index. This Non-U.S. Government representation, excluded from the Customized Index by Lehman Brothers, is reallocated across remaining eligible issues of the index (totaling 934 in number currently) so as to preserve the overall index profile of the Reference Index with negligible variation.

As a matter of information, Lehman Brothers (at the request of the BWC CIO) was able to provide a 1, 3 and 5 year (ending 12/31/06) total return performance (not annualized) comparison of the Customized Index, excluding all Foreign Government credits, versus the Reference Index. The results are shown below:

Ending YE06	Long G/C	Customized
1 Yr	2.71%	2.67%
3 Yr	17.46	17.12
5 Yr	42.77	41.98

With respect to matching the Customized Index to the IPS guidelines pertaining to ownership limits per credit, the Customized Index is also being programmed to restrict the ownership of any one credit from exceeding the ownership limits per credit quality as consistent with the IPS for total fixed income assets owned. There are currently only four credits represented in the Reference Index (AT&T, Comcast, Sprint, Time Warner) whose % market value ownership exceeds the BWC IPS limits. The excess % market value above a defined limit provided Lehman Brothers by BWC for the Customized Index will be reallocated among the other issues within the same quality rating category to ensure the overall quality consistency desired between the two indices. The cumulative excess market value to be reallocated for these four exception credits is currently approximately 2.0% of the total market value of the Reference Index.

The Customized Index will be posted daily on the Lehman Brothers "Lehman Live" website that displays all Lehman bond indices (both actual and customized) with returns updated on a daily basis. As a result, customized index returns are available to BWC external investment managers and performance evaluators (Wilshire, JPMorgan, BWC staff) for review and attribution purposes. Lehman Brothers programs and provides customized indices to its clients. These customized indices are available to subscribers of Lehman Live at no additional expense. BWC is a paid subscriber to Lehman Live.

Recommendation

It is recommended that the Lehman Customized U.S. Long Government/Credit Index described herein be identified as the Long Duration Fixed Income benchmark index in Section V.A. of the IPS. This Customized Index will reflect the bond ownership restrictions of the IPS that the existing reference benchmark Lehman U.S. Long Government/Credit Index does not adequately reflect. This Lehman Customized U.S. Long Government/Credit Index will serve as the benchmark index for all passive style and active style investment managers approved to invest BWC Long Duration Fixed Income assets.

DATE: February 8, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Investment Policy Recommendations**
Revisions to BWC Investment Policy and Guidelines
Below Investment Grade Bonds Ownership Limits

The current asset allocation targets for the BWC State Insurance Fund, Disabled Workers Fund and Coal Workers Fund are 80% Fixed Income and 20% Equity. These three portfolios combined represent over 99% of invested assets of the BWC. Included in the 80% Fixed Income target is a 5% target allocation for Below Investment Grade Credit (High Yield) Bonds. It is necessary to address ownership limits for High Yield bonds, both in terms of an Asset Class Policy Range and specifically for each of the rating agency credit quality letter grades assigned. It is the intention of the BWC Investment Division to issue a RFP for Active High Yield Bond management services within the next month that will reflect investment guidelines for the management of BWC High Yield Bonds.

At the January 2007 IC/WCOC meetings, approval was given to all recommended IPS Changes applicable to investment grade bonds but further review and study was needed by the BWC Investment Committee before any revisions to high yield bond ownership limits would be considered.

Given the current 5% BWC target asset allocation for High Yield Bonds, it is recommended that the Asset Class Policy Range for High Yield Bonds be 4-6% of total BWC invested assets. **This recommendation is reflected in the proposed revised <u>Appendix X.A, X.B and X.D</u> of the BWC Investment Policy Statement (IPS).** This recommended range would be consistent with the two other small target asset allocation ranges approved at the January 2007 IC/WCOC meetings (Non U.S. Equity 5% target and 4-6% range; Small/Mid Cap Equity 3% target and 2-4% range).

The current benchmark index in the BWC IPS for High Yield Bonds is the Merrill Lynch High Yield Master II Index (Index). The table on the following page reflects the credit quality composition of this Index on 12/31/06 by market value. These respective market values are also reflected as a percentage of BWC total assets (at 5% HY bond target) and as a percentage of the BWC 80% targeted fixed income assets level.

	# Bonds	% Value	Pro Forma Index % BWC Total Assets	Pro Forma Index % BWC FI Assets
BB	643	38%	1.9%	2.4%
B	834	46%	2.3%	2.9%
CCC	360	16%	0.8%	1.0%
C	2	.015%		
	1839	100%	5.0%	6.25%

An upper limit of 6% of total assets ownership limit for High Yield Bonds is equivalent to a 7.5% limit for BWC fixed income assets, given the 80% BWC fixed income asset class target (6%/.80 = 7.5%). This is reflected in the proposed revised Section IV.C.ii of the IPS.

As reflected in the benchmark index table shown above, single-B or below rated bonds comprise 62% of the Index on 12/31/06 which is the equivalent to 3.1% of BWC total assets at the 5% high yield bond target and 3.9% of BWC fixed income assets at the 80% total fixed income target. Bonds rated CCC comprise 16% of the Index which is the equivalent to 0.8% of BWC total assets at the 5% high yield bond target and 1.0% at the 80% total fixed income target.

It is recommended that the maximum percentage ownership of B or below rated bonds be 70% of total BB or below rated bonds owned by BWC. This is equivalent to 4.2% of total BWC invested assets at the 6% upper limit ownership range proposed for High Yield Bonds and 3.5% of total BWC invested assets at the 5% High Yield Bond asset allocation target.

It is recommended that the maximum percentage ownership of CCC rated bonds be 20% of total BB or below rated bonds owned by BWC. This is equivalent to 1.2% of total BWC invested assets at the 6% upper limit ownership range proposed for High Yield Bonds and 1.0% of total BWC invested assets (the current IPS limit) at the 5% High Yield Bond asset allocation target.

Both of these recommendations are reflected in the proposed revised Section IV.C.ii of the IPS.

The relevant individual security maximum ownership percentage for each of the three High Yield Bond credit quality grades would remain unchanged. This actually becomes in theory 20% more restrictive per issuer because it represents a percentage of the 80% fixed income portfolio rather than the 100% total invested assets portfolio.

The above restrictions are believed to provide each active style high yield bond manager sufficient latitude to exercise their management skills to achieve the goal of outperforming the target benchmark index but nevertheless to be balanced with the discipline of maintaining an average portfolio credit quality consistent with the benchmark index.

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

Diversification

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

By Sector:

Sector Allocation	Max. % of Fixed Income
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	***7.5%***

Deleted: *5*

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

By Credit Quality:

Credit Quality	Max. % of Fixed Income	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	25%	0.50% (BBB only)
Ba/BB or below	7.5%	0.25% (BB only)
B/B or below	*	0.10% (B only)
CCC	**	0.05% (CCC only)
Below CCC	0%	0.00%

***Maximum of 70% of "Ba/BB or below" securities owned**
****Maximum of 20% of "Ba/BB or below" securities owned**

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.

i. 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.

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.

			Management Style	
Asset Class	**Policy Target[1]**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity				
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	4-6%	0%	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.

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

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***74%***	***5%***
Long Duration	54%	51-57%	54%	0%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***20%***	***0%***
U.S. Equity	20%			
Large Cap	17%	9-15%	17%	0%
Small/Mid Cap	3%	2-4%	3%	0%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	0%	NA	NA	NA

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

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity	15%			
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	4-6%	0%	5%

Actuarial Consulting Services to Support the Workers' Compensation Oversight Commission
Bid # BO7016

The Workers' Compensation Oversight Commission (WCOC) issued a Request for Proposal (RFP) to retain the services of a consulting actuarial vendor for the purpose of advising the WCOC in actuarial and financial decisions. The RFP was issued on December 20, 2006 with proposals due from vendors by January 18, 2007. The selected vendor will begin working with the WCOC in April, 2007.

In response to the RFP the WCOC received one submission from AON Risk Consultants, Inc. Two other firms submitted questions to the RFP but did not submit a proposal. Those firms were Milliman and Deloitte. Elizabeth Bravender, Actuarial Director, along with Win McCausland and Mike Koetters, members of the WCOC investment committee, reviewed and scored the proposal from AON to determine if it would meet the RFP requirements. The scoring was as follows:

Phase 1 Evaluation – Administrative Requirements
The submitted proposal met all administrative requirements.

Phase 2 Point Scale Rating – 475 Points out of a possible 600

A. Cost- 100 Points out of a possible 100
The Only proposal that was received was from AON so they received the full score for Cost.

B. Consultant Credentials – 40 Points out of a possible 40
The evaluation for consultant credentials consists of scoring for both the number of the U.S. staff and the total members of the U.S. staff. AON scored a perfect score by having 20 FCAS as members of the U.S. staff and also having at least 60 credentialed actuarial staff.

C. Project Team Credentials and Composition – 120 points out of a possible 135
The evaluation for Project Team Credentials and Composition consists of scoring for both the number of FCAS on the project team and the quality of the work plan. The Project Team has more than 4 FCAS on the team for 100 points. The subcategory of the quality of the work plan was scored based upon the assignment of meaningful amount of work to the appropriate experience level. In reviewing the plan it appears that about half of the work will be assigned to FCAS team members so a score of 20 was assigned.

D. <u>Project Team Experience – 85 Points out of a possible 115</u>
The evaluation for Project Team Experience consists of scoring both for direct reserving and ratemaking experience and for consulting projects on reserving and ratemaking in the last ten years with workers' compensation state funds or private insurers with $750 million and greater in annual premiums written. In scoring for this category it was determined that AON had over 10 years experience which would correspond to a score of 85 points.

E. <u>Project Team References – 30 Points out of a possible 30</u>
The evaluation for Project Team References consists of scoring for positive references regarding actuarial consulting experience. Contact was made with all three references. Federated Department Stores gave a very strong recommendation. ITT Industries also gave a strong recommendation and indicated that they have had nearly 30 years of experience with AON. ITT elaborated on AON's professionalism, responsiveness and thoroughness on projects done for ITT. Kindred Healthcare's legal department advised that they could not provide a reference as they felt that it would be a conflict of interest for the company as it is a self-insured employer in Ohio.

F. <u>Project Team Ohio Presence – 0 Points out of a possible 50</u>
AON Risk Consultants, Inc. does not currently have an Ohio presence.

G. <u>Philosophical Approach and Project Approach – 100 Points out of 130</u>
The Philosophical Approach and Summary of Project is evaluated for comprehensiveness and clarity. The committee awarded 100 point to AON based upon the response detailing their philosophical approach of being a consulting actuary and their project summary for each of the tasks that were identified in the RFP.

The scoring committee completed the scoring and had a telephone interview with representatives of AON Risk Consultants, Inc. After reviewing the proposal the scoring committee is recommending AON Risk Consultants for the WCOC consulting actuary to the Workers' Compensation Oversight Commission.

Prepared by: Elizabeth Bravender, Actuarial Director
February 2, 2007

Ohio Bureau of Workers' Compensation

Cash Management

January 25, 2007

Cash Management Procedures

- The BWC Finance Division calculates and communicates daily excess operating cash or operating cash needs to the Treasurer of State Office (TOS) via fax.

- The TOS reviews and approves the cash amount and communicates this to JPMorgan for sweep into the U.S. Government Money Market Fund or movement from the Money Market Fund to the operating cash account.

- Intraday transactions are faxed to the TOS for approval. The TOS communicates these amounts to JPMorgan for addition or removal from the sweep account.

- In the near future, the BWC will be utilizing electronic communication with the TOS.

Fund Highlights

- The daily cash balances of the BWC are invested in the **JPMorgan U.S. Government Money Market Fund**, a very large money market fund (assets $19.6 billion on 12/31/06) with seven different Class shares ranging from retail Class shares to large institutional Class shares.

- The total investment objective of the Fund is to provide the highest possible level of current income while maintaining liquidity and preserving capital.

- 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.

- BWC is invested in the Capital Share Class shares of the Fund, the lowest expensed shares offered with a current all-in fee cap of 16 bp annualized. Retail shares of this Fund have a current expense fee of 59 bp by comparison.

- Minimum average daily balance required for Capital Share Class investor eligibility is $125 million.

- The Capital Share Class of the Fund has provided excellent competitive yields, as reflected in the following table. Yields of the Capital Share Class shown are 30 day average yields net of all fees.

The JPMorgan prospectus for the Fund is on file in the BWC Investment Division

JPMorgan U.S. Govt. MMF (Capital Share Class) vs. U.S. Treasury Yields

Month	JPM Capital Share Class	UST 5 Year	UST 10 Year
Jan. 2006	4.23%	4.35%	4.42%
Feb. 2006	4.38	4.57	4.57
Mar. 2006	4.45	4.72	4.72
Apr. 2006	4.64	4.90	4.99
May 2006	4.76	5.00	5.11
June 2006	4.87	5.07	5.11
July 2006	5.10	5.04	5.09
Aug. 2006	5.12	4.82	4.88
Sept. 2006	5.15	4.67	4.72
Oct. 2006	5.16	4.69	4.73
Nov. 2006	5.15	4.58	4.60
Dec. 2006	5.17	4.53	4.57

JPMorgan U.S. Government Money Market Fund Capital Share Class yields are 30-day average yield net of fees.

Respective Treasury yields are average 5-year and 10-year Constant Maturity UST yields obtained from Bloomberg.

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**

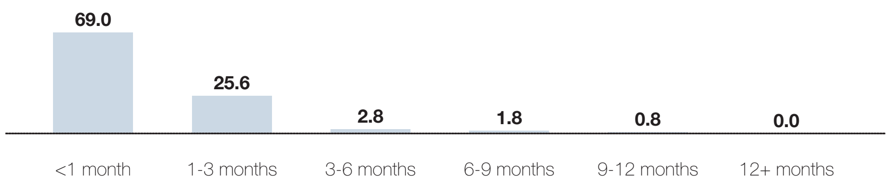
7-day SEC yield as of December 31, 2006 was 5.32%

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

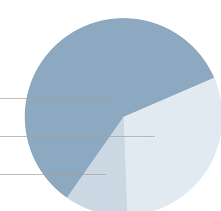
Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06
24	**27**	**39**	**34**	**26**	**42**	**35**	**34**	**50**	**43**	**29**	**29**

Portfolio Analysis Breakdown — Weighted Average Maturity*



Portfolio Analysis Breakdown — Sector*

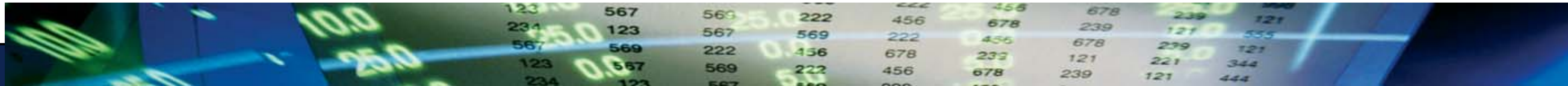
Repurchase Agreements	**58.8%**
U.S. Government Agencies	**30.9%**
Discount Notes	**10.3%**



* 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.



Ohio Bureau of Workers’ Compensation

Securities Lending Reports April – December 2006

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

Year-to-Date Through December 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$2,316,605,110	$150,806,991	$147,774,196	102.1%	6.4%	$190,130	$47,532	$237,662	1.01
Total	2,316,605,110	150,806,991	147,774,196	102.1	6.4	190,130	47,532	237,622	1.01
U.S. Government									
Agency	3,013,085,880	764,738,725	748,929,299	102.1	24.9	590,495	147,624	738,119	2.42
Treasury	3,201,548,728	2,938,974,794	2,860,549,406	102.7	89.4	4,316,205	1,079,051	5,395,256	16.62
Total	6,214,634,608	3,703,713,519	3,609,478,705	102.6	58.1	4,906,700	1,226,675	6,133,375	9.73
Grand Total	$8,531,239,718	$3,854,520,510	$3,757,252,901	102.6%	44.0%	$5,096,830	$1,274,207	$6,371,037	7.37

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

April 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$2,975,867,370	$143,206,390	$140,253,883	102.1%	4.7%	$15,304	$3,826	$19,130	0.77
Total	2,975,867,370	143,206,390	140,253,883	102.1	4.7	15,304	3,826	19,130	0.77
U.S. Government									
Agency	3,417,489,397	390,667,821	382,237,229	102.2	11.2	29,347	7,337	36,684	1.29
Treasury	4,318,645,373	3,708,536,032	3,588,405,739	103.3	83.1	410,998	102,749	513,747	14.28
Total	7,736,134,770	4,099,203,853	3,970,642,968	103.2	51.3	440,345	110,086	550,432	8.54
Grand Total	$10,712,002,140	$4,242,410,243	$4,110,896,851	103.2%	38.4%	$455,649	$113,912	$569,561	6.38

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

May 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,093,488,258	$365,660,464	$358,145,743	102.1%	11.6%	$32,117	$8,029	$40,146	1.51
Total	3,093,488,258	365,660,464	358,145,743	102.1	11.6	32,117	8,029	40,146	1.51
U.S. Government									
Agency	3,944,942,246	780,508,972	764,156,512	102.1	19.4	66,382	16,596	82,978	2.44
Treasury	4,182,793,114	3,989,051,713	3,869,690,932	103.1	92.5	619,850	154,963	774,813	21.51
Total	8,127,735,360	4,769,560,685	4,633,847,444	102.9	57.0	686,233	171,558	857,791	12.26
Grand Total	$11,221,223,618	$5,135,221,149	$4,991,993,187	102.9%	44.5%	$718,350	$179,587	$897,937	9.29

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

June 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,115,093,023	$216,419,705	$212,007,053	102.1%	6.8%	$18,763	$4,691	$23,454	0.90
Total	3,115,093,023	216,419,705	212,007,053	102.1	6.8	18,763	4,691	23,454	0.90
U.S. Government									
Agency	3,987,034,970	970,980,195	951,497,281	102.0	23.9	55,371	13,843	69,214	2.08
Treasury	4,104,676,338	3,949,040,116	3,803,051,087	103.8	92.7	590,052	147,513	737,565	21.56
Total	8,091,711,308	4,920,020,311	4,754,548,368	103.5	58.8	645,423	161,356	806,779	11.96
Grand Total	$11,206,804,331	$5,136,440,016	$4,966,555,421	103.4%	44.3%	$664,186	$166,047	830,233	8.89

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

July 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,186,296,811	$165,156,437	$161,953,055	102.0%	5.1%	$7,484	$1,871	$9,355	0.34
Total	3,186,296,811	165,156,437	161,953,055	102.0	5.1	7,484	1,871	9,355	0.34
U.S. Government									
Agency	4,115,623,029	1,178,852,140	1,154,003,143	102.2	28.0	8,764	2,191	10,955	0.31
Treasury	4,192,935,363	4,084,714,871	3,987,669,155	102.4	95.1	399,414	99,853	499,267	13.83
Total	8,308,558,392	5,263,567,011	5,141,672,298	102.4	61.9	408,178	102,045	510,223	7.13
Grand Total	$11,494,855,203	$5,428,723,448	$5,303,625,353	102.4%	46.1%	$415,662	$103,915	$519,557	5.25

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting
August 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,218,204,154	$175,597,210	$172,513,279	101.8%	5.4%	$17,449	$4,362	$21,812	0.79
Total	3,218,204,154	175,597,210	172,513,279	101.8	5.4	17,449	4,362	21,812	0.79
U.S. Government									
Agency	4,180,547,891	1,311,661,353	1,286,412,996	102.0	30.8	63,063	15,766	78,829	2.19
Treasury	4,368,321,377	4,242,883,866	4,127,489,158	102.8	94.5	372,801	93,200	466,001	12.39
Total	8,548,869,268	5,554,545,219	5,413,902,154	102.6	63.3	435,864	108,966	544,830	7.40
Grand Total	$11,767,073,422	$5,730,142,429	$5,586,415,433	102.6%	47.5%	$453,314	$113,328	$566,642	5.59

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

September 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,367,265,270	$211,911,270	$207,614,091	102.1%	6.2%	$20,070	$5,018	$25,088	0.89
Total	3,367,265,270	211,911,270	207,614,091	102.1	6.2	20,070	5,018	25,088	0.89
U.S. Government									
Agency	4,289,383,061	1,469,029,553	1,438,962,881	102.1	33.5	60,781	15,195	75,976	2.13
Treasury	4,198,239,848	4,085,113,422	3,991,281,939	102.4	95.1	425,559	106,390	531,949	15.20
Total	8,487,622,909	5,554,142,975	5,430,244,820	102.3	64.0	486,340	121,585	607,925	8.59
Grand Total	$11,854,888,179	$5,766,054,245	$5,637,858,911	102.3%	47.6%	$506,410	$126,602	$633,012	6.41

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

October 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,459,205,865	$249,739,407	$244,442,687	102.2%	7.1%	$22,720	$5,680	$28,401	0.95
Total	3,459,205,865	249,739,407	244,442,687	102.2	7.1	22,720	5,680	28,401	0.95
U.S. Government									
Agency	4,302,740,245	1,384,403,928	1,353,031,096	102.3	31.4	24,944	6,236	31,180	0.84
Treasury	4,323,497,578	4,188,626,398	4,092,745,938	102.3	94.7	276,893	69,223	346,117	9.30
Total	8,626,237,823	5,573,030,326	5,445,777,034	102.3	63.1	301,838	75,459	377,297	5.08
Grand Total	$12,085,443,688	$5,822,769,733	$5,690,219,721	102.3%	47.1%	$324,558	$81,140	$405,698	3.90

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

November 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$3,511,788,671	$245,354,852	$240,441,226	102.0%	6.8%	$22,134	$5,534	$27,668	0.95
Total	3,511,788,671	245,354,852	240,441,226	102.0	6.8	22,134	5,534	27,668	0.95
U.S. Government									
Agency	4,321,556,506	1,393,313,894	1,364,909,747	102.1	31.6	38,359	9,590	47,949	1.33
Treasury	4,285,967,932	4,114,581,899	4,033,968,514	102.0	94.1	216,565	54,141	270,706	7.58
Total	8,607,524,438	5,507,895,793	5,398,878,261	102.0	62.7	254,925	63,731	318,656	4.44
Grand Total	$12,119,313,109	$5,753,250,645	$5,639,319,487	102.0%	46.5%	$277,059	$69,265	$346,323	3.43

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

December 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$520,956,780	$28,936,324	$28,367,620	102.0%	5.4%	$34,088	$8,522	$42,610	9.50
Total	520,956,780	28,936,324	28,367,620	102.0	5.4	34,088	8,522	42,610	9.50
U.S. Government									
Agency	2,483,107,526	223,805,846	219,838,853	101.8	8.9	239,331	59,833	299,163	13.99
Treasury	2,302,898,670	1,554,787,561	1,523,371,716	102.1	66.2	803,619	200,905	1,004,524	50.66
Total	4,786,006,196	1,778,593,407	1,743,210,569	102.0	36.4	1,042,950	260,737	1,303,687	31.63
Grand Total	$5,306,962,976	$1,807,529,731	$1,771,578,189	102.0%	33.4%	$1,077,038	$269,259	$1,346,297*	29.46

*Includes capital gains of $1,214,449 related to the disposition of cash collateral, of which $971,559 was BWC's 80% share.

Note: Returns and Spreads are annualized

INVESTMENT DIVISION

TO:	Tina Kielmeyer, Acting 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:	February 24, 2007
SUBJECT:	CIO Report for January, 2007

The Investment Division in January, 2007 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	6/30/07*	
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	3/30/07**	

*extended from 3/31/07
**extended from 2/15/07

The Investment Division has proposed five major goals for calendar year 2007, subject to approval by the new BWC Administrator/CEO not yet named. These proposed goals are the following:

1. Execute and complete transition of BWC portfolios per new BWC Investment Policy

2. Complete establishment of new BWC Investment Division

3. Assist in establishment of new investment accounting system

4. Sell all 68 private equity funds

5. Establish proper investment controls and compliance procedures

Strategic Initiative One- TRANSITION COMPLETED

The transition of the BWC actively managed portfolios to the State Street Lehman Aggregate passive fixed income index commenced on January 9, 2006, with State Street Global Markets managing the process on behalf of BWC as its transition manager. 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 continues on the disposal of miscellaneous assets.

Annual cash income for 2006 compared to 2005 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 in calendar year 2006 was $253.2 million higher versus calendar year 2005, thus achieving a level significantly higher than the prior 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 in the first half of 2007, as the Investment Division executes the new Investment Policy. The Investment Division initiated job postings in December 2006 for the open positions of Investment Administration Manager and Assistant Investment Manager. These positions can not be filled now until the temporary hiring freeze imposed on state agencies by the Governor's Office is lifted. 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, the new passive style investment managers, 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 now the goal to have a decision on a new investment accounting and reporting system made in March, 2007 with implementation largely completed by 3Q2007. It is the goal 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 December 31, 2006 and January 31, 2007 with both the BWC Investment Policy and with the Lehman Aggregate benchmark guidelines for the Ohio Fund, as per the Fund Declaration investment guidelines. In addition, the new passive managed TIPS portfolio and S&P 500 portfolio were in compliance with the BWC Investment Policy on January 31, 2007.

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.

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 evaluations of these respondents. The Finalist (State Street) recommended for the U.S. TIPS mandate was approved by the WCOC at the December 14, 2006 meeting. One of two Finalists (State Street) for the Long Duration Fixed Income (LDFI) mandate was also recommended and approved by the WCOC at the December meeting. The second Finalist (Barclays) for the LDFI mandate was recommended and approved at the January 25, 2007 WCOC meeting. A recommendation for approval of the Finalist for the Large Cap U.S. Equity mandate will be presented at the scheduled March 29, 2007 WCOC meeting. The Passive Non-U.S. Equity index manager mandate (1% of assets) was recommended and approved for elimination at the January, 2007 WCOC meeting and was converted to the Active Non-U.S. Equity manager mandate (from 4% to 5% of assets).

Transition Management 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.

The State Insurance Fund has approximately $14.8 billion of investment assets involved in transitions to achieve its portfolio asset allocation and portfolio duration targets as per the new BWC Investment Policy. The first two major asset class transitions for the State Insurance Fund were completed in January, 2007 by State Street Global Markets (SSGM) as BWC transition manager. These two important initial transitions involved a shift of $5.5 billion of invested assets from the Ohio Fund managed by State Street Global Advisors (SSGA) to (i) a passive indexed managed U.S. TIPS fixed income portfolio ($3.0 billion) managed by SSGA and (ii) a passive indexed managed Large Cap S&P 500 equity portfolio ($2.5 billion) managed on an interim basis by SSGM as transition manager. The other remaining large transition from the State Insurance Fund will be completed before asset class transition activity commences with respect to four BWC ancillary portfolios representing an aggregate of approximately $1.4 billion in invested assets.

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 is accessible only to interested serious bidders for the purpose of due diligence review. UBS continues to progress 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 very recently received and analyzed results from the first round auction process and due diligence period that began several weeks ago. The second round of the auction process will now commence.

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

INVESTMENT DIVISION

TO: Tina Kielmeyer, Acting 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: March 21, 2007

SUBJECT: CIO Report for February, 2007

The Investment Division in February, 2007 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.

2007 Goals

The Investment Division has proposed five major goals for calendar year 2007, subject to approval by the new BWC Administrator/CEO not yet named. These proposed goals are the following:

1. Execute and complete transition of BWC portfolios per new BWC Investment Policy

2. Complete establishment of new BWC Investment Division

3. Assist in establishment of new investment accounting system

4. Sell all 68 private equity funds

5. Establish proper investment controls and compliance procedures

Strategic Goal One – PORTFOLIO TRANSITION

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.

The State Insurance Fund has approximately $14.8 billion of investment assets involved in transitions to achieve its portfolio asset allocation and portfolio duration targets as per the new BWC Investment Policy. The first two major asset class transitions for the State Insurance Fund were completed in January, 2007 by State Street Global Markets (SSGM) as BWC transition manager. These two important initial transitions involved a shift of $5.5 billion of invested assets from the Ohio Fund managed by State Street Global Advisors (SSGA) to (i) a passive indexed managed U.S. TIPS fixed income portfolio ($3.0 billion) managed by SSGA and (ii) a passive indexed managed Large Cap S&P 500 equity portfolio ($2.5 billion) managed on an interim basis by SSGM as transition manager. The other remaining large transition from the State Insurance Fund will be completed before asset class transition activity commences with respect to four BWC ancillary portfolios representing an aggregate of approximately $1.4 billion in invested assets.

Strategic Goal Two – BUILD INVESTMENT STAFF

Broadening of knowledge and skills continue for the two senior and two assistant investment managers of the Investment Division. The hiring of these four individuals occurred over the period March through August of 2006. Further additions to staff are anticipated to occur in the first half of 2007, as the Investment Division executes the new Investment Policy. The Investment Division initiated job postings in December 2006 for the open positions of Investment Administration Manager and Assistant Investment Manager. These positions can not be filled until the temporary hiring freeze imposed on state agencies by the Governor's Office is lifted. 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 Goal Three – NEW INVESTMENT ACCOUNTING SYSTEM

The Investment Division and the Finance Division have a joint goal of improving and selecting 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. Two separate RFPs were issued in November 2006 regarding the option of an enhanced vendor software platform and December 2006 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.

A decision is nearing on both the preferred enhanced vendor software platform finalist (insource solution) and the integrated outsourced package vendor finalist (outsource solution). A finalist for both of these options will be identified by the RFP Evaluation Committee to be presented to the new BWC Administrator/CEO for a final decision shortly after such individual is named. It is the goal to have this decision made in April 2007 with implementation largely completed before the end of 3Q2007. It is also the goal to have an improved accounting system available to BWC to accommodate the monitoring of new approved active style asset managers in satisfaction of the new BWC Investment Policy.

Strategic Goal Four – PRIVATE EQUITY SALE

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. An Electronic Data Room that is accessible only to interested serious bidders was created by UBS for the purpose of due diligence review. UBS continues to progress 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 and analyzed results from the first round auction process in late February, 2007. Such results were communicated to certain members of the BWC Investment staff. The second round of the auction process is nearing completion.

Strategic Goal Five – INTERNAL INVESTMENT PROCEDURES

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, the new passive style investment managers, performance reporting, and other investment activities to support the new Investment Policy. Internal procedures for the monitoring of active style investment managers are starting to be developed well in advance of the selection of such managers.

Compliance

The Ohio Passive Bond Market Index Fund (Ohio Fund) managed by State Street was in compliance on February 28, 2007 with both the BWC Investment Policy and with the Lehman Aggregate benchmark guidelines for the Ohio Fund, as per the Fund Declaration investment guidelines. In addition, the new passive managed TIPS portfolio and S&P 500 portfolio were in compliance with the BWC Investment Policy on February 28, 2007.

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, with the possible exceptions of the two smaller ancillary portfolios (Public Employees and Marine Workers) that are being recommended by the CIO at the March 29, 2007 IC/WCOC meeting to remain under a commingled structure managed in a passive style to a new intermediate duration fixed income index, with exceptions being recommended for approximately $2.35 million to be invested in Foreign Government debt securities. 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.

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 evaluations of these respondents. The Finalist (State Street) recommended for the U.S. TIPS mandate was approved by the WCOC at the December 14, 2006 meeting. One of two Finalists (State Street) for the Long Duration Fixed Income (LDFI) mandate was also recommended and approved by the WCOC at the December meeting. The second Finalist (Barclays) for the LDFI mandate was recommended and approved at the January 25, 2007 WCOC meeting. A recommendation for approval of the Finalist for the Large Cap U.S. Equity mandate will be presented at the scheduled March 29, 2007 WCOC meeting. The Passive Non-U.S. Equity index manager mandate (1% of assets) was recommended and approved for elimination at the January, 2007 WCOC meeting and was 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

House Bill 79 (Batchelder) - BWC Investments. Specifies the classes of investments in which the Administrator of the Bureau of Workers' Compensation may invest. Prohibits the Administrator from contracting with outside investment managers. Eliminates the prudent person standard. At the time of the completion of this report, this legislation has had one hearing in the House Commerce and Labor Committee on March 20, 2007.

The BWC Chief Investment Officer and Director of Investments have met with Representative Batchelder to discuss the current investment infrastructure of the BWC.

House Bill 100 (Brinkman) - BWC Budget. Provides authorization and the conditions for authorization for operation of the programs of the BWC. Makes an appropriation for the biennium beginning July 1, 2007 and ending June 30, 2009. Makes numerous changes to the governance structure of the BWC including replacing the Workers' Compensation Oversight Commission with the Bureau of Workers' Compensation Board of Directors. Codifies the duties and responsibilities of the Actuarial, Audit, and Investment Committees. Abolishes the Internal Security Committee and creates the Deputy Inspector General position.

At the time of the completion of this report, this legislation has had four hearings - one in the House Finance and Appropriations Committee and three in the House Insurance Committee.

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

Coin Liquidation
MDL
Private Equity Declaratory Judgement
Inspector General, et al

Ohio Bureau of Workers' Compensation

Index Manager RFP

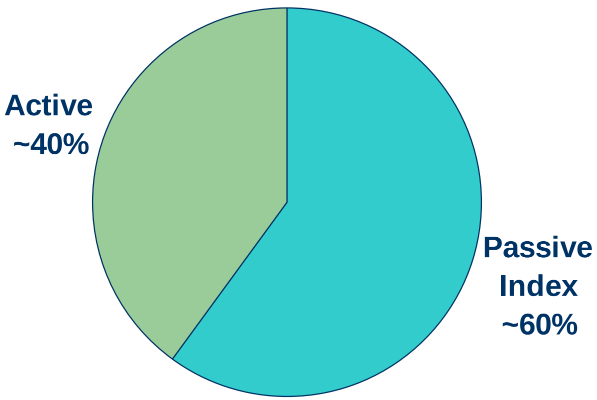
March 29, 2007

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.

***Upon approval of recommendation made at January 25, 2007 WCOC meeting, this Passive Non-U.S. Equity mandate was converted 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
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 26
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 – Feb. 1
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists	***Dec. 14 – Complete***
Long Duration Fixed Income and U.S. TIPS	
WCOC MEETING PACKET DEADLINE	Jan. 17 – Complete
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists	***Jan. 25 – Complete***
Long Duration Fixed Income	
WCOC MEETING PACKET DEADLINE	Mar. 21 – Complete
OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist	***Mar. 29***
Large Cap U.S. Equity	

Ohio Bureau of Workers' Compensation

Private Equity Sale Update

March 29, 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 - Completed
  - Execution - Current Stage
  - Final Closing

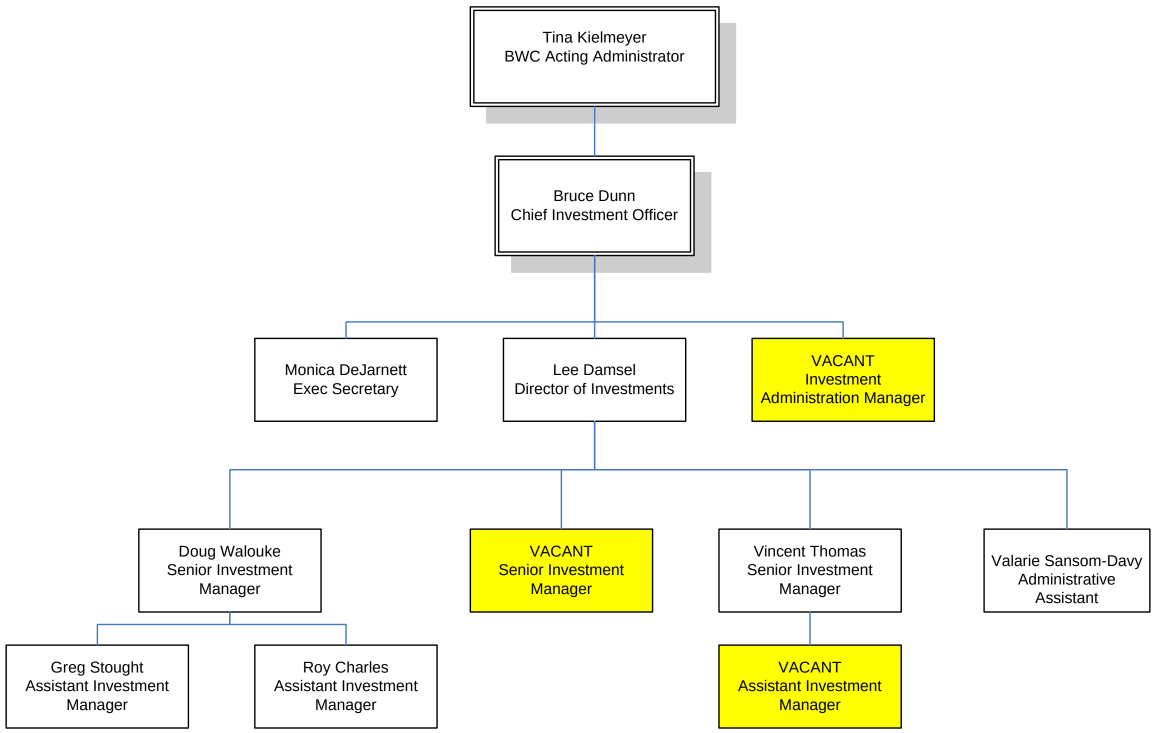
- UBS apprises each partnership of the sale process and assembles a pool of likely buyers.
  November/December, 2006

- UBS negotiates and distributes general partner consent letters and buyer confidentiality agreements.
  December, 2006 /January, 2007

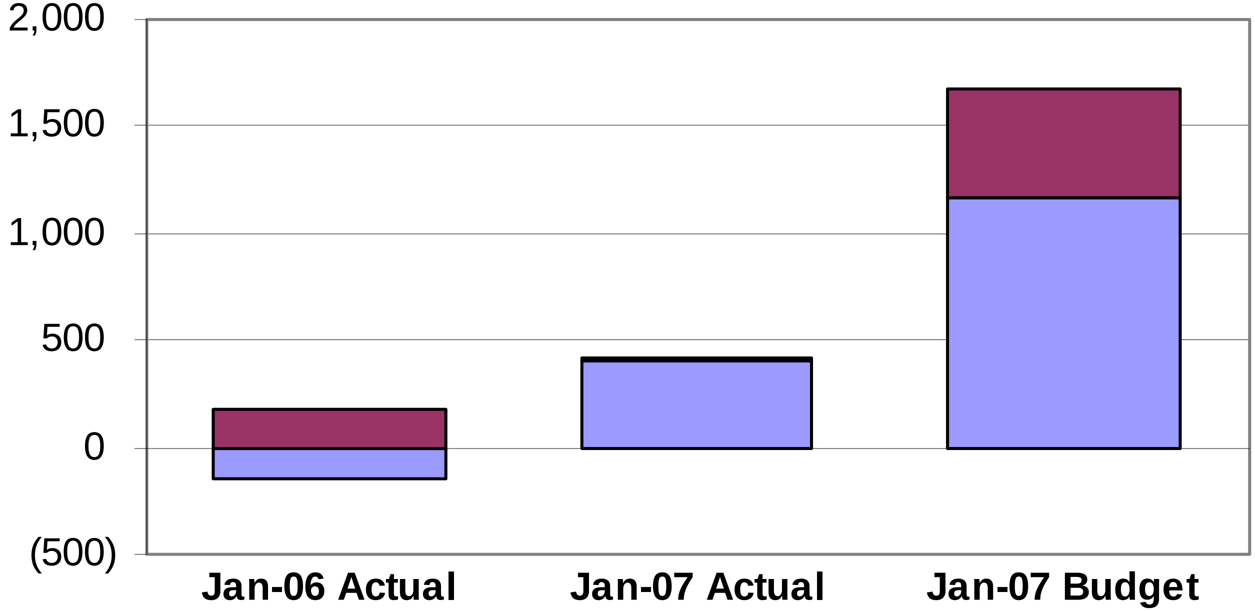
- UBS opens data site to potential bidders and collates first round of bids.
  January/February, 2007

BWC INVESTMENT DIVISION
Table of Organization

2/26/07



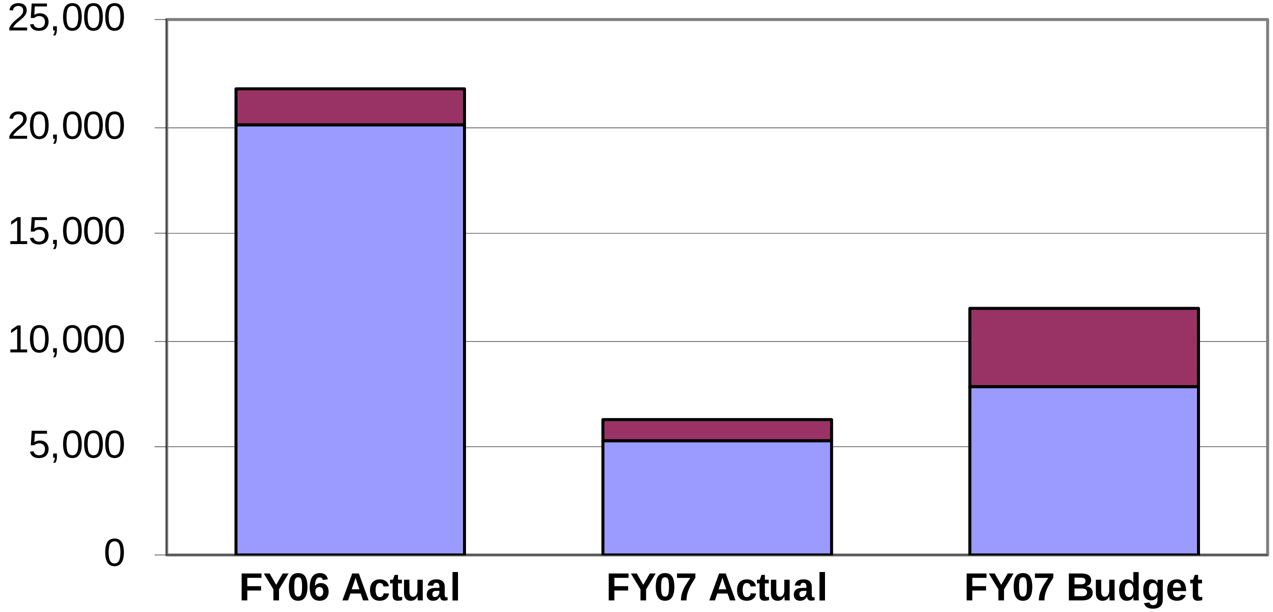
BWC Investment Division
Investment Expenses - Manager and Operational Fees
January 2007
($ 000)



	Jan-06 Actual	Jan-07 Actual	Jan-07 Budget
Operational	$173	$18	$514
Mgr Fees	($145)	$402	$1,168
TOTAL	$28	$420	$1,682

BWC Investment Division

Investment Expenses - Manager and Operational Fees
Jan FY07 YTD
($ 000)



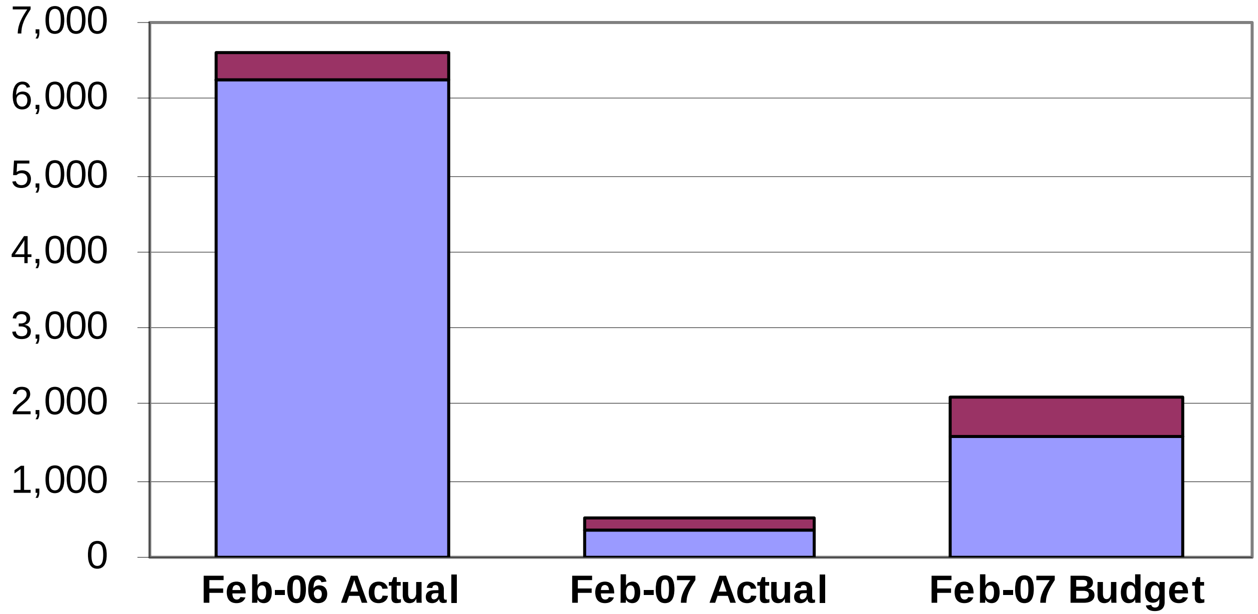
	FY06 Actual	FY07 Actual	FY07 Budget
Operational	1,785	954	3,572
Mgr Fees	20,026	5,349	7,901
TOTAL	$21,810	$6,303	$11,473

BWC Investment Division

Investment Expenses - Manager and Operational Fees

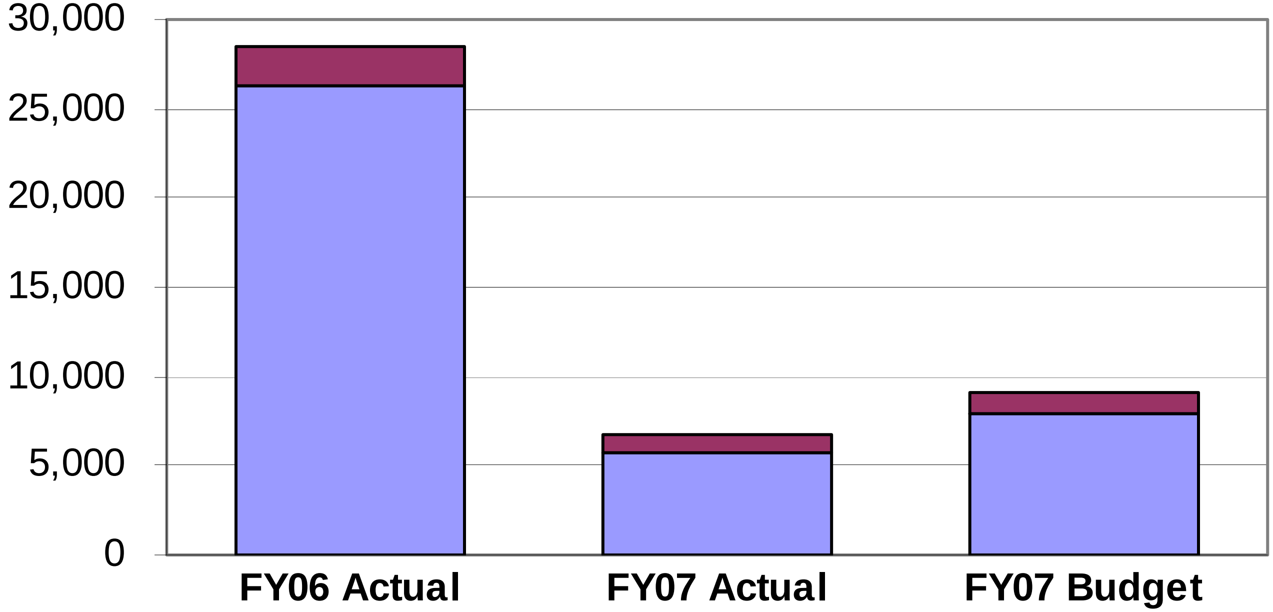
February 2007

($ 000)



	Feb-06 Actual	Feb-07 Actual	Feb-07 Budget
Operational	$362	$155	$514
Mgr Fees	$6,261	$348	$1,588
TOTAL	**$6,623**	**$503**	**$2,102**

BWC Investment Division
Investment Expenses - Manager and Operational Fees
FY07 YTD February 2007
($ 000)



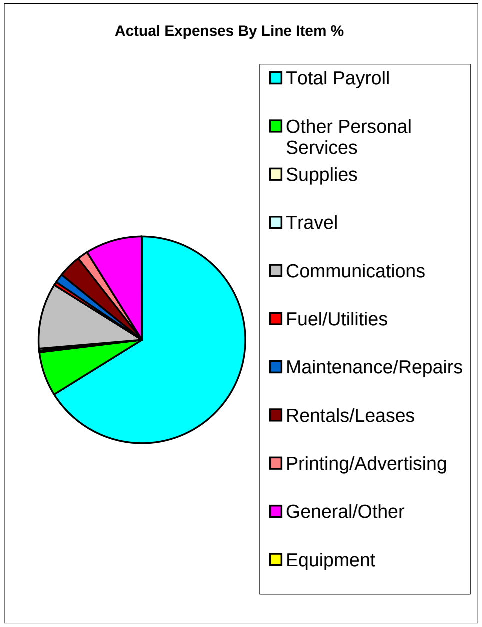
	FY06 Actual	FY07 Actual	FY07 Budget
Operational	2,146	1,109	1,258
Mgr Fees	26,286	5,697	7,901
TOTAL	**$28,433**	**$6,806**	**$9,159**

Investment Division
Budget and Expenses Summary for Fiscal Year 2007
As of January, 2007

	Year-to-Date			Total 2007		
	[2]	**[3]**	**[4]**	**[6]**	**[7]**	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	613,389	638,685	25,296	1,033,244	1,033,244	-
Maintenance (200)	157,420	220,071	62,651	334,067	334,067	-
Equipment (300)	10,958	300,000	289,042	300,000	300,000	-
Total	781,767	1,158,756	376,989	1,667,311	1,667,311	-

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	562,375	562,375	-
Purchased Services (13)	49,474	69,779	20,305
Other Personal Services (15)	1,540	6,531	4,991
Total Personal Services	613,389	638,685	25,296
Supplies (21 +21I)	7,176	7,245	69
Travel (23)	21,364	26,985	5,621
Communications (24 + 24I)	3,125	3,892	767
Fuel/Utilities (25)	9,050	9,050	-
Maintenance/Repairs (26)	13,471	20,520	7,049
Rentals/Leases (27)	36,933	59,942	23,009
Printing/Advertising (28 +28I)	54,915	54,222	(693)
General/Other (22+22i+29+29i)	11,385	37,899	26,889
Total Maintenance	157,419	220,071	62,711
Office Equipment (31)	-	-	
Communic. Equipment (34)	-	-	
Data Process Equipment (37)	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	781,767	1,158,756	376,989



Object Class	Actual % of total
Total Payroll	71.9%
Other Personal Services	6.5%
Supplies	0.9%
Travel	2.7%
Communications	0.4%
Fuel/Utilities	1.2%
Maintenance/Repairs	1.7%
Rentals/Leases	4.7%
Printing/Advertising	7.0%
General/Other	1.5%
Equipment	1.4%
	100%

Definitions:
Column [2]: Amount in Column 2 (YTD Disbursements) on the monthly budget report.

Column [3]: Amount in Column 3 (YTD Budget) on the monthly budget report.

Column [4]: Amount in Column 4 (YTD Variance) on the monthly budget report.

Column [6]: Calculate using Column 6 (YTD Disb & Current Enc.) plus projected spending for remainder of FY.

Column [7]: Amount in Column 7 (FY 2006) Total Budget) on the monthly budget report.

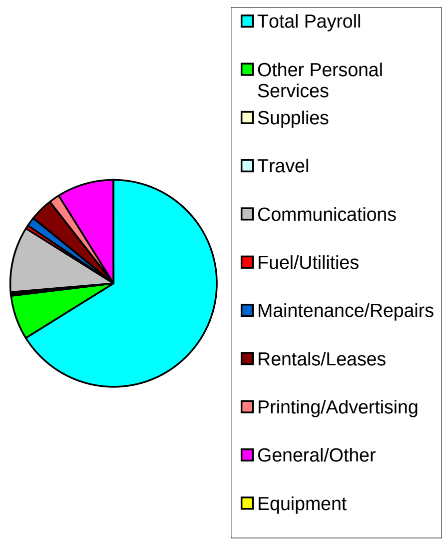
Investment Division
Budget and Expenses Summary for Fiscal Year 2007
As of February, 2007

	Year-to-Date			Total 2007		
	[2]	[3]	[4]	[6]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	694,973	714,742	19,769	1,030,390	1,030,390	-
Maintenance (200)	172,162	242,869	70,706	334,067	334,067	-
Equipment (300)	10,958	300,000	289,042	300,000	300,000	-
Total	878,093	1,257,611	379,517	1,664,457	1,664,457	-

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	637,499	637,499	-
Purchased Services (13)	55,934	69,779	13,845
Other Personal Services (15)	1,540	7,464	5,924
Total Personal Services	694,973	714,742	19,769
Supplies (21 +21I)	7,365	8,280	915
Travel (23)	23,312	30,840	7,528
Communications (24 + 24I)	3,432	4,448	1,016
Fuel/Utilities (25)	9,050	9,050	-
Maintenance/Repairs (26)	13,471	21,527	8,056
Rentals/Leases (27)	36,933	63,229	26,296
Printing/Advertising (28 +28I)	66,387	61,968	(4,419)
General/Other (22+22i+29+29i)	12,212	43,526	31,314
Total Maintenance	172,162	242,868	70,706
Office Equipment (31)	-	-	-
Communic. Equipment (34)	-	-	-
Data Process Equipment (37)	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	878,093	1,257,610	379,517

Actual Expenses By Line Item %



Object Class	Actual % of total
Total Payroll	72.6%
Other Personal Services	6.5%
Supplies	0.8%
Travel	2.7%
Communications	0.4%
Fuel/Utilities	1.0%
Maintenance/Repairs	1.5%
Rentals/Leases	4.2%
Printing/Advertising	7.6%
General/Other	1.4%
Equipment	1.2%
	100%

Definitions:

Column [2]: Amount in Column 2 (YTD Disbursements) on the monthly budget report.

Column [3]: Amount in Column 3 (YTD Budget) on the monthly budget report.

Column [4]: Amount in Column 4 (YTD Variance) on the monthly budget report.

Column [6]: Calculate using Column 6 (YTD Disb & Current Enc.) plus projected spending for remainder of FY.

Column [7]: Amount in Column 7 (FY 2006) Total Budget) on the monthly budget report.

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: January 25, 2007

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, or in certain specific strategies such as passively managed inflation-protected securities and passively managed long duration fixed income - 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.

<u>Average Weighted Credit Quality</u>
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.

<u>Duration</u>
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 Fixed Income**
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 Fixed Income	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	25%	0.50% (BBB only)
Ba/BB	5%	0.25% (BB only)
B/B	2%	0.10% (B only)
CCC	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.

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: January 25, 2007

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.

			Management Style	
Asset Class	**Policy Target**[1]	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	TBD	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity				
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	4-6%	0%	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.

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.

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***74%***	***5%***
Long Duration	54%	51-57%	54%	0%
High Yield	5%	TBD	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***20%***	***0%***
U.S. Equity	20%			
Large Cap	17%	9-15%	17%	0%
Small/Mid Cap	3%	2-4%	3%	0%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	0%	NA	NA	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.

			Management Style	
Asset Class	**Policy Target**	**Policy Range**	**Passive**	**Active**
Total Fixed Income:	***79%***	***76-82%***	***47%***	***32%***
Long Duration	54%	51-57%	27%	27%
High Yield	5%	TBD	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
Cash Equivalents	***1%***	***0-6%***	***NA***	***NA***
Total Equity	***20%***	***17-23%***	***12%***	***8%***
U.S. Equity	15%			
Large Cap	12%	9-15%	12%	0%
Small/Mid Cap	3%	2-4%	0%	3%
Alternative Investments	0%	NA	NA	NA
Non-U.S. Equity	5%	NA	0%	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.A

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."

Legislative Background: Premiums and Surplus

- **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

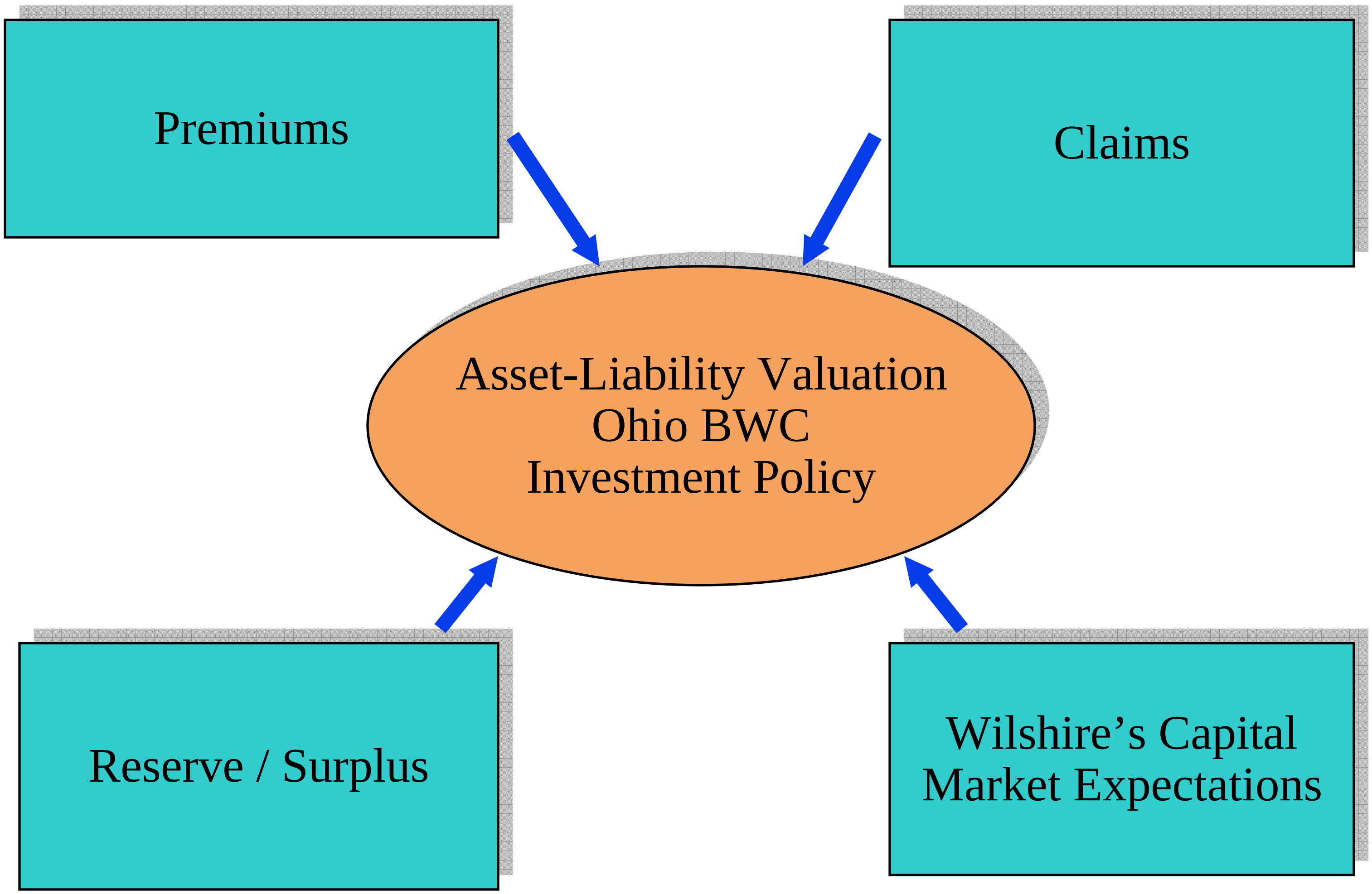
- It is undesirable to have a negative surplus as defined by GASB accounting standards.

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

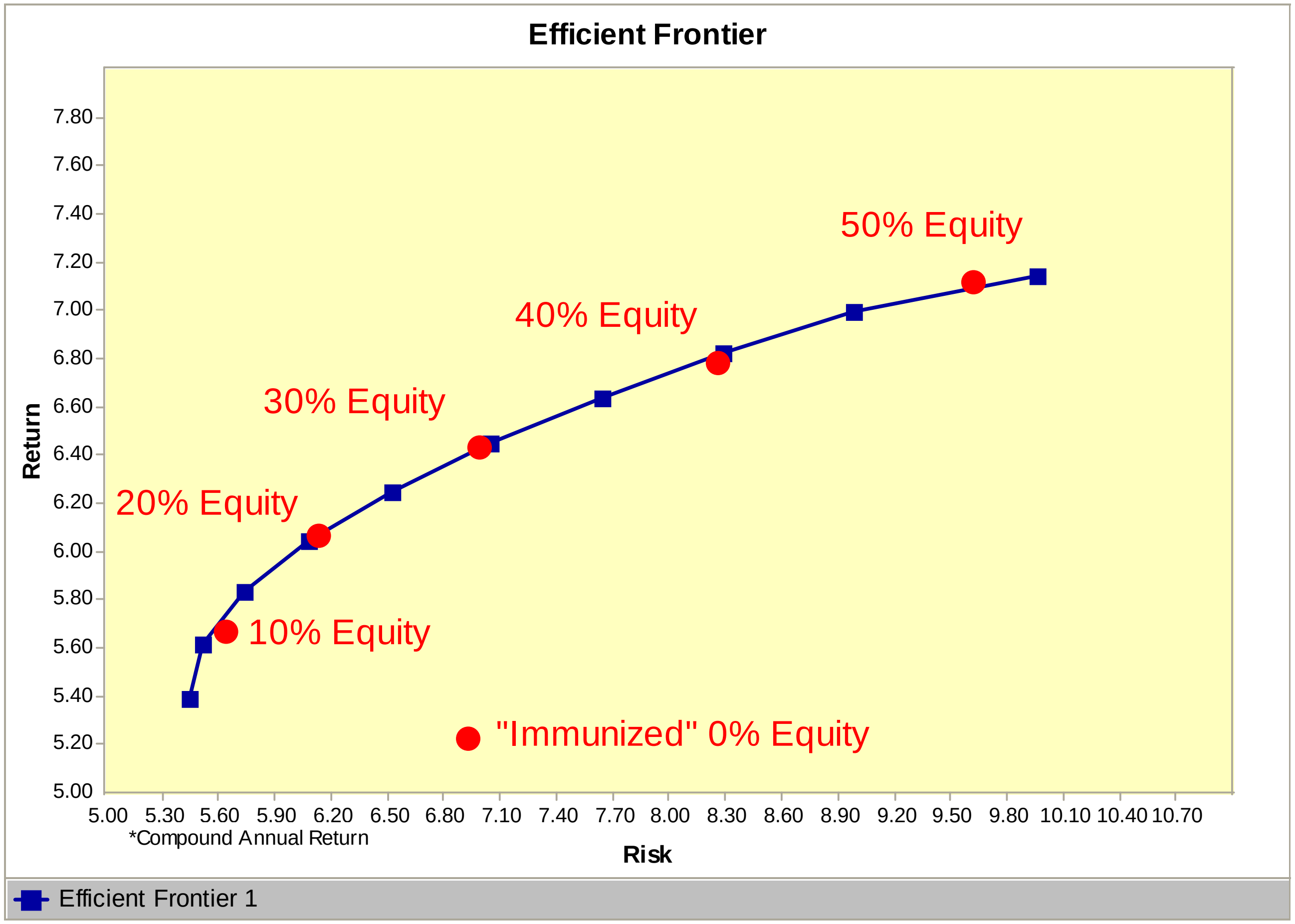
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00
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

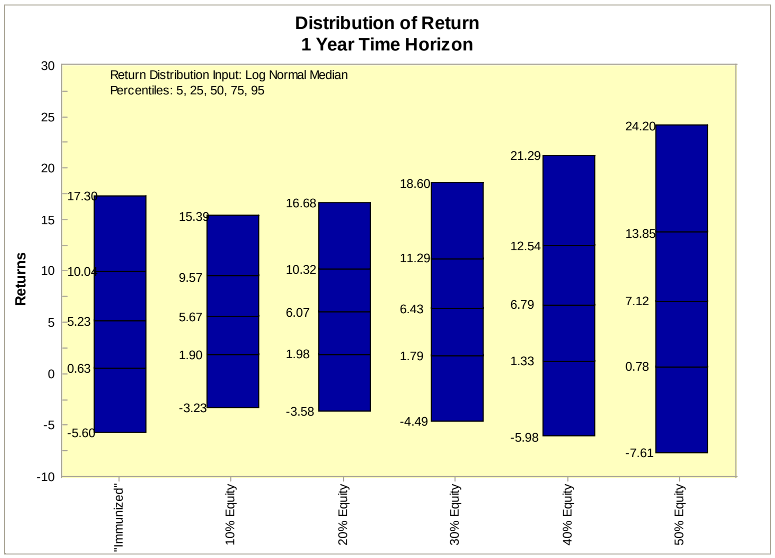
	Portfolio Weights					
	"Immunized"	*Total Return*				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income - 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**

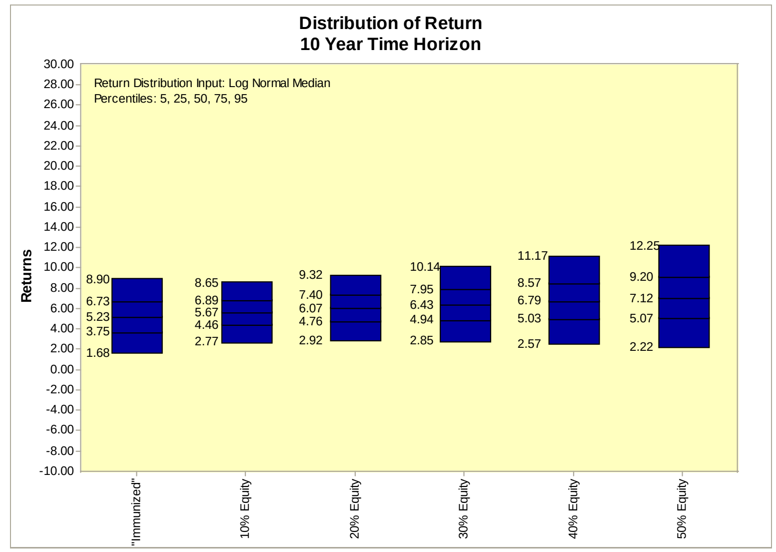
- **Constraints:**
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- **Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.**
- **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**





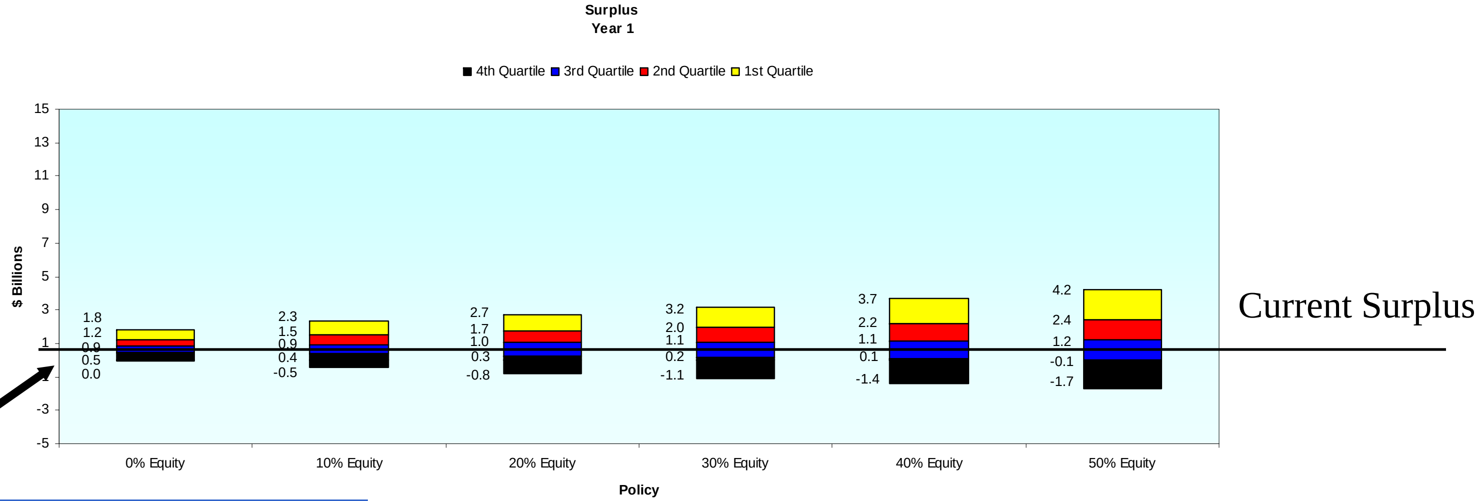
	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
1 Year	Top 5%	17.3	15.4	16.7	18.6	21.3	24.2
	Top Quartile	10.0	9.6	10.3	11.3	12.5	13.9
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	0.6	1.9	2.0	1.8	1.3	0.8
	Bottom 5%	-5.6	-3.2	-3.6	-4.5	-6.0	-7.6

	"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

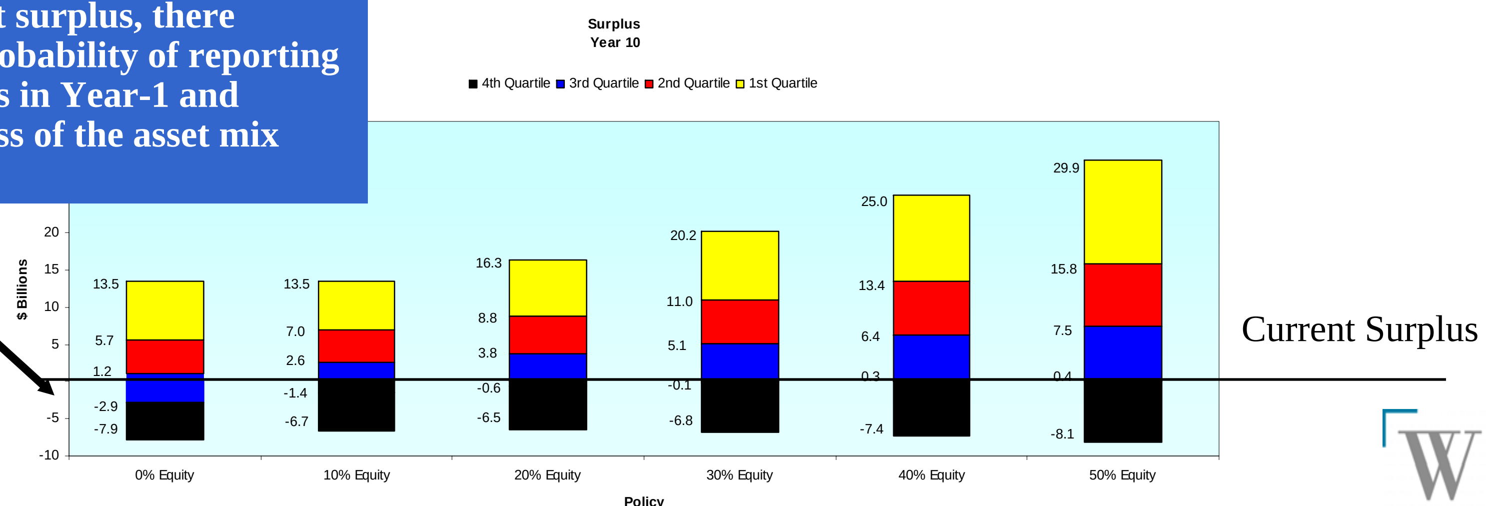
V. Asset-Liability Modeling

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:**



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



Source: Mercer and Wilshire

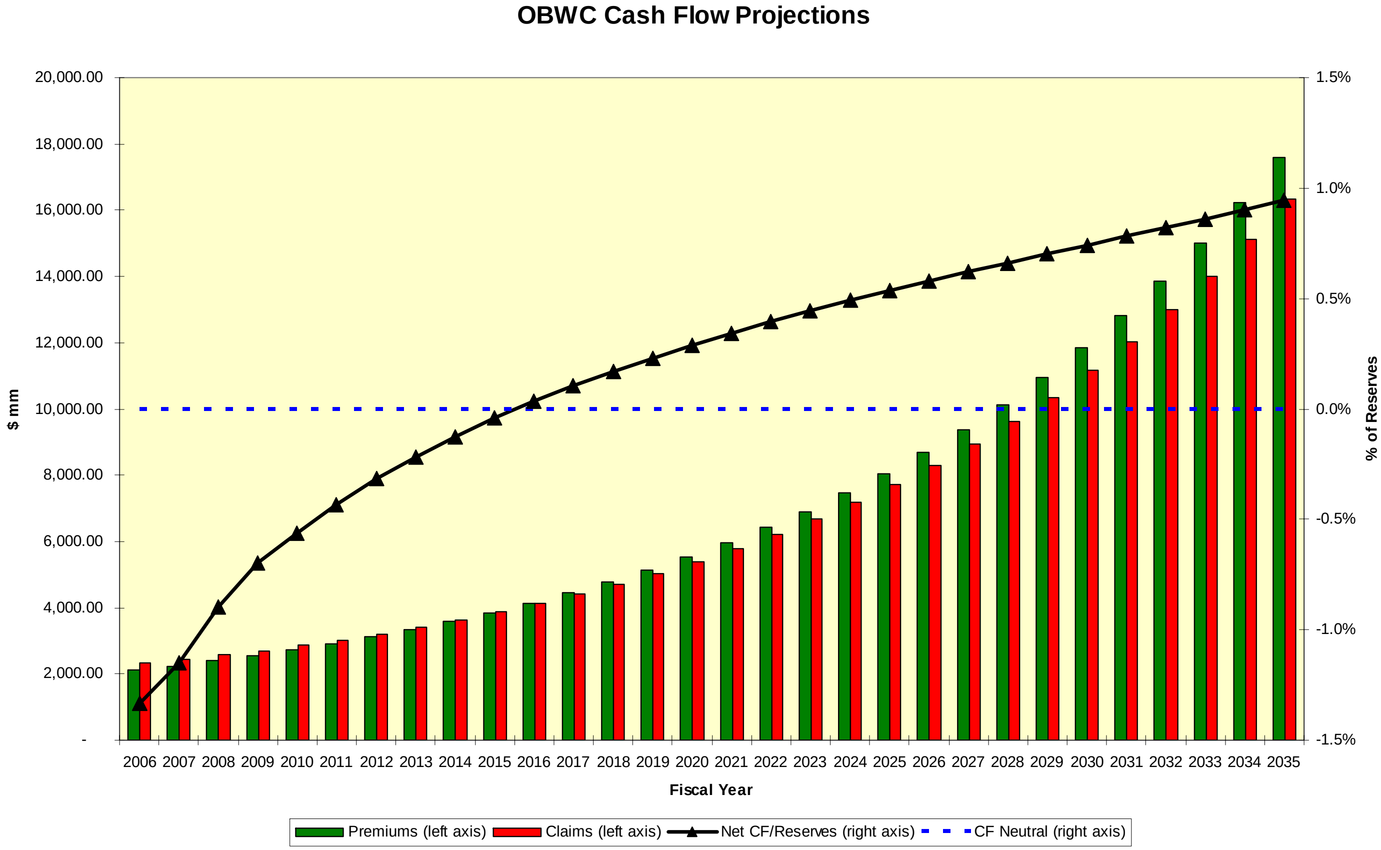
Potential Outcomes: Surplus

- **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

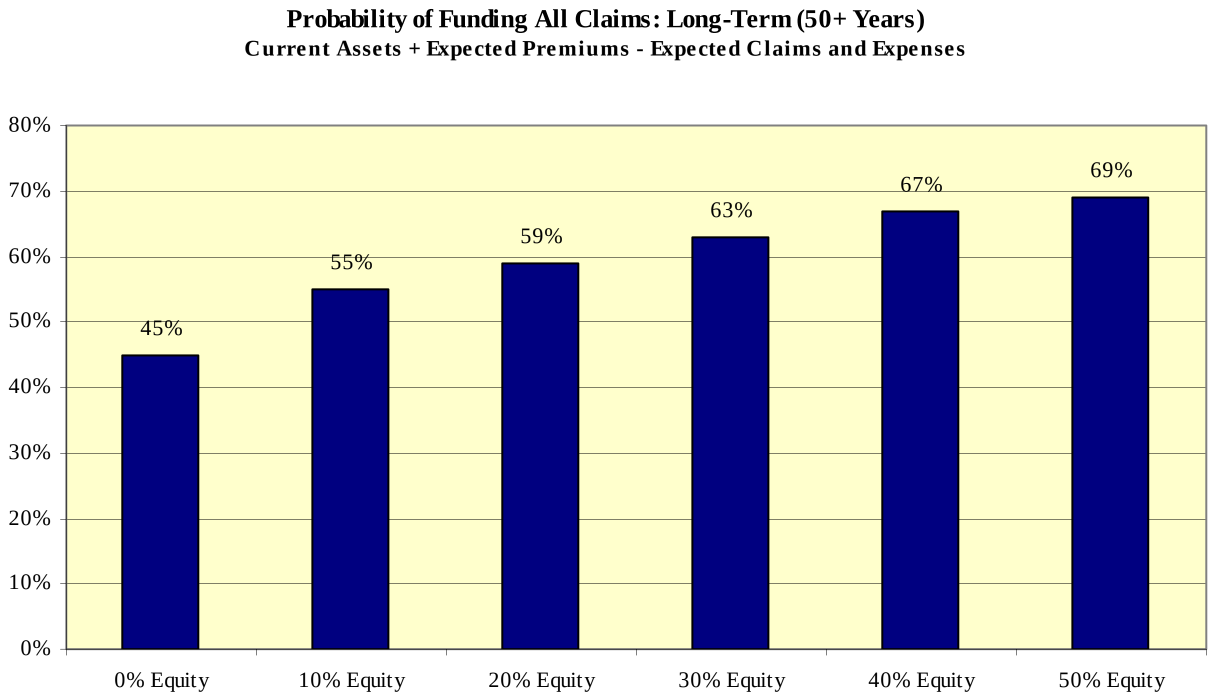
- **Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows**
- **This illustration excludes expected investment income**



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

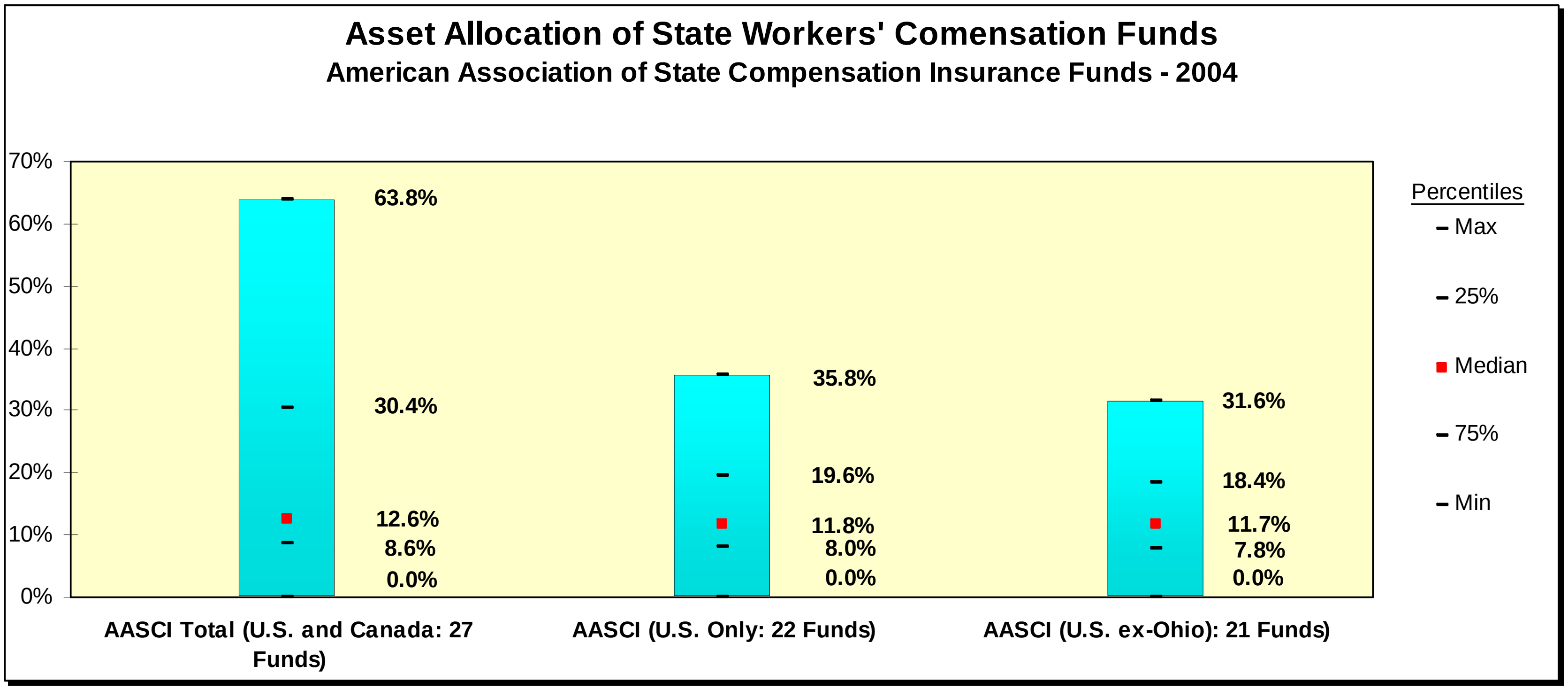
VI. Industry Peer Comparisons

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:**

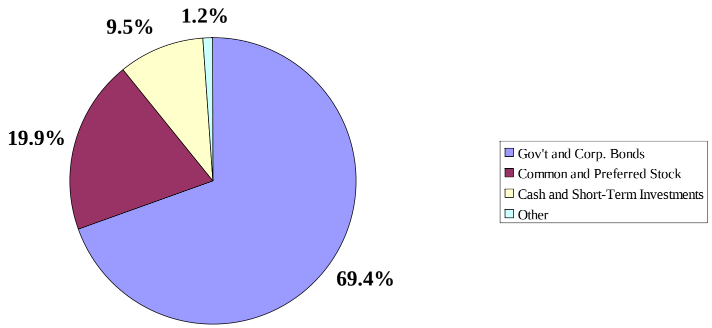


- **The median equity allocation of all funds was 12.6% at year end 2004**
- **The equal-weighted average equity allocation for this group was 22%.**

Industry Comparison

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

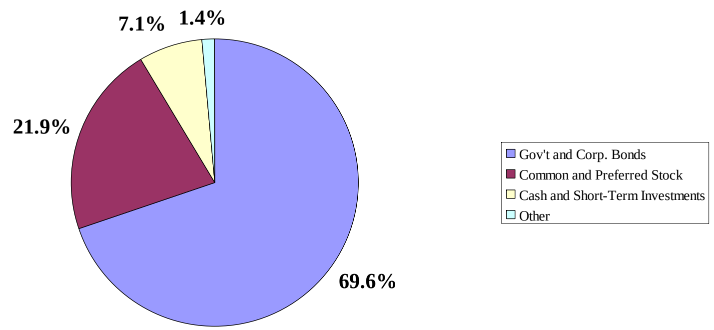
2005 National Council on Compensation Insurance, Inc.
Property & Casualty Industry Survey
Source: A.M. Best Aggregates and Averages, 2004 Edition



- **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):**

BlueCross Blue Shield Enhanced Investment Reort: Year-End 2005
Enhance Blue System Investment Report
(32 Plans)



- **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 XI.B

Ancillary Funds Asset Allocation Recommendation

Ohio Bureau of Workers' Compensation Investment Committee

September 28, 2006

Mark E. Brubaker, CFA
Managing Director
(412) 434-1580

Ancillary Funds Asset Allocation Recommendation

- Wilshire has conducted an asset allocation analysis for the Ohio Bureau of Workers' Compensation Ancillary Funds:

  - Disabled Workers'
  - Coal Workers'
  - Public Workers'
  - Marine
  - Self-Insured

- As of August 31, 2006, Ancillary Fund assets totaled $1.4 billion, representing approximately 8% of total OBWC Investments
  - ➔ All Fund assets, excluding the Self-Insured Fund, were invested in the SSgA Lehman Aggregate Index Fund
  - ➔ The Self-Insured Fund has historically been invested in short-term cash-equivalents
- The asset allocation recommendations are detailed on the following page

Asset Allocation Recommendation

Summary Statistics:

	SIF	Disabled Workers	Coal Workers	Public Workers	Marine	Self Insured	Totals
Cash and Investments ($mm)	15,470	1,086	228	21	15	30	16,849
Discount Rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Duration (years)	***10.4***	***10.0***	***10.6***	***3.4***	***3.4***	-	

Recommended Asset Allocation Policy:

	% Allocation						
Asset Class	**SIF**	**Disabled Workers**	**Coal Workers**	**Public Workers**	**Marine**	**Self Insured**	**Total OBWC**
U.S. Equity	**15**	**15**	**15**	**0**	**0**	**0**	**15**
Large Cap	*12*	*12*	*12*	*0*	*0*	*0*	*12*
Active	0	0	0	0	0	0	0
Passive	12	12	12	0	0	0	12
Small/Mid Cap	*3*	*3*	*3*	*0*	*0*	*0*	*3*
Active	3	3	0	0	0	0	3
Passive	0	0	3	0	0	0	0
Non-U.S. Equity	**5**	**5**	**5**	**0**	**0**	**0**	**5**
Active	4	4	0	0	0	0	4
Passsive	1	1	5	0	0	0	1
Fixed Income - Long Duration	**54**	**54**	**54**	**0**	**0**	**0**	**54**
Active	27	27	0	0	0	0	27
Passive	27	27	54	0	0	0	27
Fixed Income - Intermediate	**0**	**0**	**0**	**99**	**99**	**0**	**0**
High Yield	**5**	**5**	**5**	**0**	**0**	**0**	**5**
Active	5	5	5	0	0	0	5
Passive	0	0	0	0	0	0	0
Inflation-Protected Securities	**20**	**20**	**20**	**0**	**0**	**0**	**20**
Active	0	0	0	0	0	0	0
Passive	20	20	20	0	0	0	20
Cash Equivalents	**1**	**1**	**1**	**1**	**1**	**100**	**1**

WILSHIRE CONSULTING

Fund Descriptions

- 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
- 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
- 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

Fund Descriptions

- 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

- The Self-Insured Employers' Guarantee Fund (SIEGF)
  - ➔ Provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers

Implementation Issues

- Wilshire is recommending that the WCOC adopt the same fixed income/equity split (80/20) for the DWRF and CWPF that it adopted for the SIF

- However, due to the smaller asset size of the Ancillary Funds, the proposed asset allocation policies may need to be implemented in a slightly different manner than that of the SIF:
  - ➔ Fewer managers
  - ➔ Commingled funds
  - ➔ More passive management
  - ➔ Potential elimination of high yield asset class for CWPF

- The PWRF, MIF and Self-Insured Funds also may require the use of commingled funds due to their smaller asset size.

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.

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