

Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: April 26, 2007
Time: 8:30 a.m.
Location: William Green Building, Second Floor, Room 2

Investment Committee

Michael C. Koettters, Chairman
Managing Director
Strategic Asset Alliance

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives, LLC

Denise M. Farkas, CFA
Chief Investment Officer
Sigma Investments

Opening remarks

Chairman's comments.....Mike Koettters

Old business

Approval of March 29, 2007 meeting minutesMike Koettters

Review schedule of projects.....Mike Koettters

New business

1. Portfolio performance:

JP Morgan Monthly – Jan. 2007 and Feb. 2007 Bruce Dunn

2. Manage portfolio transition to approved asset allocation:

Transition strategy overview..... Bruce Dunn

Pert/Gant chart timeline Bruce Dunn

3. Calendar of Reports for Investment Committee Bruce Dunn

4. Interim Investment strategy recommendation:

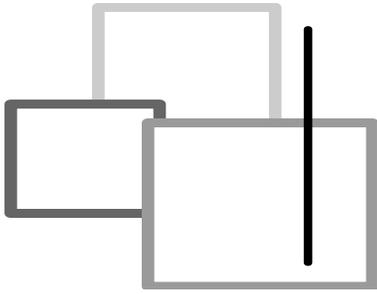
BWC identified ancillary portfolios, *vote to recommend approval to the WCOC* Bruce Dunn and Mark Brubaker

5. Investment Policy recommendation:

Proposed revision to Investment Manager Guidelines, *motion to amend Section IV.C.i of the BWC Investment Policy and Guidelines*
..... Mark Brubaker and Bruce Dunn

The next WCOC
Investment Committee meeting is scheduled for:

Date: May 24, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2



Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: April 26, 2007
Time: 8:30 a.m.
Location: William Green Building, Second Floor, Room 2

Investment Committee

Michael C. Koettters, Chairman
Managing Director
Strategic Asset Alliance

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives, LLC

Denise M. Farkas, CFA
Chief Investment Officer
Sigma Investments

- 6. Proxy Voting procedures report Bruce Dunn
- 7. Update on 3rd party Actuarial review by AON Win McCausland

Report Updates

- 8. Investment Accounting RFP Tracy Valentino
- 9. CIO report – March 2007 Bruce Dunn
- 10. Index Manager RFP Bruce Dunn
- 11. Investment Division organization chart Bruce Dunn

AdjournMike Koettters

Note: Written reports provided – *no prepared presentation*

Investment Division department budget
Investment Policy dated March 29, 2007

The next WCOCC
Investment Committee meeting is scheduled for:

Date: May 24, 2007
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

**WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE**

**THURSDAY MARCH 29, 2007, 9:20 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Edwin McCausland, Acting Chairman
Denise Farkas
Bill Sopko

Other Oversight Commission Members Present:

Mary Beth Carroll
Charles Kranstuber

Members Absent: Michael Koettters

Others in attendance at the invitation of the Committee:

Bruce Dunn, Chief Investment Officer
John Williams, Esq., Assistant Attorney General
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting
Mark E. Brubaker, Wilshire Consulting
Michael Patalsky, Wilshire Consulting
Vincent Williams, Northern Trust
Chad Rakvin, Northern Trust

Public Meeting – Others in attendance not recorded

ROLL CALL/OPENING REMARKS

In Mr. Koettters absence, Mr. McCausland chaired the Committee. He called the meeting to order and the roll call was taken. Mr. McCausland reported that Mr. Koettters was in travel status because of a pre-existing commitment.

OLD BUSINESS

MINUTES OF JANUARY 25, 2007

Ms. Farkas moved that the minutes of January 25, 2007, be approved. Mr. Sopko seconded and the motion was approved by unanimous voice vote.

NEW BUSINESS

PORTFOLIO PERFORMANCE

Mark Brubaker, Wilshire Consulting, reported on the performance of the BWC Total Fund, State Insurance Fund, and Ancillary Fund investments for the fourth quarter of 2006. Going forward, Wilshire will be providing detailed quarterly reports and monthly flash reports. JPMorgan Chase will provide monthly reports. As of December 31, 2006, total assets have increased by 1.30% for the quarter and 6.3% for the year, while net assets of the Total Fund were \$16.8 billion.

Michael Patalsky, Wilshire Consulting, reported on the reconciliation of returns from Wilshire and JPMorgan Chase. Wilshire reviewed all of its processes and could find no discrepancies. Wilshire then went to JPMorgan and found the primary cause of discrepancies was entry errors in a manual input system which JPMorgan was using in January and February 2006. JPMorgan has restated its returns and is now closer to Wilshire returns. With a new system at JPMorgan, future discrepancies will be in a narrower range.

Bruce Dunn, Chief Investment Officer, reported on a new monthly portfolio performance report based on reports from JPMorgan Chase. Since BWC has now started shifting its investments to a number of different asset classes per its new investment strategy, a change in report formats is necessary.

One report introduced provides detail by each asset class as well as transition manager accounts and introduces a blending of both interim performance benchmarks and target performance benchmarks weighted by each appropriate asset sector benchmark. A second report introduced provides portfolio asset sector allocation mixes for both the State Insurance Fund portfolio and the combined Non-State Insurance Fund portfolios. Mr. Dunn encouraged feedback and suggestions from the committee members on the format of both reports.

MANAGE PORTFOLIO TRANSITION TO APPROVED ASSET ALLOCATION

Mr. Dunn reported that the transition to the long-term duration fixed income asset class for the State Insurance Fund has been essentially completed, consistent with the approved asset allocation. The financial markets exhibited high volatility during the period of this transition with the sudden sharp one-day decline of the Asian and U.S. stock markets, as well as heightened

risks surfacing in the sub-prime mortgage markets. Barclay's Global Advisors, as BWC Transition Manager, did a very effective job in coping with these challenging market conditions.

Mr. McCausland asked when the investments in State Street Global Advisors commingled fund will be completely transitioned. Mr. Dunn requested that the topic be covered in a later agenda item when the smaller ancillary portfolio strategy recommendation is discussed.

PASSIVE INDEX MANAGER RECOMMENDATIONS

Mr. Dunn recommended selection of Northern Trust Global Investments as the Large Cap U. S. Equity Passive Index manager. Mr. Dunn reviewed the RFP process for selection of Northern Trust. For this type of manager, fees are a higher priority on the RFP rating chart and Northern Trust has the lowest. Northern Trust also adds a third major passive style investment management firm to the BWC list of approved managers.

Ms. Farkas asked why Barclays Global Investors and State Street had applied when they were already selected for two other management positions. Mr. Dunn replied that there was actually only one RFP which covered all passive-indexed manager mandates.

Mr. Brubaker endorsed selection of Northern Trust. Northern Trust has slightly lower fees; its selection adds a third manager; and its tracking errors are competitive.

Mr. Dunn introduced Vincent Williams, Senior Vice President, and Chad Rakvin, Global Equity Index Manager, Northern Trust. In response to a question posed by Mr. McCausland, Mr. Rakvin explained the high tracking variance that Northern Trust experienced in 2002 was caused by the bursting of the dot-com bubble, the high rate of mergers and acquisitions, and the change of membership in the Standard and Poors 500.

Ms. Farkas asked if Northern Trust does securities lending. Mr. Rakvin responded that his division of Northern Trust does not lend securities from client portfolios.

INTERMEDIATE DURATION BOND FUND RECOMMENDATION

Mr. McCausland reported that he and BWC staff had met with the Treasurer of State on March 28 and was informed that the Treasurer would not permit investments housed in commingled funds. Accordingly, the Oversight Commission motion on this would be tabled until further clarification could be obtained. Mr. Dunn stated that he wanted to move the Public Workers Relief Fund and the Marine Industry Fund to Intermediate Duration Fund managers before moving the Disabled Workers Relief Funds (DWRF) and the Coal Workers Fund. An alternative approach is internal management by the BWC Investment Division.

INVESTMENT POLICY RECOMMENDATIONS

Mr. Dunn recommended changes to the Investment Policy Statement to adopt the Lehman Intermediate U. S. Government/Credit Index and the Lehman Customized U. S. Long Government/Credit Index. This change is needed for management of the Public Workers Relief Fund (PWRF) and Marine Industry Fund. Mr. Dunn also recommended changes to the high yield ownership ranges for the reasons outlined in the Memorandum of the Chief Investment Officer of BWC dated February 8, 2007.

ACTUARIAL REQUEST FOR PROPOSAL

Mr. McCausland reported that AON Risk Consultants, Inc., had been the sole candidate as the actuarial consultant for the Oversight Commission. The reason for having only one respondent was recent BWC history and the lack of indemnification from BWC. Final selection has been made after a check of references by Liz Bravender, Actuarial Director. AON will begin after the contract is executed.

ACTIVE ASSET MANAGERS DISCUSSION

Mr. Dunn solicited standards from the Investment Committee for the upcoming RFPs for the Active Style Asset managers. BWC will encourage responses from Ohio-based firms and minority firms to its Active Asset manager RFPs. However, Mr. Dunn stated he believes BWC will likely choose between three to five finalist managers for each active style asset mandate. Mr. Dunn mentioned that no firm will be permitted under the Investment Policy to have more than 5% of its assets for each mandate to be represented by assets managed for BWC.

Mr. McCausland requested a position paper for the next Investment Committee meeting which focuses on the issues that need to be addressed regarding active investment manager selection.

CASH MANAGEMENT PROCESS AND SECURITIES LENDING REPORTS

Mr. McCausland stated that reports on these programs would be found in the binder for the meetings.

RESOLUTIONS

Ms. Farkas moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve the selection of Northern Trust Global Investments to serve as a Large Cap U. S. Equity Passive Index Manager for the BWC, upon such terms as are outlined in Northern Trust's response to the request for

proposals issued September 18, 2006, and such other terms as are favorable to the BWC. Mr. Sopko seconded and the motion passed by a unanimous roll call vote.

Mr. Sopko moved that the Investment Committee of the Workers' Compensation Oversight Commission authorize the BWC Investment Staff to utilize SSGA Intermediate U. S. Governmental/Credit Bond Index Strategy (A Commingled Fund) for the portfolios of the Public Works Relief Employees Fund and the Marine Industry Fund. This authorization is for a period not to exceed six months from this date. Ms. Farkas seconded and the motion was passed by unanimous roll call vote.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that BWC adopt the Lehman Intermediate U. S. Government/Credit Index as the intermediate duration fixed income benchmark, and further recommend to the Oversight Commission that it adopt the Lehman Customized U. S. Long Government/Credit Index as the Long Duration Fixed Income Benchmark in section V.A. of the Investment Policy Statement, for the reasons outlined in the memoranda provided by the Chief Investment Officer of BWC. Ms. Farkas seconded and the motion was approved by unanimous roll call vote.

Mr. Sopko 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 Below Investment Grade Bond ownership limits, for the reasons outlined in the Memorandum of the Chief Investment Officer of BWC dated February 8, 2007. The specific revisions to the Investment Policy Statement are set forth in the Appendix to this motion, which is incorporated herein. Ms. Farkas seconded and the motion was approved by unanimous roll call vote.

Ms. Farkas moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that the Oversight Commission approve the selection of AON Risk Consultants to serve the Oversight Commission as a consulting actuarial vendor upon such terms as AON Risk Consultants set forth in its Response to the RFP issued December 20, 2006, and such other terms as are favorable to BWC and the Oversight Commission. Mr. Sopko seconded and the motion was approved by unanimous roll call vote.

ADJOURNMENT

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 0307.doc
April 18, 2007

**OHIO WORKERS' COMPENSATION
OVERSIGHT COMMISSION
INVESTMENT COMMITTEE**

SCHEDULE OF PROJECTS

MARCH 29, 2007

1. Project Area: Actuarial Consultant Request for Proposal
 Personnel Responsible: Tracy Valentino, Chief Financial Officer
 Date Assigned: September 28, 2006
 Project Description: Edwin McCausland prepared a proposal of items for reports from actuarial and other financial consultants for submission to BWC. BWC is to prepare a Request for Proposal (RFP). November status: Ms. Valentino promised to distribute the draft RFP by close of business, November 22. January 2007: Mr. McCausland reported that there had been one response to the RFP filed and that AON Risk Consultants, Inc., would be selected in the near future as the vendor.
 Project Status: Open request
2. Project Area: Fiduciary Insurance
 Personnel Responsible: James Barnes, Chief Legal Officer
 Date Assigned: September 28, 2006
 Project Description: Lloyd's of London has agreed to write the policy and has agreed to coverage limits. Final policy needs to be written and presented to BWC. November status: First, Mr. Barnes reported that certain contract terms need definition prior to finalizing the agreement. Second, BWC needs to ensure that Oversight Commission members and other fiduciaries are not responsible for the deductible of \$75,000. Third, the contract should specify which BWC officers are covered by the policy. Mr. Barnes is to confirm finalization of this matter by email. January 2007: Final report delivered.
 Project status: Complete
3. Project Area: Investment Division Requests for Proposal
 Personnel Responsible: Bruce Dunn, Chief Investment Officer
 Date Assigned: September 28, 2006
 Project Description: The Investment Division produced a chart regarding the asset allocation process and a timeline indicating anticipated completion dates for each item. The Investment Committee requested that the timeline chart be updated as each action is completed. December: The update is included with meeting materials. January 2007: The chart should include dollar amount of transfers to new managers as they occur.
 Project Status: Ongoing

4. Project Areas: Disclosure of BWC RFP Scoring Documents to the Investment Committee
Personnel Responsible: John Williams, Assistant Attorney General
Date Assigned: September 28, 2006
Project Description: The Investment Committee has requested that it receive the scoring documents used by BWC to evaluate responders to RFPs prior to approving the contracts. The Attorney General has advised that disclosure prior to finalizing contracts may invite litigation. December status: AAG Williams provided a further report.
Project Status: Open request
5. Project Area: Portfolio Noncompliance to Investment Policy Statement
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: September 28, 2006
Project Description: The Investment Committee has requested that BWC ensure the investment manager follow the Investment Policy Statement. November status: The Oversight Commission approved three resolutions which modify the Investment Policy; BWC will be conducting an audit of the manager, including an on-site visit. December status: Because of the imminent transfer of BWC assets to other management situations, the site visit is cancelled as unproductive. The audit will be completed after transfer.
Project Status: Open request
6. Funds Commingling by State Street Bank & Trust
Personnel Responsible: James Barnes, Chief Legal Officer, and Tracy Valentino, Chief Financial Officer
Date Assigned: September 28, 2006
Project Description: The Investment Committee has requested that the written opinions of Mr. Barnes and Ms. Valentino be added to the meeting records. Michael Koetters acknowledged that he had received an email from Mr. Barnes with his opinion prior to the September meeting. November status: The opinion of Mr. Barnes was forwarded to the custodian of the meeting records; the opinion of Ms. Valentino was included in the November meeting materials.
Project Status: Complete
7. Project Areas: Schedule of Projects, Investment Committee Minutes
Personnel Responsible: Larry Rhodebeck, Secretary to Investment Committee
Date Assigned: November 16, 2006
Project Description: The Investment Committee has requested that from the September meeting onward, the minutes include a schedule of projects including: description, responsible persons, date assigned, and status of progress. November status: The minutes of September and November have had schedules prepared for submission to the Investment Committee at its December meeting. December status: The Schedule for

November was distributed to Investment Committee members and others at the meeting. In the future, the Schedule will be distributed with all other meeting materials.

- Project Status: Ongoing
8. Project Area: Portfolio Certification Reports
Personnel Responsible: Bruce Dunn, Chief Investment Officer; Joseph Bell, Chief of Internal Audit
Date Assigned: November 16, 2006
Project Description: The Investment Committee needs four reports: a monthly report from the Chief Investment Officer; a monthly report from BWC accountants; a quarterly report by Internal Audit; and the annual external audit. December status: BWC reports are ongoing. The external audit reports for fiscal years 2005 and 2006 are now due January 31, 2007. January 2007: The audit will be complete this month, and the report is due later.
Project Status: Ongoing
9. Project Area: Portfolio Transition to Approved Asset Allocation
Personnel Responsible: Bill Mabe, Administrator; Bruce Dunn, Chief Investment Officer
Date Assigned: November 16, 2006
Project Description: At the November meetings, the Oversight Commission and the Investment Committee approved three resolutions: The portfolio to be held by one custodian; that securities lending be suspended until completion of transition; and that 20% of the portfolio be invested in the State Street Bank & Trust S&P Index Fund. The Investment Committee further requested that BWC confer on other recommendations to be acted on at the next committee meeting. At the December meeting, the Investment Committee approved a BWC request to select State Street Global Advisors as the only manager for Treasury Inflation Protected Securities (TIPS) and a request to select State Street as one of the managers for Long Duration Fixed Income Investments (LDFI). January 2007: Barclays Global Investors was selected as the second LDFI manager. March 2007: Northern Trust Global Investors was selected as the only manager for Large Cap U. S. Equity.
Project Status: Ongoing
10. Project Area: Public Records Status of Private Equity Investment Documents
Personnel Responsible: Tom Sico, Director of Legal Operations; the Attorney General
Date Assigned: November 16, 2006
Project Description: About a dozen consent agreements to the settlement of the public records litigation have been received from general partners. Forty more need processing by the Attorney General. December status: the Ohio Attorney General continues to obtain agreements from the general partners.
Project Status: Open request
11. Project Area: Dividend on 2/2006 Payroll Report

Personnel Responsible: Bill Mabe, Administrator
Date Assigned: November 16, 2006
Project Description: By the December 14 meeting of the Oversight Commission, the Administrator will recommend a dividend or some other disposition of excess surplus. December status: Because of several factors, Bill Mabe did not recommend a dividend for the 2/2006 payroll reporting period.
Project Status: Complete

12. Project Area: Internal Cash Management
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: December 14, 2006
Project Description: The Investment Committee requested a report on why cash is managed internally by BWC and if there is a cheaper alternative. January: Report on cash management by use of the JPMorgan U.S. Government Money Market Fund provided for the January 25 meeting and addressed at the March 29 meeting. It was determined that cash is not managed internally by BWC, but rather is managed externally by use of this Fund.
Project Status: Complete

13. Project Area: Investment Policy Statement Restriction on Investment Managers
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: December 14, 2006
Project Description: The Policy restricts investment of the State Insurance Fund to no more than 5% of the total portfolio of each manager, unless circumstances warrant a larger portion. The Investment Committee issued an ongoing request that all applicants for managers be evaluated for appropriateness of the waiver.
Project Status: Ongoing

14. Project Area: Manager Allocation
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: January 25, 2007
Project Description: BWC will provide a monthly report of allocation of the State Insurance Fund to investment managers.
Project Status: Ongoing

15. Project Area: Monthly Portfolio Performance Reports
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: January 25, 2007
Project Description: BWC will provide monthly performance reports of JPMorgan Chase. BWC staff is working with JPMorgan on an appropriate format to present relevant performance on a monthly basis starting in January 2007.
Project Status: Ongoing

16. Project Area: Active Asset Managers
Personnel Responsible: Bruce Dunn, Chief Investment Officer

Date Assigned: March 29, 2007
Project Description: Position Paper on certain criteria for the Request for
Proposals for selection of managers for the four active manager asset mandates
Project Status: Open request

H:\Word\ldr\Schedule of Projects 0307.doc
April 17, 2007

Ohio Bureau of Workers' Compensation
Summary Performance Net of Fees
January 31, 2007

Portfolio Name	Benchmark Reference	Market Value	BWC	Bmk	BWC	Bmk	BWC	Bmk	BWC	Bmk	BWC	BWC	BWC	BWC	BWC
			Monthly	Monthly	YTD	YTD	3 Mo. Trailing	3 Mo. Trailing	12 Mo. Trailing	12 Mo. Trailing	Inception to Date	1 Month	YTD	3 Mo.	12 Mo.
			ROR	ROR	ROR	ROR	ROR	ROR	ROR	ROR	ROR	Variance	Variance	Variance	Variance
Total Fund	NR	\$ 16,721,997,271	0.17	NR	0.17	NR	0.83	NR	5.41	NR	7.02				
Total Fund ex Alternatives	Interim Benchmark	\$ 16,285,488,150	0.18	0.15	0.18	0.15	0.85	-	5.36	-	6.90	0.02	0.02		
	Target Benchmark		(0.04)	(0.04)	-	-	-	-	0.21	0.21					
Total SIF	NR	\$ 15,308,183,038	0.19	NR	0.19	NR	0.85	NR	5.08	NR	7.06				
Total SIF ex Alternatives	Interim Benchmark	\$ 14,871,673,916	0.20	0.15	0.20	0.15	0.88	-	5.04	-	6.93	0.04	0.04		
	Target Benchmark		(0.04)	(0.04)	-	-	-	-	0.23	0.23					
SIF Bond Composite	Interim Benchmark	\$ 12,286,735,300	(0.02)	0.11	(0.02)	0.11	-	-	-	-	(0.02)	(0.13)	(0.13)		
	Target Benchmark		(0.04)	(0.04)	-	-	-	-	0.02	0.02					
. SSGA Bond CTF	L.B. Aggregate	\$ 9,294,653,038	(0.04)	(0.04)	(0.04)	(0.04)	0.62	0.53	4.18	4.28	5.66	0.00	0.00	0.08	(0.10)
. Transition - L.B. Agg	NR	\$ 2,588,349	0.39		0.39		-		-		0.39				
. Transition - US Treas	NR	\$ 143,478	(0.53)		(0.53)		-		-		(0.53)				
. Long Duration	L.B. Custom Long G/C														
. TIPS	L.B. U.S. TIPS	\$ 2,989,350,435	0.02	0.52	0.02	0.52	-	-	-	-	0.02	(0.51)	(0.51)		
SIF Cash	M.L. 91 day T-Bill	\$ 77,771,984	0.42	0.41	0.42	0.41	1.28	1.29	5.18	4.96	4.75	0.01	0.01	(0.00)	0.22
SIF Equity	Interim Benchmark	\$ 2,925,778,283	1.09	1.43	1.09	1.43	-	-	-	-	1.09	(0.34)	(0.34)		
	Target Benchmark			1.25		1.25		-	-	-	-		(0.16)	(0.16)	
. Public Equity	S & P 500	\$ 2,498,637,031	1.26	1.25	1.26	1.25	-	-	-	-	1.26	0.01	0.01		
. Alternatives	Wilshire 5000 + 5%	\$ 427,141,252	0.06	2.43	0.06	2.43	(0.37)	6.83	3.57	19.78	9.39	(2.36)	(2.36)	(7.20)	(16.21)
SIF Misc. Accounts		\$ 17,897,471	8.29		8.29		-		-		8.29				
Total Non-SIF	Interim Benchmark	\$ 1,413,814,233	(0.03)	(0.03)	(0.03)	(0.03)	0.59	-	4.99	-	3.89	0.00	0.00		
	Target Benchmark			(0.03)		(0.03)		-	-	-	-		0.00	0.00	
. Non-SIF Bonds	Interim Benchmark	\$ 1,372,064,789	(0.04)	(0.04)	(0.04)	(0.04)	-	-	-	-	(0.04)	0.00	0.00		
	Target Benchmark			(0.04)		(0.04)		-	-	-	-		0.00	0.00	
. Non-SIF Cash	M.L. 91 day T-Bill	\$ 41,749,445	0.44	0.41	0.44	0.41	-	1.29	-	4.96	0.44	0.03	0.03		

Note: Returns less than 12 months are cumulative and returns of 12 months or longer are annualized
Note: Interim and Target benchmarks began January 2007

Ohio Bureau of Workers' Compensation

Portfolio Market Value Asset Allocation

January 31, 2007

Asset Sector	SIF	SIF % Assets	Non SIF	Non SIF % Assets	Total Fund	Total Fund % Assets
Bonds	\$ 12,286,735,300	80.3%	1,372,064,789	97.0%	13,658,800,088	81.7%
Public Equity	\$ 2,498,637,031	16.3%	-	0.0%	2,498,637,031	14.9%
Private Equity	\$ 427,141,252	2.8%	-	0.0%	427,141,252	2.6%
Miscellaneous	\$ 17,897,471	0.1%	-	0.0%	17,897,471	0.1%
Cash	\$ 77,771,984	0.5%	41,749,445	3.0%	119,521,429	0.7%
<u>Total</u>	\$ 15,308,183,038	100.0%	1,413,814,233	100.0%	16,721,997,271	100.0%
Total Fund Assets	\$ 15,308,183,038	91.5%	1,413,814,233	8.5%	16,721,997,271	100.0%

Note: Asset sector is based on composite data and not asset level data

Ohio Bureau of Workers' Compensation

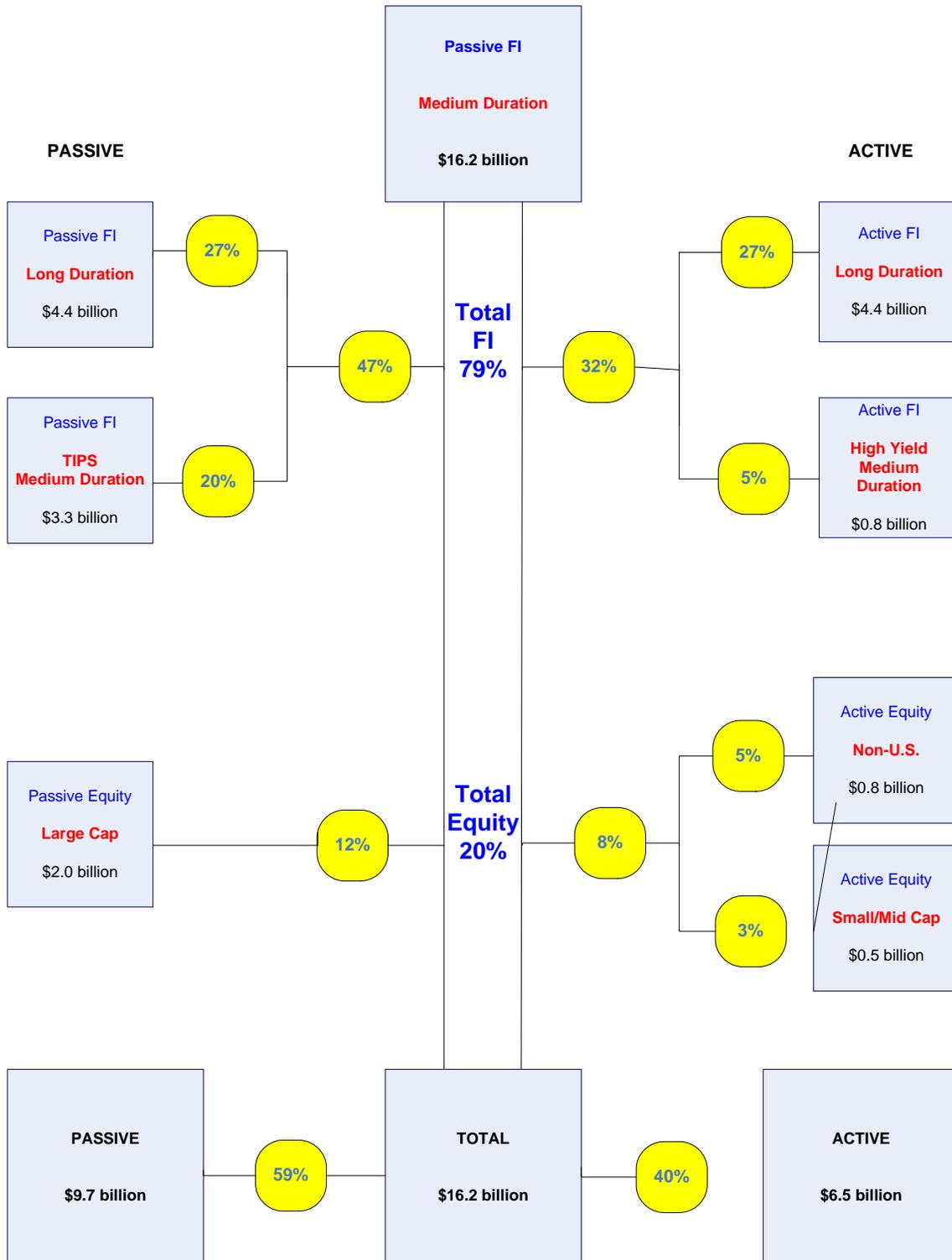
Portfolio Market Value Asset Allocation

February 28, 2007

Asset Sector	SIF	SIF % Assets	Non SIF	Non SIF % Assets	Total Fund	Total Fund % Assets
Bonds	\$ 3,072,761,993	19.6%	1,393,723,237	97.3%	4,466,485,230	26.1%
Public Equity	\$ 2,450,133,815	15.6%	-	0.0%	2,450,133,815	14.3%
Private Equity	\$ 430,894,749	2.7%	-	0.0%	430,894,749	2.5%
Lehman Agg Transition	\$ 9,420,931,568	60.0%	-	0.0%	9,420,931,568	55.0%
Miscellaneous	\$ 17,941,721	0.1%	-	0.0%	17,941,721	0.1%
Cash	\$ 312,765,350	2.0%	39,305,216	2.7%	352,070,566	2.1%
<u>Total</u>	\$ 15,705,429,197	100.0%	1,433,028,453	100.0%	17,138,457,649	100.0%
Total Fund Assets	\$ 15,705,429,197	91.6%	1,433,028,453	8.4%	17,138,457,649	100.0%

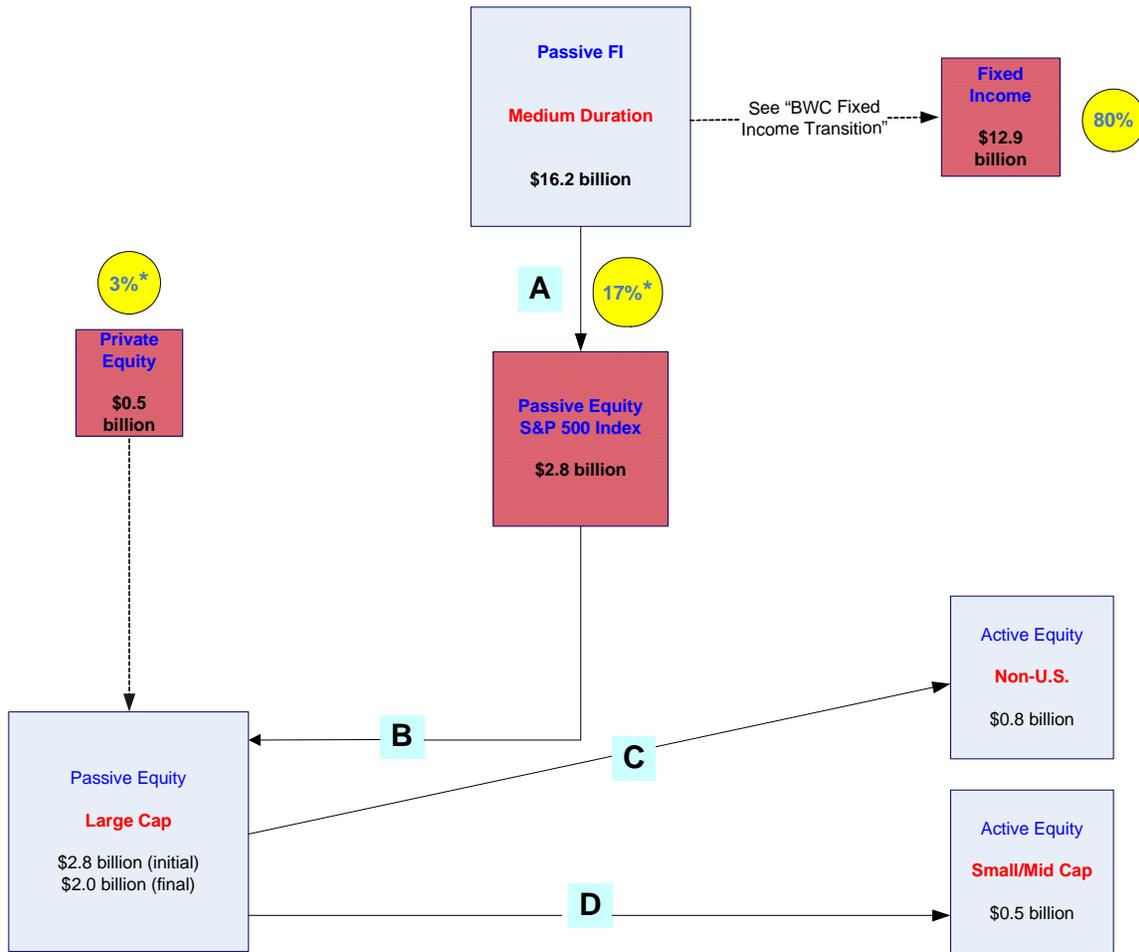
Note: Asset sector is based on composite data and not asset level data

BWC INVESTED ASSET SECTOR TRANSITION FUNDS
April 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 EQUITY TRANSITION April 2007

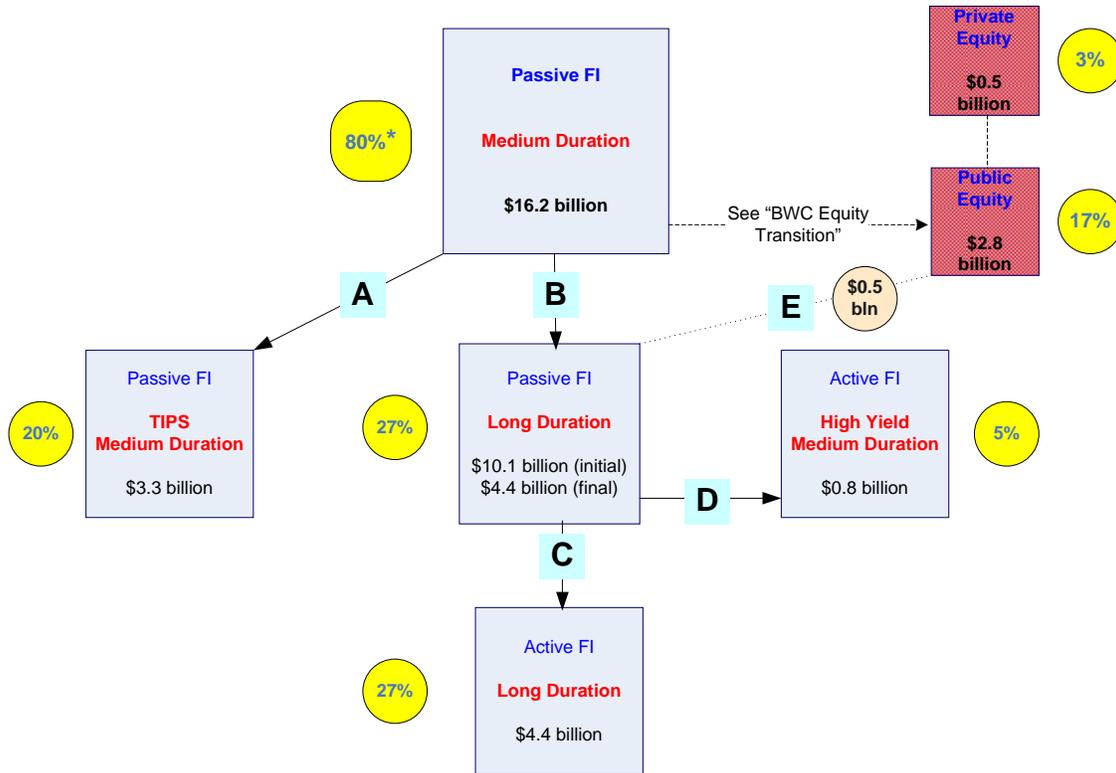


*** BWC will maintain a full 20% equity allocation per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

- 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 FIXED INCOME TRANSITION

April 2007

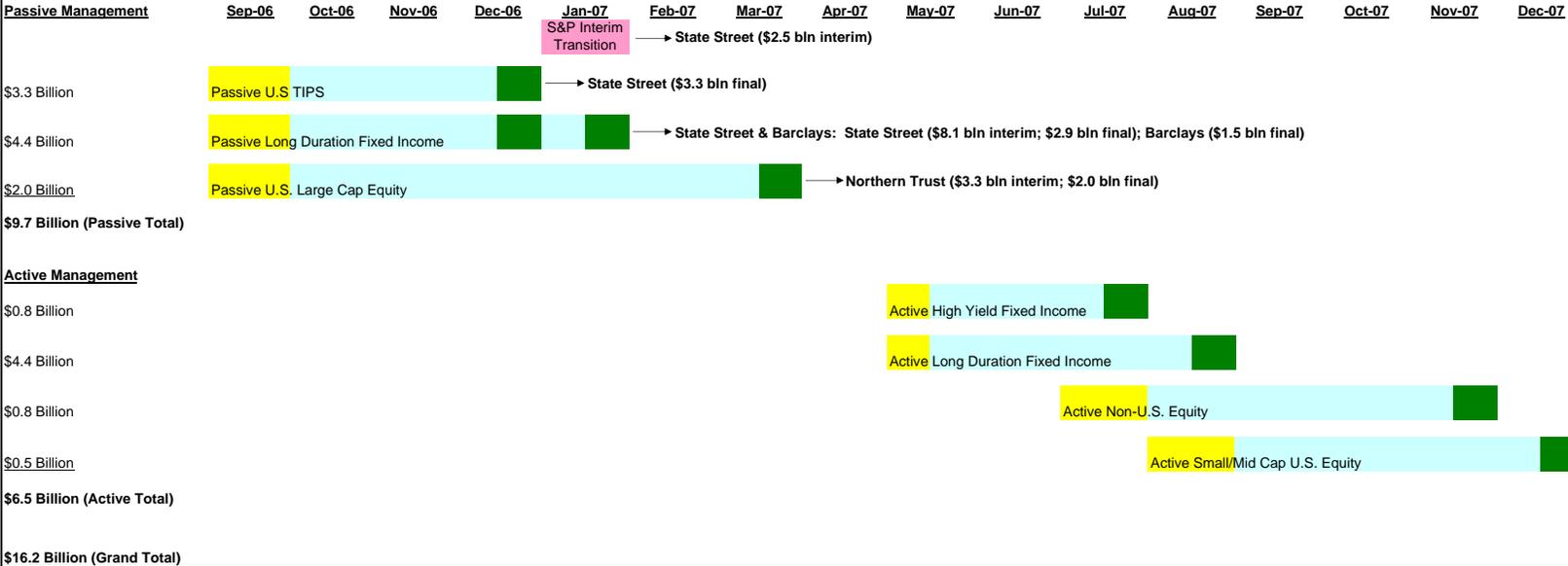


*** BWC will maintain a full 80% fixed income allocation (includes 1% cash) per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

- 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 Transition Funds RFP Timelines April 2007

BWC ASSETS



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.



PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR

(April, 2007)

Monthly Reports

- CIO Report
 - Progress on Goals
 - Updates (RFPs, actions)
 - Compliance
 - Legislative
- JP Morgan Performance Reports

Quarterly Reports

- Quarterly and YTD Actual vs. Budget
 - Investment Division Budget
 - Investment Expenses – Manager and Operational Fees
- Investment Division Staffing
- Wilshire quarterly performance reports
- JPMorgan quarterly manager performance reports

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR (April, 2007)

July

- 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)

August

- Quarterly Reports
- Annual BWC Investment Personnel Review
 - CIO Certification
 - Ethics/Conflict of Interest/Compliance

September

- Annual CIO Report
 - Year in Review – portfolio performance
 - Asset Allocation
 - FY Goals
 - Environment
- WCOC Consultant Annual Report Card

October

- WCOC Consultant Renewal/RFP

November

- Quarterly Reports

December

- Annual Review of Investment Manager benchmarks
- Semi-annual economic and interest rate outlook

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR

(April, 2007)

January

- Administrator's Investment Agenda Goals

February

- Quarterly Reports
- Annual Outside Investment Manager Review

March

- Annual Custodial Review

April

- Investment Policy Review and Update

May

- Quarterly Reports

June

- Semi-annual economic and interest rate outlook

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR
(April, 2007)

A discussion with the Investment Committee is desired on Content and Expectations of the following Reports, as listed in Appendix XV of the BWC Investment Policy and Guidelines:

- Sarbanes-Oxley report – CIO Certification and report
- Auditor Report
 - Internal auditor
 - External auditor
- Review of Internal and External Auditor
 - Pre-audit preparation report on audit focus and review of prior audit
- Review of investment duties and authorities of
 - WCOC, IC, CEO and CIO
- Legal Review
- IT Review
- Asset/Liability study review and recommendation
- Investment Policy and Mission statement review and recommendation

C. Bruce Dunn, CFA
Chief Investment Officer
April 20, 2007

DATE: April 16, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

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

The following is an outline and explanation regarding the revised investment recommendation being proposed herein by the Chief Investment Officer with respect to the target portfolio strategy 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. This revised recommendation is endorsed by Mark Brubaker of Wilshire Associates.

Background

At the scheduled meeting of the BWC Investment Committee on March 29, 2007, the Investment Committee unanimously approved a motion to the Workers' Compensation Oversight Commission (WCOC) authorizing the BWC Investment staff to utilize the Non-Lending Intermediate U.S. Government/Credit Index Common Trust Fund passively managed by State Street Global Advisors (the "SSGA Fund") for a defined period not to exceed 180 days from the date of this motion. This SSGA Fund was to serve as the target portfolio for the Public Work-Relief Employees' Fund ("PWF") and the Marine Industry Fund ("MIF") in the overall asset allocation transition strategy being undertaken for the BWC ancillary portfolios.

Such motion was the result of a review and discussion of the Investment Recommendation report dated March 14, 2007 submitted by the BWC Chief Investment Officer detailing the background and rationale for such recommendation. This recommendation was endorsed by Wilshire Associates, as Investment Consultant to the WCOC. The reasons for the inclusion of a time limit in this approved motion were (a) to accommodate the custodial position of the Treasurer of State who does not want invested assets of the BWC to be in a commingled custodian structure and (b) to allow the BWC staff the necessary time to explore the alternative of internal management of these two smaller ancillary portfolios. Acting Investment Committee Chairman McCausland indicated in the March 29 Investment Committee meeting that the Treasurer expressed this custody opinion in a meeting he attended with the Treasurer and BWC staff (Chief Investment Officer, Director of Investments, Legislative Liaison) one day earlier on March 28.

This motion brought forward to the WCOC at its March 29, 2007 meeting was tabled with no vote occurring. Commissioner McCausland indicated that a second meeting with the Treasurer, BWC staff, Assistant Attorney General Williams, and he would be scheduled for the following week to discuss the investment recommendation and custodian issue further. At the March 29 WCOC meeting, the WCOC did vote and unanimously approved the adoption of the Lehman Intermediate U.S. Government Index as the Intermediate Duration fixed income benchmark for the BWC. After some discussion, this benchmark index was changed from the Lehman Intermediate U.S. Government/Credit Index benchmark proposed in the CIO recommendation and Wilshire Associates endorsement approved by motion by the Investment Committee at its earlier March 29 meeting.

A second meeting did take place on April 5, 2007 with the Treasurer of State to discuss the subjects of BWC asset custody, the investment strategy recommendation of the CIO for the two subject ancillary portfolios, and the possible alternative of internal staff management of these two ancillary portfolios. Among those present at this second meeting were Commissioner McCausland, Assistant Attorney General Williams, Senator Stivers, and BWC staff (CIO, Director of Investments, Chief Legal Officer, Legislative Liaison). With respect to the alternative of internal staff management of the two ancillary portfolios in question, the CIO indicated that a specific time frame for establishing requisite internal systems and controls prior to internal asset management commencing could not be defined until discussions and understandings occurred with other key BWC senior staff members, most importantly the new BWC Administrator who does not assume her official duties until May 1, 2007. At this second meeting, the Treasurer reiterated his opposition to the commingled custodial structure for BWC invested assets.

With the primary objective of wanting to move forward to complete the transitions of the four ancillary portfolios to target asset allocation in an expeditious manner, the Chief Investment Officer and the Chairman of the BWC Investment Committee had an ensuing discussion. Chairman Koetters proposed that consideration be given to investing all the assets of the two subject ancillary portfolios (PWF and MIF) in short-term investments on an interim basis until such time as a permanent solution could be established that would comply with the Treasurer of State requirements.

It would need to be acknowledged that an interim investment strategy of these two ancillary portfolios invested only in short-term assets would result in an asset/liability duration mismatch when compared to the existing investment strategy (passive indexed management to the Lehman Aggregate Index) and to the CIO and Wilshire Associates recommended strategy (passive indexed management to the Lehman Intermediate Government/Credit Index). The duration of liabilities of each of the PWF and MIF portfolios is represented as between 3-4 years in Appendix X.C. and X.E. of the BWC Investment Policy and Guidelines (specifically 3.4 years as represented in the Asset/Liability Valuation study presented by Wilshire Associates in July 2006). The Lehman Aggregate Index and Lehman Intermediate Government/Credit Index have current modified durations of 4.56 years and 3.63 years, respectively. The Lehman Intermediate Government Index, adopted by the WCOC as the BWC intermediate duration fixed income benchmark for these two portfolios last month, has a current modified duration of 3.25 years.

Upon further review by the Chief Investment Officer and the BWC investment staff, the CIO offers the following recommendation as an interim strategy for the two subject ancillary portfolios.

Recommendation

It is recommended that all invested assets of both the Public Work-Relief Employees' Fund (\$21 million) and Marine Industry Fund (\$15 million) invested currently in the custom commingled Ohio Bond Fund be liquidated from the Ohio Bond Fund with all proceeds to be reinvested on an interim basis in the low-fee institutional money market fund now being utilized by BWC for all of its daily cash balance invested assets. This money market fund, termed the JPMorgan U.S. Government Money Market Fund (the "Fund"), is the BWC preferred and selected money market fund offered by JPMorgan Chase Bank, serving as the BWC custodian selected by the Treasurer of State.

Attached at the end of this report is a summary of the Fund as well as a comparison of the net yields earned for the Fund's lowest-expensed Capital Share Class (BWC meets the eligibility requirements for this share class) with the yields of two relevant Lehman fixed income benchmarks referenced herein. The table provided comparing net yields is reflective of a consistently inverted yield curve existing since the summer of 2006 for the U.S. Treasury and Agency fixed income markets from 0-5 year terms. The Fund has provided a yield significantly higher than the Lehman Intermediate U.S. Government Index since August, 2006. This Fund has been very well managed by an experienced portfolio team at JPMorgan based in Columbus, Ohio and fully complies with all current investment restrictions of the BWC Investment Policy Statement.

This interim strategy proposed is not likely to result in any sacrifice in investment interest income in the near term for the PWF and MIF portfolios when compared to investing in U.S. Treasury/Agency issues, either directly or via an external manager, that have an average 3-4 year duration target. The mismatch of asset/liability duration for an interim period of up to six months, for example, would be potentially adverse to PWF and MIF only if intermediate Treasury/Agency yields declined sufficiently such that their total return exceeded the approximate 40 basis point favorable yield differential offered currently by the selected government money market fund. If both short-term and intermediate-term yields rose without any material change in shape of the yield curve, this interim strategy of short-term investing would be advantageous as principal value would be preserved.

Furthermore, it must be pointed out that both of these smaller ancillary portfolios have a very high ratio of net assets to total invested assets. In the BWC financial report for February, 2007 month-end distributed last month, net assets were represented at \$17.5 million for PWF and \$13.5 million for MIF. This compares to total invested assets (including overnight cash invested in the sweep Fund with JPMorgan) of \$21.7 million for PWF and \$15.9 million for MIF. The represented financial statement reserve value of liabilities of these two portfolios was a low \$4.7 million for PWF and \$2.3 million for MIF.

The high level of net assets and low level of actuarial reserve liabilities is very significant in that this position affords BWC the flexibility to withstand an asset/liability mismatch for a reasonable time period without incurring any deleterious financial risk to these two extremely well-capitalized segregated portfolios.

If this recommendation is approved by the Investment Committee and WCOC, the interim investment strategy could be executed very quickly for the two relevant ancillary portfolios. The transition to target asset allocation of the two remaining larger ancillary portfolios, Coal Workers Fund (\$235 million) and Disabled Workers Fund (\$1.1 billion), would then commence in prompt succession during the month of May, 2007.

The BWC Investment Division will proceed on the understanding that the target portfolio for both the PWF and MIF portfolios will be an appropriate combination of U.S. Treasury and U.S. Agency securities that will provide a proper matching of asset/liability cash flows and duration. It will be the intention of the BWC Investment Division to manage these two portfolios internally after satisfactory internal procedures and infrastructure support are established, as well as an updated actuarial review of liability payments. A specific time frame for completion of all necessary steps required for internal management will be presented and addressed at a future Investment Committee meeting.



Ohio Bureau of Workers' Compensation

JP Morgan U.S. Government
Money Market Fund

April 26, 2007

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 \$16.5 billion on 3/31/07) 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. Lehman Indices

<u>Month End</u>	<u>JPM Capital Share Class</u>	<u>Lehman Intermed. US Govt.</u>	<u>Lehman Aggregate</u>
Dec. 2005	4.09%	4.53%	5.08%
Mar. 2006	4.45	4.96	5.47
June 2006	4.87	5.28	5.79
July 2006	5.10	5.09	5.61
Aug. 2006	5.12	4.88	5.40
Sept. 2006	5.15	4.79	5.32
Oct. 2006	5.16	4.77	5.28
Nov. 2006	5.15	4.65	5.13
Dec. 2006	5.17	4.88	5.34
Jan. 2007	5.15	4.99	5.45
Feb. 2007	5.16	4.73	5.22
Mar. 2007	5.17	4.76	5.28

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



To: Ohio Bureau of Workers Compensation Investment Committee
CC: C. Bruce Dunn, CIO
From: Mark E. Brubaker, CFA and Michael D. Patalsky, CFA
Date: April 23, 2007
Re: Recommendation for Language Change to Investment Policy Statement to Loosen Constraint of Firm's Product Specific Assets Under Management

Executive Summary

As the OBWC commences its searches for active managers to implement asset allocation policy, it is necessary to reevaluate the constraint in the OBWC IPS (Section IV, C, i) which states that:

*“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.”*

When the IPS was originally drafted, this constraint was appropriately set tightly as a result of prior OBWC experience with disproportionately large manager allocations, where in certain instances, OBWC assets comprised over 50% of a firm's assets. These large allocations led to problems for the OBWC and the investment firms when in December 2005, the decision was made to terminate all managers without prejudice.

Based on Wilshire's evaluation of its manager database, the 5% constraint as it is currently worded may detrimentally limit the number of viable investment manager candidates, particularly in the long duration fixed income category where there are only two managers who would meet this requirement based on current product assets. ***Wilshire recommends that the Investment Committee approve changes to the language in OBWC IPS Section IV, C, i to the following to allow for more managers to qualify for the active mandates, thereby broadening the opportunity set and improving the probability of generating excess returns:***



Proposed Revision to OBWC IPS Section IV, C, i

- 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 asset class at the time it is hired. For purposes of this constraint, “asset class” shall be broadly defined to include all styles, sub-sectors or specialty portfolios managed by a firm within a particular asset class.

Deleted: specific strategy, style or partnership

Deleted: , 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

One key feature of the IPS that will remain intact to manage manager-specific risk is also in Section IV, C, i, which states that:

“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.”

Given this guideline and the fact that the appropriate risk controls and monitoring procedures have been established by the OBWC, Wilshire is comfortable in recommending a loosening of the constraint on OBWC assets as a percent of a firm’s product-specific assets.

Please feel free to call me should you have any questions in advance of our meeting.

OBWC Prospective Number of Active Manager Candidates Under Various Maximum % of Firm Product AUM Constraints

	%	\$ mm	Target		Manager Product AUM Threshold @ OBWC Stated Max. %			# of Qualified Managers @ OBWC Stated Max. % Product AUM		
			# of Mgrs.	Avg. Allocation	5%	10%	15%	5%	10%	15%
Total SIF Assets	100%	16,200	20	N.A.						
Long Duration Fixed Income	54%	8,748								
Active	27%	4,374	5	875	17,496	8,748	5,832	2 (LDFI Only) / 38 (All FI Assets)	5 / 63	9 / 80
Passive	27%	4,374	2	2,187						
TIPS	20%	3,240								
Active	0%	-	0	-						
Passive	20%	3,240	1	3,240						
High Yield	5%	810								
Active	5%	810	3	270	5,400	2,700	1,800	11	24	37
Passive	0%	-	0	-						
Cash Equivalents	1%	162	1	162						
U.S. Equity - Large Cap	12%	1,944								
Active	0%	-	0	-						
Passive	12%	1,944	1	1,944						
U.S. Equity - Small Cap	3%	486								
Active	3%	486	3	162	3,240	1,620	1,080	15	60	105
Passive	0%	-	0	-						
Non-U.S. Equity	5%	810								
Active	5%	810	4	203	4,050	2,025	1,350	51	78	95
Passive	0%	-	0	-						

Total Active Managers	15
Total Passive Managers	4
Cash Equivalents	1



Ohio Bureau of Workers' Compensation

Proxy Voting Policy

April 26, 2007

Institutional Shareholder Services (ISS)

- ISS is considered to be the world's authority on proxy issues and corporate governance serving over 1,700 clients worldwide analyzing proxies for more than 35,000 companies across 115 global markets
- ISS is the only organization to offer a global network of local experts with more than a dozen offices worldwide and a Global Policy Board devoted to analyzing and solving complex global governance issues for institutions
- ISS' research and proxy voting policies are designed on the premise that good corporate governance ultimately results in increased shareholder value
- ISS' services are designed to assist institutional investors and corporations in meeting their governance responsibilities

ISS services provided to BWC

BWC employs ISS' Public Fund Advisory Service which has built a proxy voting policy for the BWC based upon its "best-practices" of government-sponsored investment plans

- Public Fund Advisory Service takes into consideration public fund views on issues such as

majority vote standard
classified boards
performance-based equity
awards
voting power dilution

ratification of auditors
corporate social responsibility
terrorism states
other matters impacting the public
good

- ISS guarantees to vote every proxy for the BWC while allowing BWC the ability to override any proxy vote
- BWC will continue to research and refine the proxy voting policy

TO: Workers' Compensation Oversight Commission
Investment Committee

FROM: Tracy L. Valentino, Interim Chief Financial Officer

SUBJECT: Investment Accounting System Selection Process Update

DATE: April 19, 2007

Last fall, BWC management began a process to select a new investment accounting system to support the financial and investment management needs of BWC's portfolio. The upgrade to BWC's system is necessary to support the changing needs of BWC's investment strategy and to eliminate burdensome, antiquated processes. After much discussion, management determined a two prong approach would be the most beneficial to identifying a system that is both efficient and cost effective. As such, BWC issued two separate Request For Proposals (RFPs).

The first proposal was for a comprehensive investment accounting system that could be purchased and operated by BWC staff. The RFP was issued in November 2006. BWC received three responses which were subsequently evaluated by both Finance and Investment staff in December 2006. The second RFP was to identify a third party to perform comprehensive investment accounting services that would interface with BWC staff. This RFP was issued in December 2006. BWC received three responses in January 2007. These responses have not been evaluated.

With the arrival of a new Administrator, BWC management has established the following timeline for the selection of an investment accounting system:

Final evaluation of third party service provider:	May 4, 2007
Strategy and Selection Recommendation to BWC Administrator	May 11, 2007
Review of Investment Accounting System Strategy with WCOC/IC	May 24, 2007
Initiation of Contract with Selected Vendor	July 1, 2007

Should you have any questions regarding this information, please do not hesitate to contact me.

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: April 16, 2007

SUBJECT: CIO Report for March, 2007

The Investment Division in March, 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 Marsha Ryan. 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 large transition from the State Insurance Fund involving approximately \$9.3 billion was largely completed in March, 2007 by Barclays Global Investors as BWC transition manager. This major transition involved a shift of \$9.3 billion of invested assets from the Ohio Bond Fund to (i) a passive indexed managed Long Duration fixed income portfolio (\$7.8 billion) managed by SSGA and (ii) a similar passive indexed managed Long Duration fixed income portfolio (\$1.5 billion) managed by Barclays Global Investors. It was critical that these three major asset class transitions involving the State Insurance Fund be completed before asset class transition activity could commence with respect to four BWC ancillary portfolios representing an aggregate of approximately \$1.4 billion in invested assets. Focus will now be towards the transitioning of the assets of these four BWC ancillary portfolios.

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. However, interviewing has commenced with selected candidates for these two positions. 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 new BWC Administrator/CEO Marsha Ryan for a final decision shortly after Administrator Ryan assumes her duties on May 1. It is the goal to have this decision made in May, 2007 with implementation largely completed around 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. All due diligence review has been completed and most partnerships have executed consent agreements and confidentiality agreements to permit the sale of the BWC partnership interest in each such fund. The second round of the auction process has been completed and progress continues towards the sale of the BWC private equity funds.

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 March 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 March 31, 2007, as were all the assets in the process of being shifted from the BWC transition manager to the two finalist passive indexed Long Duration fixed income managers.

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. As a prominent illustration of this, the CIO has worked with Lehman Brothers to create a Customized Long Duration Fixed Income benchmark that reflects the tighter bond issuer restrictions of the BWC Investment Policy when compared to the Lehman U.S. Long Government/Credit Index (the "Reference Index") but is virtually identical to the Reference Index with respect to all important characteristics such as quality, quality distribution, diversification, yield, yield spread, and duration. All Long Duration fixed income managers contracted by BWC will be required to comply with all restrictions of this Customized benchmark and to manage to this benchmark rather than to the Reference Index.

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. The Finalist (Northern Trust) for the Large Cap U.S. Equity mandate was recommended and approved at the 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). As a result of all of these actions described herein, the Index Manager RFP has been completed and is officially closed.

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. BWC is consenting to the settlements. As of the last report from the Attorney General, all of the Private Equity funds that were parties to the action have entered settlement agreements with the Dispatch to release redacted versions of the Ennis Knupp Report. Thus, the case has been dismissed. The impact is that BWC and the WCOC members who have a copy of the final Ennis Knupp Report should not release to the public the full version of Tabs 4 and 5 from the 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 five hearings - one in the House Finance and Appropriations Committee and four 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

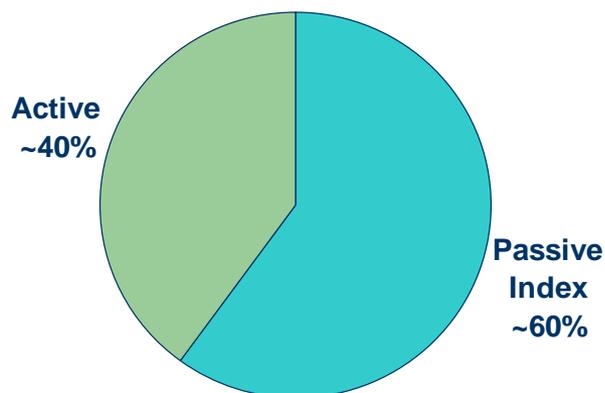
April 26, 2007

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

OVERSIGHT COMMISSION MEETING

Send RFP Advertisement to Newspapers/Journal

Issue RFP

Open period for respondent's questions via email

OVERSIGHT COMMISSION MEETING

Respond to questions via website

DEADLINE FOR RFP PROPOSALS (2:00 PM)

BWC staff initial review of proposals

Evaluation Committee review / finalist candidates identified

OVERSIGHT COMMISSION MEETING

Finalist candidate Interviews / Re-grade finalist candidates / Notify finalist candidates

WCOC MEETING PACKET DEADLINE

On-Site visit of finalists (tentative)

OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists

Long Duration Fixed Income and U.S. TIPS

WCOC MEETING PACKET DEADLINE

OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalists

Long Duration Fixed Income

WCOC MEETING PACKET DEADLINE

OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist

Large Cap U.S. Equity

TIMELINE

Aug. 24 – Complete

Aug. 28 – Complete

Sept. 13 – Revised Sept. 18 – Complete

Sept. 18 - 20 – Revised Sept. 20 - 26 – Complete

Sept. 28 – Complete

Sept. 25 - 27 – Revised Oct. 3 – Complete

Oct. 3 – Revised Oct. 10 – Complete

Oct. 4 - 9 – Revised Oct. 11 - 31 – Revised Oct. 11 - Nov. 14

Oct. 10 – Revised Nov. 1 – Revised Nov. 15 –

Revised Nov. 21 -- Complete

Nov. 16 – Complete

Oct. 18 - 19 – Revised Nov. 7 - 17 – Revised Nov. 27 - Dec. 7 –

Revised Nov 27 - Dec 21 – Revised Nov 27 – Jan 26

Dec. 6 – Complete

Oct. 24 - Nov. 3 – Revised Dec. 8 - Dec. 21 – Revised Dec. 8 – Feb. 1

Dec. 14 – Complete

Jan. 17 – Complete

Jan. 25 – Complete

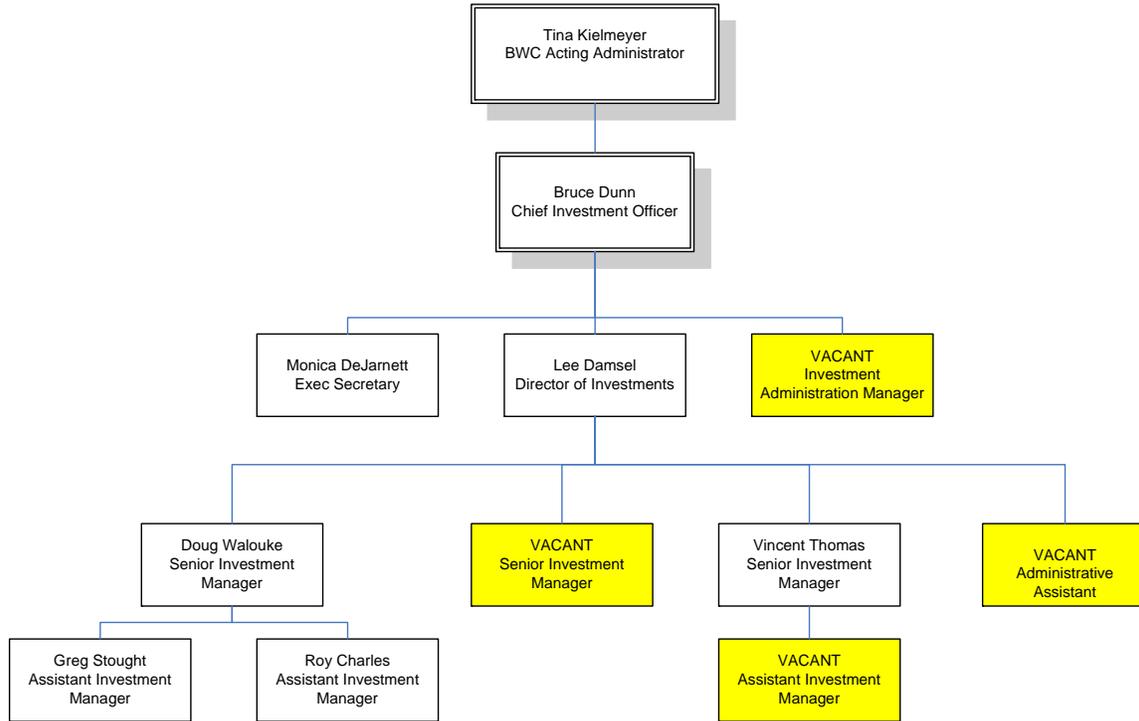
Mar. 21 – Complete

Mar. 29 – Complete

BWC INVESTMENT DIVISION

Table of Organization

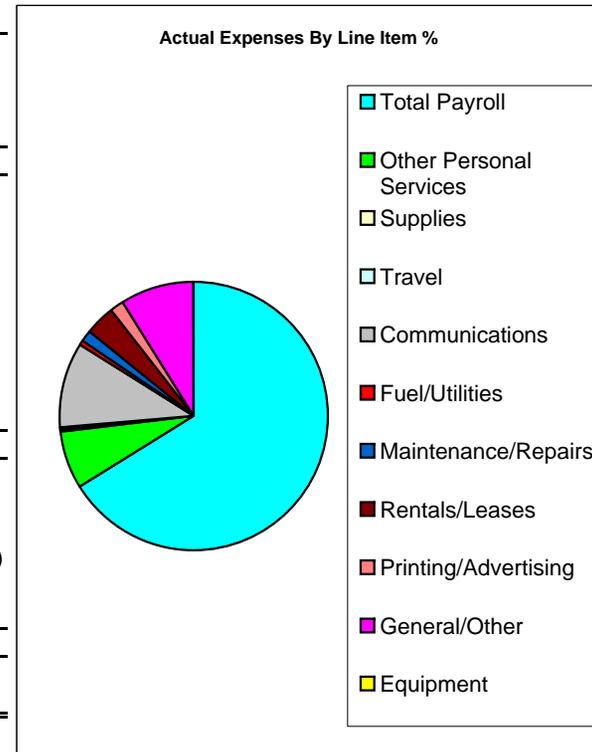
4/19/2007



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

Category	Year-to-Date			Total 2006		
	[2] Actual \$	[3] Budget \$	[4] Variance \$	[6] Forecast \$	[7] Annual Budget \$	Variance \$
Personal Service (100)	775,430	787,039	11,609	1,023,776	1,023,776	-
Maintenance (200)	418,658	507,263	88,605	575,663	575,663	-
Equipment (300)	10,958	300,000	289,042	300,000	300,000	-
Total	1,205,046	1,594,302	389,256	1,899,439	1,899,439	-

Object Class	Actual vs Budget YTD By Object Class		
	YTD Actual \$	YTD Budget \$	YTD Variance \$
Total Payroll (10)	708,863	708,863	-
Purchased Services (13)	64,438	69,779	5,341
Other Personal Services (15)	2,130	8,397	6,267
Total Personal Services	775,431	787,039	11,608
Supplies (21 +21i)	8,691	9,315	624
Travel (23)	25,204	34,695	9,491
Communications (24 + 24i)	3,650	5,004	1,354
Fuel/Utilities (25)	14,348	14,348	-
Maintenance/Repairs (26)	30,229	39,292	9,063
Rentals/Leases (27)	255,836	285,419	29,583
Printing/Advertising (28 +28i)	66,387	69,714	3,327
General/Other (22 +22i +29 + 29i)	14,311	49,476	35,165
Total Maintenance	418,656	507,263	88,607
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	1,205,045	1,594,302	



The Ohio Bureau of Workers' Compensation



Statement of Investment Policy and Guidelines

Adopted by the WCOC: March 29, 2007

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

Table of Contents

<u>General Policy</u>	<u>Page</u>
I Investment Objectives.....	3
II Background.....	3
III Roles and Responsibilities.....	4
IV Investment Policy Guidelines.....	8
V Performance Objectives.....	14
VI Communications.....	15
VII Review Procedures.....	15
VIII Fair Consideration / Public Interest Policy.....	16
 <u>Appendices (Under Separate Cover)</u>	
IX Asset Allocation Criteria	
X Target Asset Mixes and Ranges	
	A. State Insurance Fund (SIF)
	B. Coal Workers' Pneumoconiosis Fund (CWPF)
	C. Marine Industry Fund (MIF)
	D. Disabled Workers' Relief Fund (DWRF)
	E. Public Work-Relief Employees' Fund (PWRF)
	F. Self Insured Employers Guarantee Fund (SIEGF)
XI.A Asset/Liability Valuation	
XI.B Ancillary Funds Asset Allocation Recommendation Presentation	
XII Ohio Revised Code Section 4123.44	
XIII Legal Requirements Summary	
XIV Campaign Contribution Policy	
XV Investment Committee – Financial and Operational Requirements	

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.

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

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.

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

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.

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

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.

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

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.

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

- 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.

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

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.

Average Weighted Credit Quality

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

Duration

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

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

Diversification

The fixed income portfolio shall be diversified as specified below¹ to minimize the risk of losses:

By Sector:

<u>Sector Allocation</u>	<u>Max. % of Fixed Income</u>
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%

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

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

By Credit Quality:

<u>Credit Quality</u>	<u>Max. % of Fixed Income</u>	<u>Individual Security Max %</u>
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.

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.

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

Diversification

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

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

Non-U.S. Equity

The investment goal of the non-U.S. equity investments is to offer the Funds a broad exposure to the return opportunities, diversification effects and investment characteristics associated with the non-U.S. equity market.

Diversification

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

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

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

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

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.

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

- 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:

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

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 than four times a year, the Chief Investment Officer will meet with the Investment Consultants to:

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

- 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.

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

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
Statement of Investment Policy and Guidelines**

**The Ohio Bureau of
Workers' Compensation**



**Appendix to Statement of Investment
Policy and Guidelines**

Adopted by the WCOC: March 29, 2007

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

Table of Contents

- IX. Asset Allocation Criteria**
- X. Target Asset Mixes and Ranges**
 - A. State Insurance Fund (SIF)**
 - B. Coal Workers' Pneumoconiosis Fund (CWPF)**
 - C. Marine Industry Fund (MIF)**
 - D. Disabled Workers' Relief Fund (DWRF)**
 - E. Public Work-Relief Employees' Fund (PWRF)**
 - F. Self Insured Employers Guarantee Fund (SIEGF)**
- XI.A Asset/Liability Valuation**
- XI.B Ancillary Funds Asset Allocation Recommendation Presentation**
- XII. Ohio Revised Code Section 4123.44**
- XIII. Legal Requirements Summary**
- XIV. Campaign Contribution Policy**
- XV. Investment Committee – Financial and Operational Requirements**

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

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.

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

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 WCOB 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 WCOB 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 WCOB on July 20, 2006. The allowable range for all target weights is reflected in the following table.

<u>Asset Class</u>	<u>Policy Target¹</u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<u>Total Fixed Income:</u>	<u>79%</u>	<u>76-82%</u>	<u>47%</u>	<u>32%</u>
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<u>Cash Equivalents</u>	<u>1%</u>	<u>0-6%</u>	<u>NA</u>	<u>NA</u>
<u>Total Equity</u>	<u>20%</u>	<u>17-23%</u>	<u>12%</u>	<u>8%</u>
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

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

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

<u>Asset Class</u>	<u>Policy Target</u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<u>Total Fixed Income:</u>	<u>79%</u>	<u>76-82%</u>	<u>74%</u>	<u>5%</u>
Long Duration	54%	51-57%	54%	0%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<u>Cash Equivalents</u>	<u>1%</u>	<u>0-6%</u>	<u>NA</u>	<u>NA</u>
<u>Total Equity</u>	<u>20%</u>	<u>17-23%</u>	<u>20%</u>	<u>0%</u>
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

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

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 liabilities¹ 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.

<u>Asset Class</u>	<u>Policy Target</u>
<u>Total Fixed Income:</u>	<u>99%</u>
Intermediate Duration	99%
<u>Cash Equivalents</u>	<u>1%</u>
<u>Total Equity</u>	<u>0%</u>

¹ Expected to be implemented by December 31, 2006

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

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

<u>Asset Class</u>	<u>Policy Target</u>	<u>Policy Range</u>	<u>Management Style</u>	
			<u>Passive</u>	<u>Active</u>
<u>Total Fixed Income:</u>	<u>79%</u>	<u>76-82%</u>	<u>47%</u>	<u>32%</u>
Long Duration	54%	51-57%	27%	27%
High Yield	5%	4-6%	0%	5%
Inflation-Protected Securities	20%	17-23%	20%	0%
<u>Cash Equivalents</u>	<u>1%</u>	<u>0-6%</u>	<u>NA</u>	<u>NA</u>
<u>Total Equity</u>	<u>20%</u>	<u>17-23%</u>	<u>12%</u>	<u>8%</u>
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%

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

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.

<u>Asset Class</u>	<u>Policy Target</u>
<u>Total Fixed Income:</u>	<u>99%</u>
Intermediate Duration	99%
<u>Cash Equivalents</u>	<u>1%</u>
<u>Total Equity</u>	<u>0%</u>

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

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.

<u>Asset Class</u>	<u>Policy Target</u>
<u>Total Fixed Income:</u>	<u>0%</u>
<u>Cash Equivalents</u>	<u>100%</u>
<u>Total Equity</u>	<u>0%</u>



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** **Slide 2**
- II. Legislative Background and Purpose** **Slide 4**
 - 1. Mission
 - 2. Roles and Fiduciary Responsibilities
 - 3. What is OBWC?
- III. Asset-Liability Valuation Background** **Slide 9**
- IV. Wilshire's Capital Market Expectations and Efficient Portfolios** **Slide 14**
 - 1. Historical Return Perspective
 - 2. Wilshire's 2006 10-Year Forward Looking Capital Markets Expectations
 - 3. Efficient Portfolios
- V. Asset-Liability Modeling** **Slide 20**
- VI. Industry Peer Comparisons** **Slide 26**
- VII. Proposed Dividend / Adequate Surplus Policy** **Slide 31**
- VIII. Asset Class Structure and Implementation** **Slide 33**

- Biographies** **Slide 39**
- Appendix – Wilshire's 2006 Capital Markets Expectations**



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):**

<i>Asset Class</i>	<i>Portfolio Weights</i>	
	<i>"Immunized"</i>	<i>Recommended</i>
	<i>0% Equity</i>	<i>20% Equity</i>
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



➤ **The OBWC was established by the Ohio Constitution, Article II, Section 35:**

- ♦ “For the purpose of providing compensation to workmen and their dependents, for death, injuries or occupational disease, occasioned in the course of such workmen’s employment, laws may be passed establishing a state fund to be created by compulsory contribution thereto by employers, and administered by the state...”

➤ **Ohio Revised Code Section 4123.44**

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

➤ Ohio Revised Code Section 4123.34:

- ♦ “The administrator of workers’ compensation, in the exercise of the powers and discretion conferred upon him in section 4123.29 of the Revised Code, shall fix and maintain, with the advice and consent of the workers’ compensation oversight commission...*the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund and the creation and maintenance of a reasonable surplus...*” (emphasis added)

Definitions

➤ **Solvent:**

- ♦ Able to pay all reasonable debts (source: Webster's Dictionary)

➤ **Surplus:**

- ♦ Surplus is an accounting concept
- ♦ Generally defined as net assets (i.e. assets minus liabilities)
 - Under the Government Accounting Standards Board (“GASB”) standards:
 - Assets are generally measured at current market value
 - Liabilities may be discounted (OBWC's current discount rate is 5.25%)
 - Under the statutory accounting standards that govern private workers' compensation funds, liabilities are usually not discounted, which makes industry-wide comparisons difficult

➤ **“Reasonable” Surplus:**

- ♦ This concept is not defined in the Ohio Revised Code
- ♦ Generally, a reasonable surplus should, at a minimum, be adequate to ensure a high probability of paying all benefit claims when due

What is Ohio Bureau of Workers' Compensation?

➤ Insurance Company

- ♦ OBWC's primary role is to pay compensation and medical expenses for injured workers, but...
 - It is not subject to statutory accounting standards and capital requirements
 - It is not subject to regulation by the state insurance department
 - It incurs longer-tailed liabilities than typical workers' compensation insurance company
 - It is run solely for the benefit of Ohio employers and employees – there is no profit motive

➤ Other?

- ♦ 10.4 year duration of claims stream comparable to the benefit stream of pension funds, which typically have a duration of 11-13 years
- ♦ Medical claims and indemnity claims each account for roughly 50% of the discounted loss reserves

III. Asset-Liability Valuation Background



What is Asset Allocation?

- Wilshire believes that the core business of a workers' compensation insurance fund is to provide the benefits promised to injured workers.
- Asset Allocation is the process of selecting a policy portfolio - allocating a portfolio's assets among asset classes that have the potential to serve the financial objectives of the fund.
- Asset allocation is one tool to manage the risk to the fund's core business. Other risk controls include rate making, expense control, underwriting guidelines, operational profitability and surplus adequacy.
- The goal of asset allocation is to maximize the safety of promised benefits at a minimum cost (premiums).

A Multitude of Risks

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

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

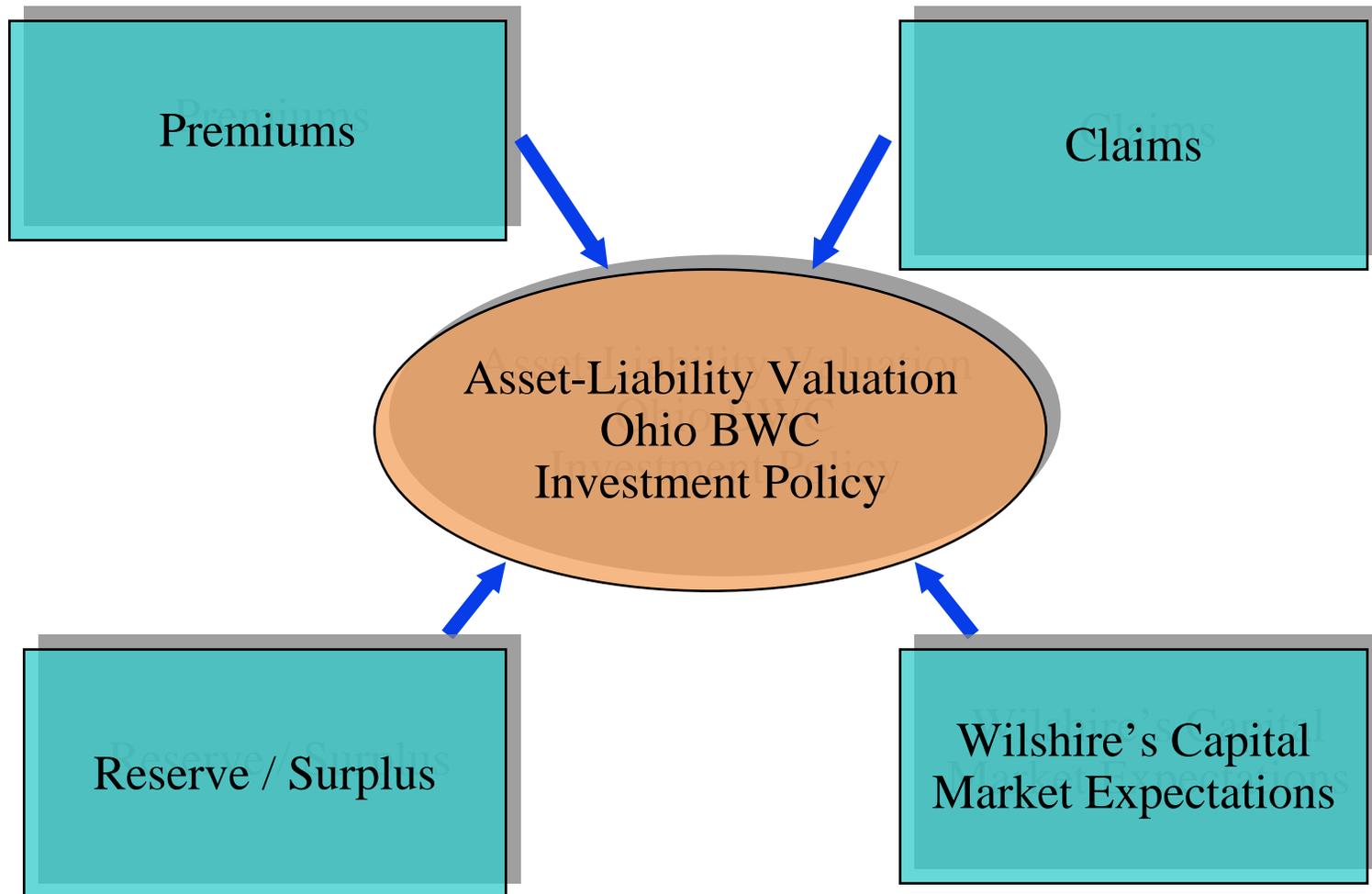
Example 2 - Risk of Mismatch Between Assets and “Accounting” Liabilities

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

Example 3 - Insufficient Asset Risk

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

- **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

	<u>1802-2005</u>	<u>1926-2005</u>	<i>High Inflation</i> <u>1970-1979</u>	<i>Bull Market</i> <u>1980-1999</u>	<i>Wilshire</i> <u>Forecast</u>
<u>Total Returns</u>					
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
<u>Real Returns</u>					
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
<u>Risk (Std. Dev.)</u>					
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

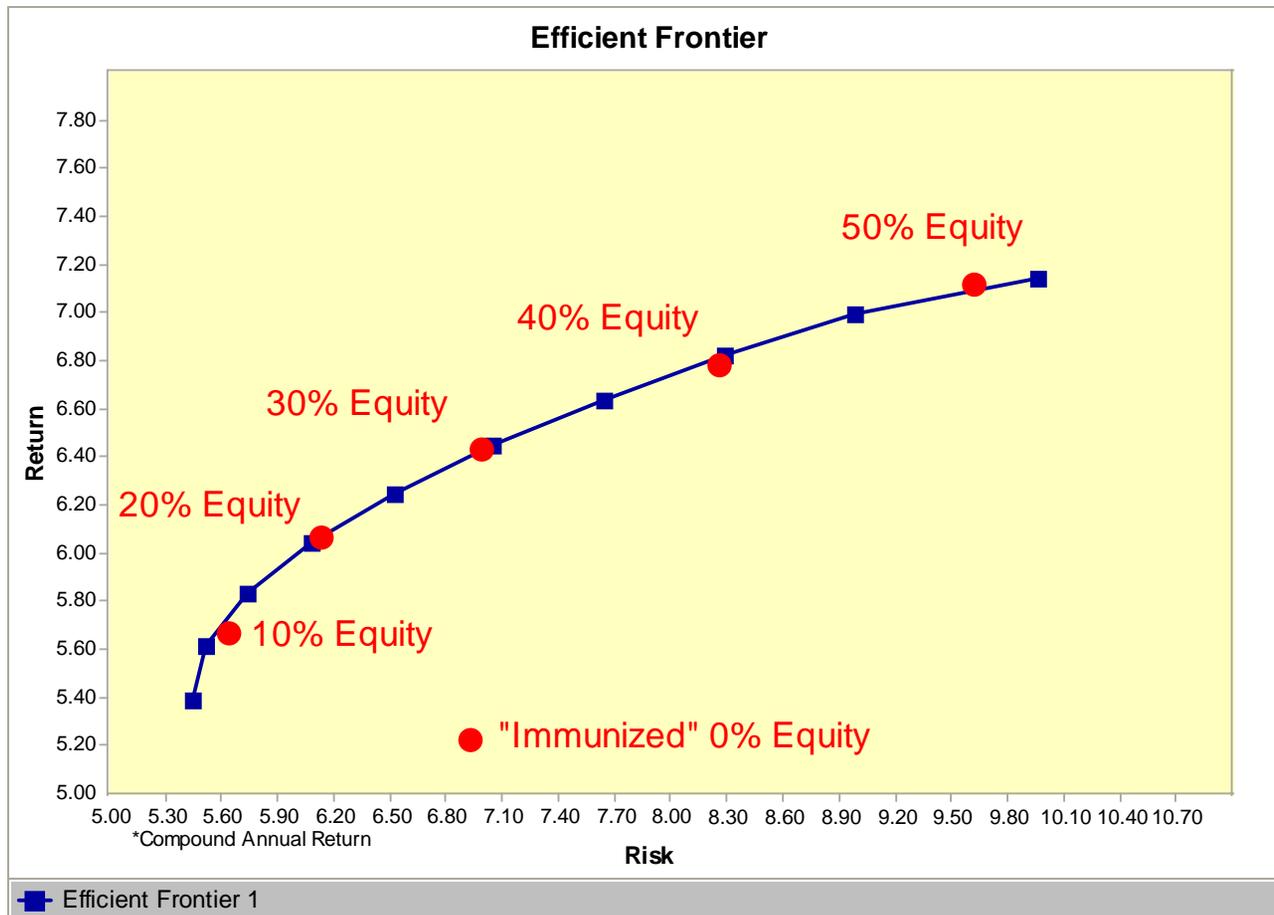
- **The above figures represent Wilshire's 10-year forward-looking risk, return and correlation assumptions.**
 - ♦ Risk represents the expected standard deviation of each portfolio – in two out of three years, the asset class is expected to produce returns that are within +/- one standard deviation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

Asset Class	Portfolio Weights					
	"Immunized"	Total Return				
	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:**

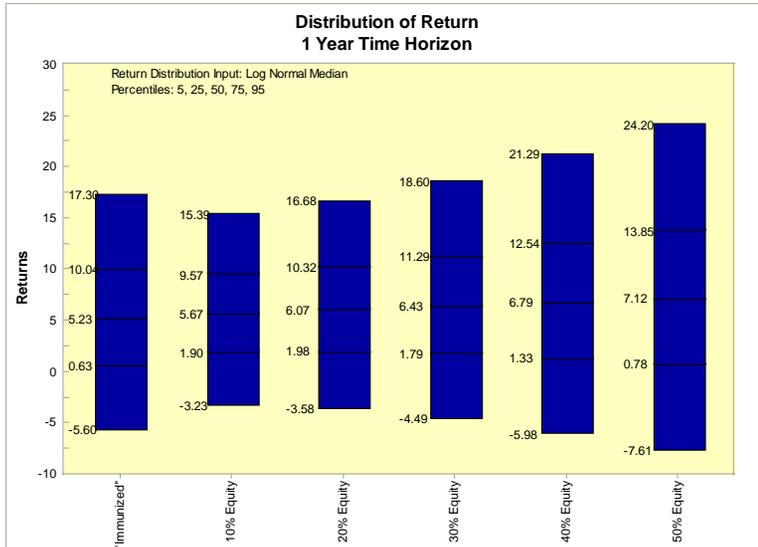
- Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%

- **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.**

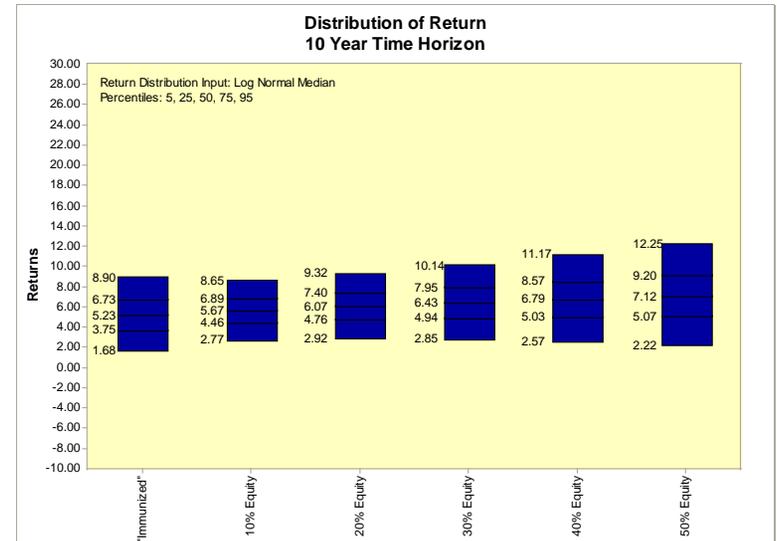


1 and 10-Year Distribution of Expected Returns

➤ Distributions of returns are quite wide for any one year period...



➤ ...but they narrow considerably over a 10-year period



	"Market Environment"	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 Environment"	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

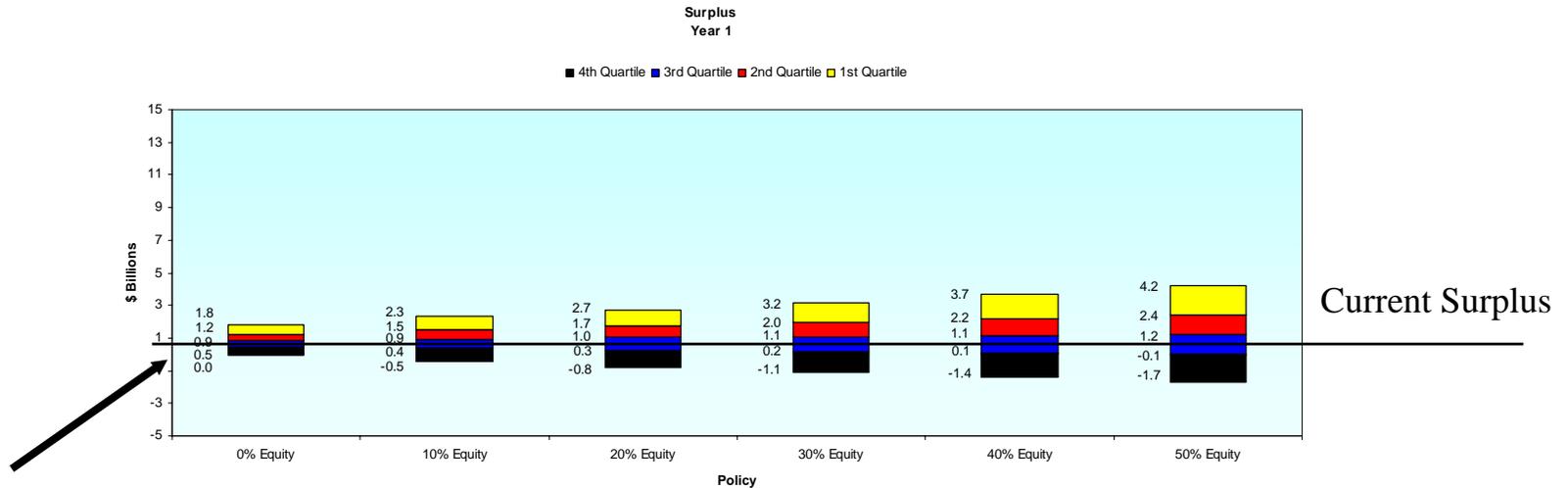


V. Asset-Liability Modeling

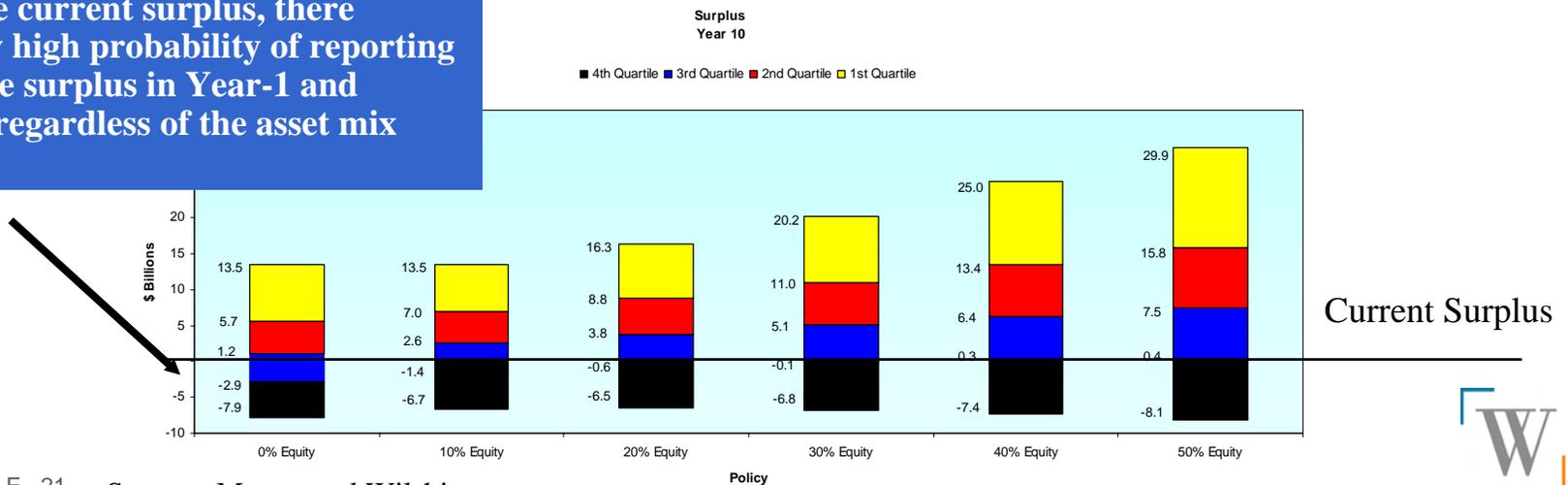


Stochastic Simulation of Surplus: Year 1 and Year 10

- 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



Potential Outcomes: Surplus

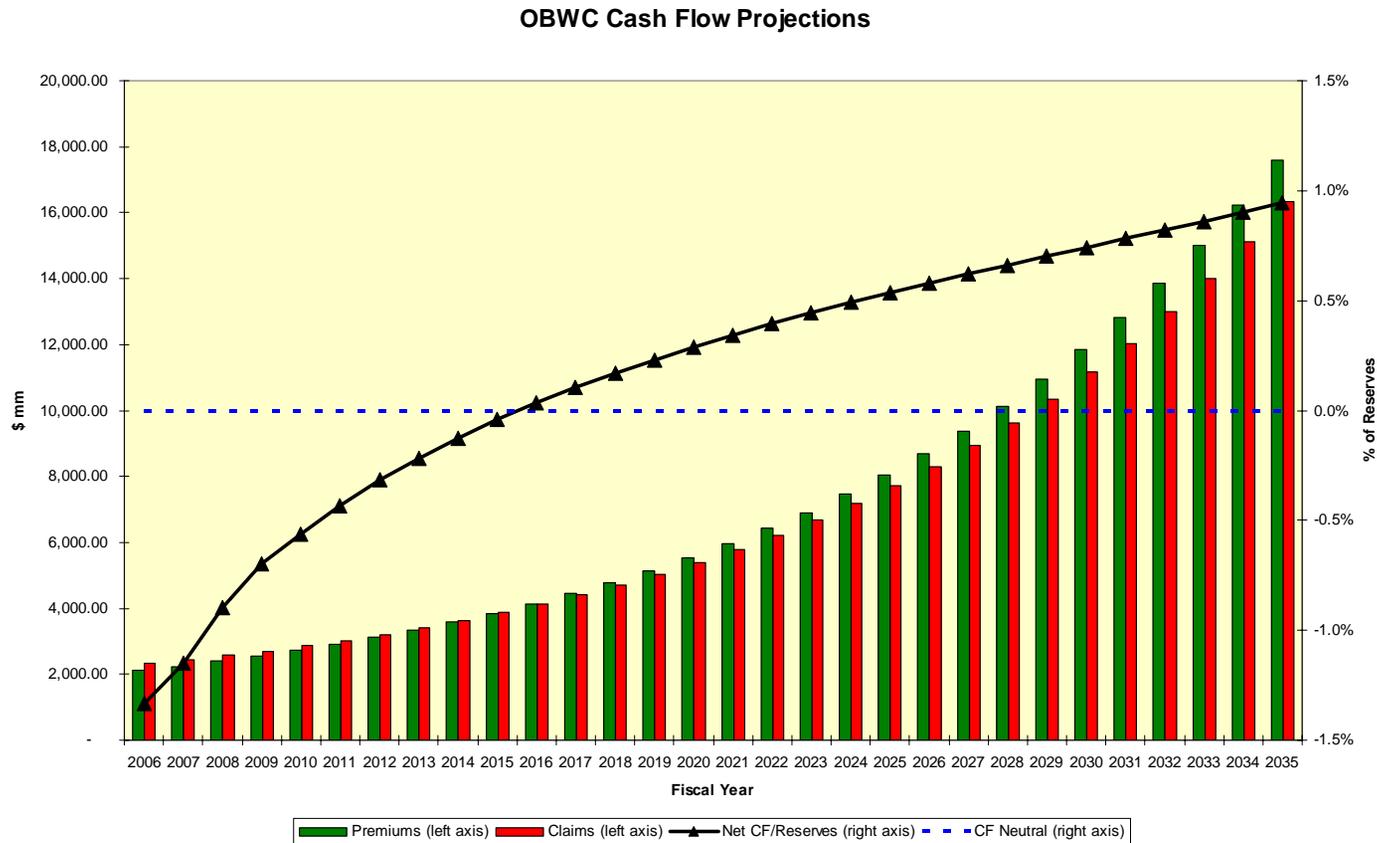
- The data table below illustrates the impact on possible market environments on surplus over a 5-year time horizon:

	"Market Environment"	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



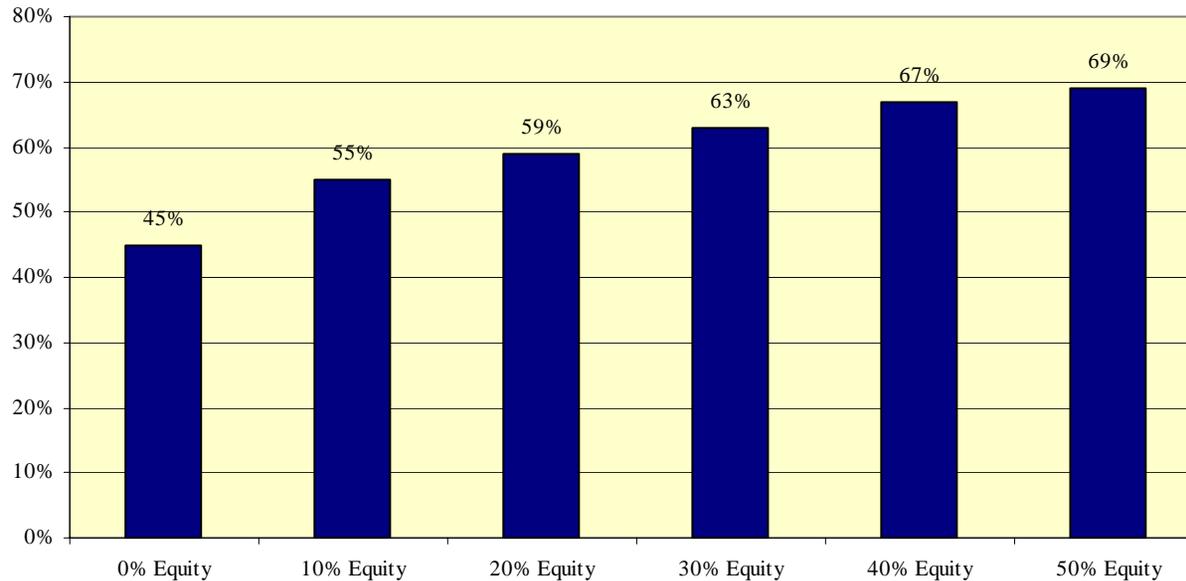
Source: Mercer Oliver Wyman Projections



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:**

Probability of Funding All Claims: Long-Term (50+ Years)
Current Assets + Expected Premiums - Expected Claims and Expenses



- **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

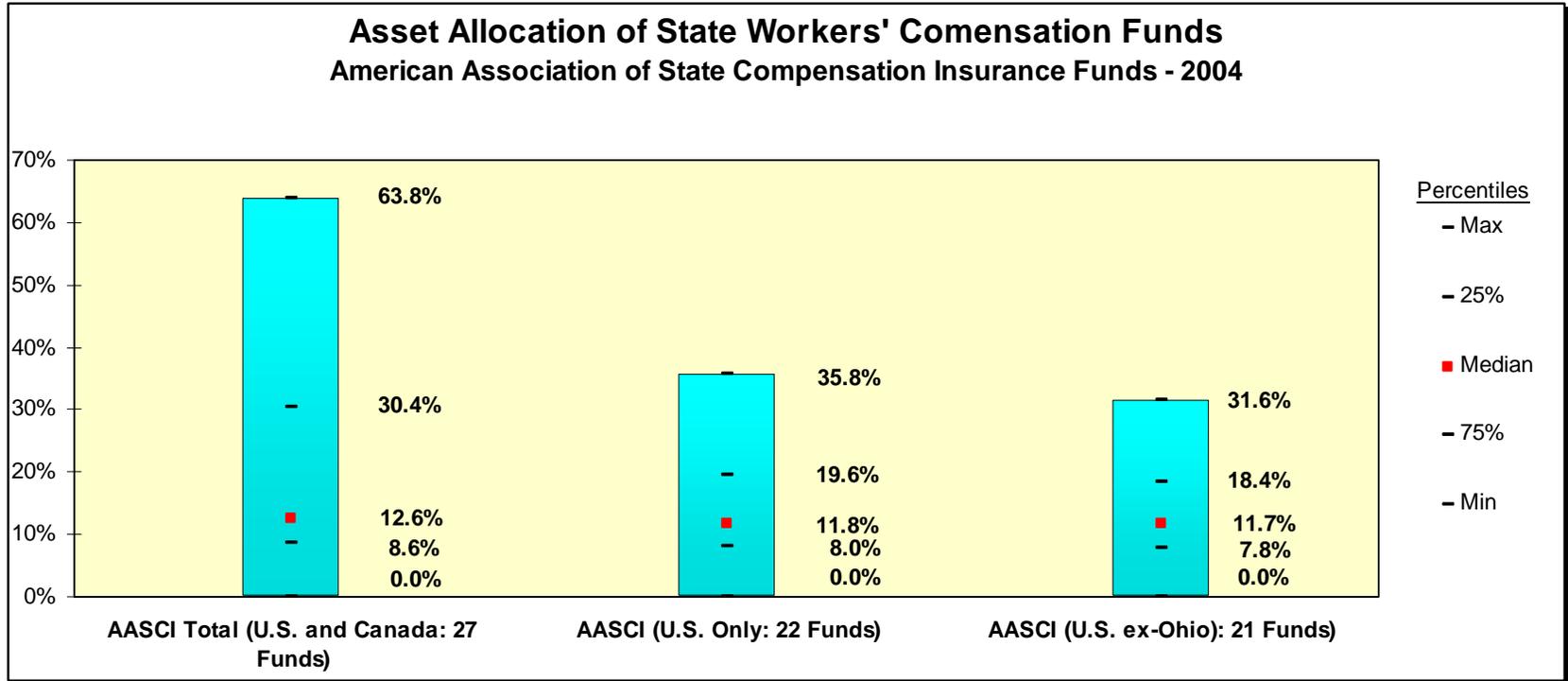


➤ **Ohio Revised Code § 4121.125**

- ♦ (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:**

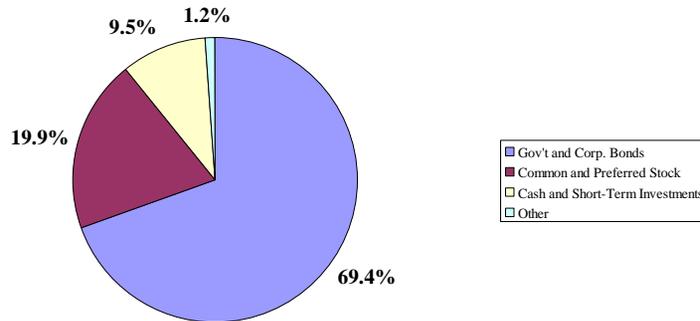


- **The median equity allocation of all funds was 12.6% at year end 2004**
- **The equal-weighted average equity allocation for this group was 22%.**

Industry Comparison

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

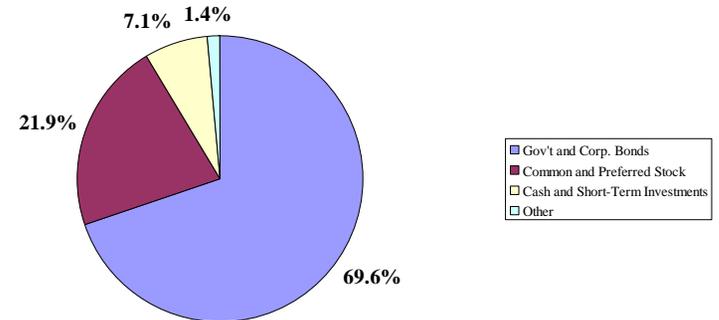
2005 National Council on Compensation Insurance, Inc.
Property & Casualty Industry Survey
Source: A.M. Best Aggregates and Averages, 2004 Edition



- **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 Report: 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 § 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:**

<i>Asset Class</i>	SIF Allocation		<i>Benchmark</i>
	%	\$ mm	
U.S. Equity	15	2,265	Wilshire 5000
<i>Large Cap</i>	<i>12</i>	<i>1,812</i>	<i>S&P 500</i>
Active (0%)	0	-	
Passive (100%)	12	1,812	
<i>Small/Mid Cap</i>	<i>3</i>	<i>453</i>	<i>Wilshire 4500 / Russell 2500</i>
Active (100%)	3	453	
Passive (0%)	0	-	
Non-U.S. Equity	5	755	MSCI ACWI ex-U.S.- MSCI EAFE
Active (80%)	4-5	755	
Passive (20%)	1-0	-	
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.



Julia K. Bonafede, CFA
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.

Mark E. Brubaker, CFA
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:

Asset Class	% Allocation						Total OBWC
	SIF	Disabled Workers	Coal Workers	Public Workers	Marine	Self Insured	
U.S. Equity	15	15	15 20	0	0	0	15
<i>Large Cap</i>	12	12	12 17	0	0	0	12
Active	0	0	0	0	0	0	0
Passive	12	12	12 17	0	0	0	12
<i>Small/Mid Cap</i>	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	0	5
Active	4 5	4 5	0	0	0	0	4 5
Passive	1 0	1 0	5 0	0	0	0	1 0
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

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.

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

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,

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

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

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](#).

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

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.](#)

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

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

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

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.
Copr. © 2006 Thomson/West.

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

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.

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

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

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

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

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

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

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

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;

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

(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

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

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.

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

(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

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

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;

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

(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 enjoinder of specified activities and the removal of the member from the board. Any damages awarded shall be paid to the bureau. The authority to maintain a civil action created by this section is in addition to any authority the attorney general possesses under any other provision of the Revised Code.

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

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

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

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.

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

- (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.

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

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. Koettters

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

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

- 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