Workers' Compensation
Oversight
Commission

INVESTMENT COMMITTEE
Agenda

Date: **Sept. 28, 2006**
Time: **8:45 a.m.**
Location: **Dayton Convention Center, Level 3, Rooms 302-304**
22 E. Fifth St., Dayton, OH 45402

Investment Committee

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

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives LLC

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

Opening remarks

Chairman's comments .... Mike Koetters

Old business

Approval of previous meeting minutes .... Mike Koetters

Insurance coverage - fiduciary insurance, update........................ James Barnes

New business

Wilshire July 2006 and August 2006 monthly flash performance reports
....Mark Brubaker

Estimated RFP timelines involving Investment Division..............Bruce Dunn

Transition managers' recommendation, *vote to recommend approval to the WCOC* .... Bruce Dunn and Mark Brubaker

Investment policy recommendation for BWC ancillary portfolios,
vote to recommend approval to the WCOC..........................Mark Brubaker

Asset allocation proposal, fixed income/equity,
Fixed income/Equity benchmarks

Securities lending activity report:
resolution to amend IV.C.vii of the BWC investment policy & guidelines
.... Bruce Dunn and Mark Brubaker

Calendar for reports requested of CIO ....Bruce Dunn

State Street roles and responsibilities:

Investment manager for Ohio Passive Bond Market Index Fund, *discussion*

Investments ....Bruce Dunn and Mark Brubaker

Finance.. Tracy Valentino

Legal ....James Barnes

The next WCOC
Investment Committee meeting is scheduled for:
Date: Nov. 16, 2006
Time: 8:45 a.m.
Location: William Green Building, Level 2, Room 2

Workers' Compensation
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Date: Sept. 28, 2006
Time: 8:45 a.m.
Location: Dayton Convention Center, Level 3, Rooms 302-304
22 E. Fifth St., Dayton, OH 45402

CIO monthly report – August 2006..Bruce Dunn

Investment Division table of organization....................................Bruce Dunn

Index manager RFP update ....Bruce Dunn

Note: Written reports provided – no prepared presentation

JP Morgan July 2006 and August 2006 Monthly Performance Report

Investment expenses - manager & operational fees

Investment Division departmental budget

Investment policy dated Aug. 24, 2006

Adjourn..Mike Koetters

Investment Committee

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Retired Chief Investment Officer,
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William E. Sopko
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Ohio Bureau of Workers' Compensation

Transition Management Overview

Mark Brubaker, CFA
Managing Director

Michael Patalsky, CFA
Senior Associate

Danielle London, CFA
Associate

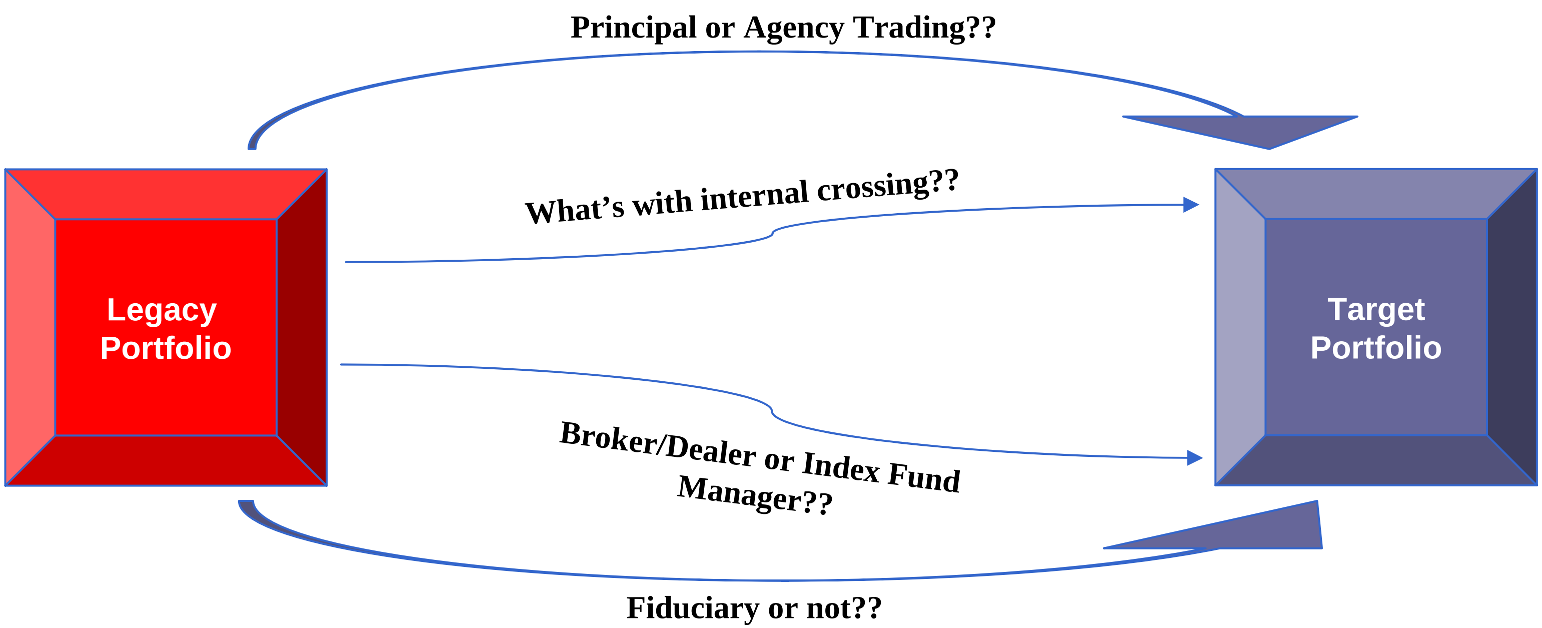
September 28, 2006

Overview of Transition Management

- Transition management (TM) is an increasingly popular tool that plan sponsors use in order to most efficiently transition assets between managers. Transition managers attempt to:
  - Maintain market exposure at all times
  - Minimize market impact associated with trading large blocks of securities
  - Optimally manage risk so that performance during transition period closely mimics performance of target portfolio
- Most transition managers measure performance using "T-Standard"
  - T-standard is a measure of implementation shortfall, defined as the difference between performance of the actual portfolio and performance of the target portfolio, assuming instantaneous costless transition
- It is important to pick transition management firms that have extensive experience across all asset classes and provide high level of client service and reporting capabilities

Overview of Transition Management

- **BIG QUESTION**: So what is the difference between all these firms?
- **ANSWER:** Each firm is aiming for the same goal but takes a slightly difference path to get there
  - Each path / methodology has some inherent advantages and disadvantages



Issues To Consider with Transition Management

- Firms with principal trading capabilities may have potential conflict of interest / Agency only brokers are “safer” in this regard
  - Principal trading involves trading for the firm’s own account
  - Potential for firm to manipulate TM trades in order to make profitable principal trades
- Broker / Dealers or firms with affiliated broker / dealer have potential to not seek best execution for trades and instead handle everything in-house
  - Most brokers are strong in some areas and weaker in other areas
- Taking on fiduciary responsibility contractually obligates TM firm to work in client’s best interest
- Internal crossing involves using internal sources of liquidity (Cheapest execution)
- Index fund managers have huge internal liquidity pools
- Potential to take on extra opportunity cost in order to minimize explicit commission costs

Agency versus Principal Trading

- **Agency Trading – a broker dealer executes transactions on a best efforts basis on behalf of a fund**
  - **Agency broker acts as the intermediary between buyer and seller and only places agency trades**
  - **Transition cost and time is variable and execution risk is borne by the plan sponsor**
  - **Commissions are generally lower than comparable principal costs**
  - **Potential for conflicts is generally reduced**
- **Principal Trading – a broker/dealer guarantees a fund execution at pre-determined price levels through selling the entire portfolio to the broker who uses its own capital for the purchase**
  - **Broker/Dealer can place principal and agency trades**
  - **Transition cost and time is fixed and execution risk is borne by the executing broker/dealer**
  - **Commissions are generally higher than comparable agency costs**
  - **Transaction may result in higher implicit costs due to broker hedging activities**

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Transition Costs

Predictable Trading Costs

Taxes + Commissions & Fees + Spread

+

Market Impact

+

Opportunity Costs

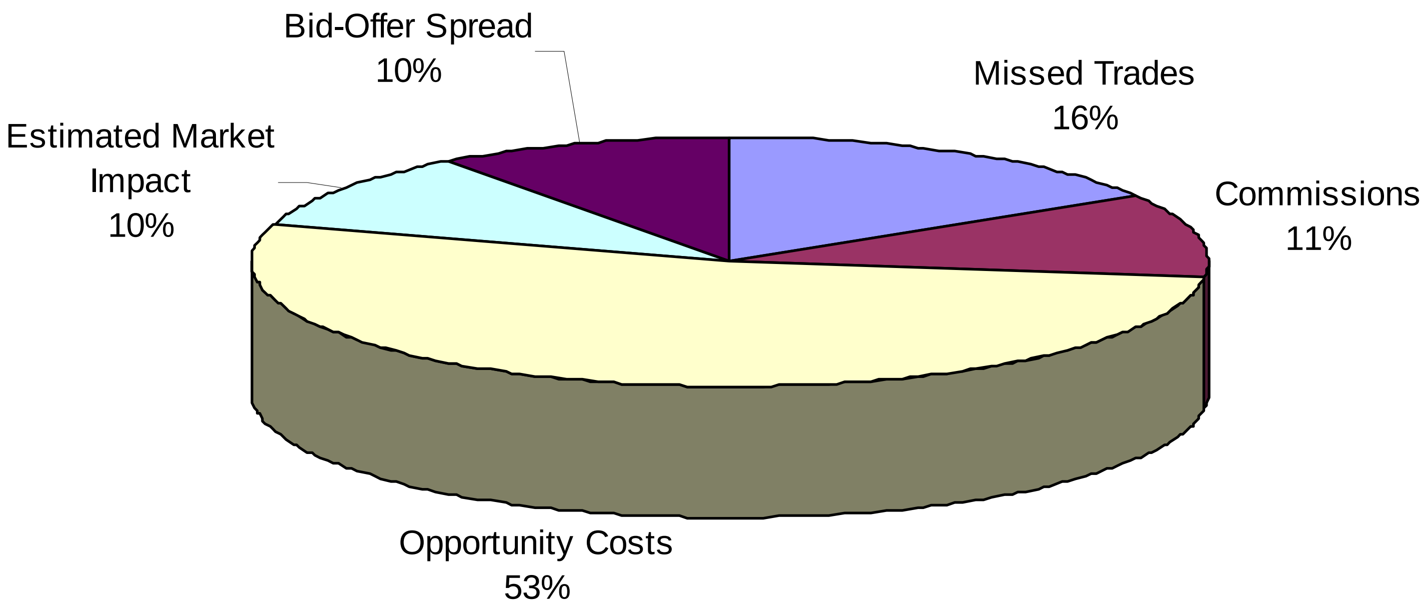
=

Implementation Shortfall

Sources of Transition Costs

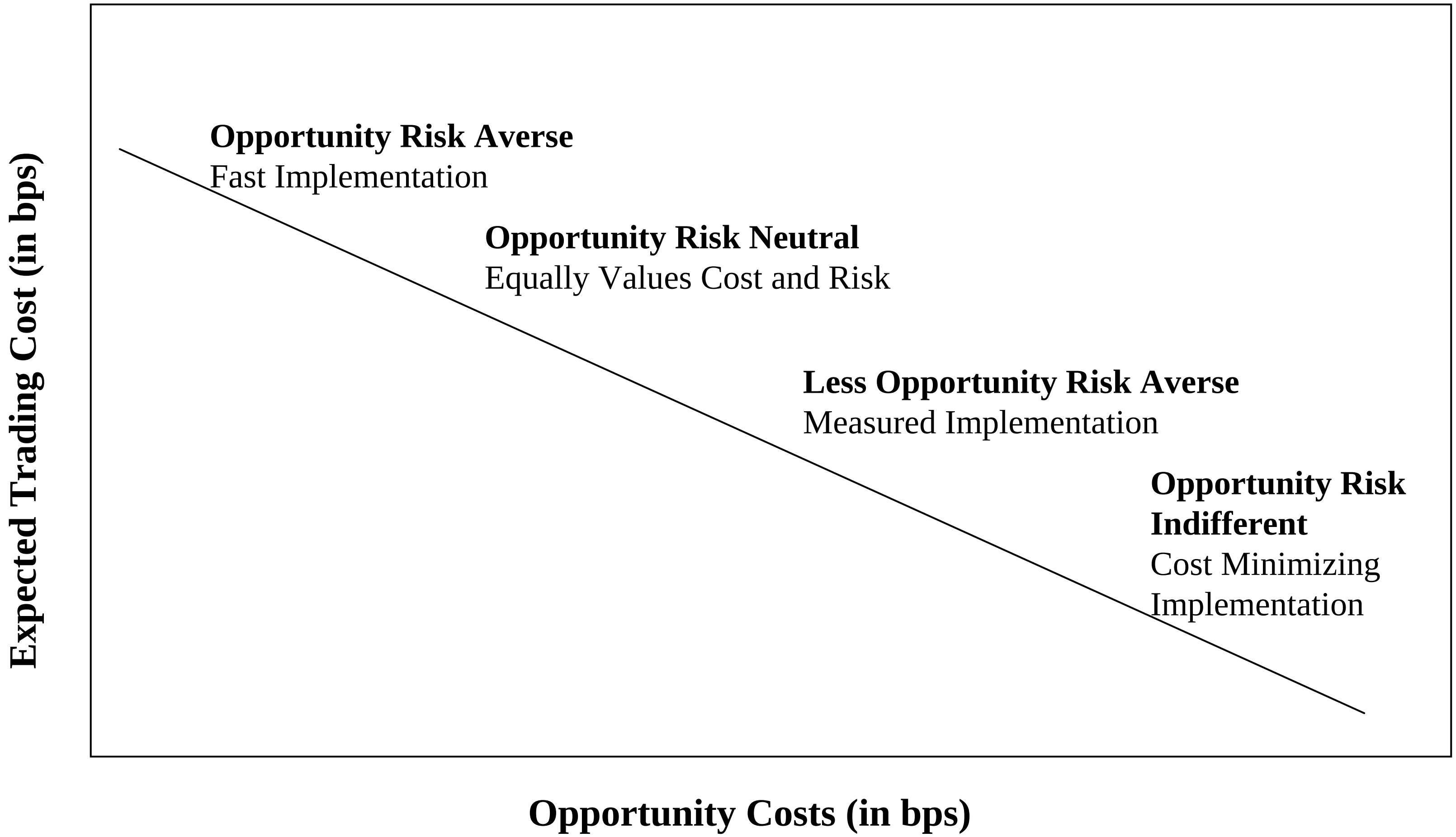
- **Commissions**
  - Explicit per share fee paid to executing broker/dealer to sell security from legacy portfolio and buy new security for target portfolio
    - Usually ranges from $0.01-$0.06 per share (for stocks)
    - Note: bond trades do not pay commissions. Cost is difference between the bid/ask spread
- **Market Impact and Spreads**
  - Affect on security's price caused by transacting in sufficiently large block of security at a given point in time
  - Measured in percentage terms and translated into a per share cost impact
  - Market impact can be positive or negative depending on whether security's price benefited or was hurt by the trade
- **Opportunity Costs**
  - Cost of trading now versus later
  - Difficult to measure accurately, but is often largest component of transaction costs
  - Is function of both: (1) volatility of asset class being transitioned; and (2) time frame allotted for transition
    - ➢ In general, the shorter the transition period *and* the less volatile the asset class, the less risk associated with opportunity costs

Opportunity Costs Comprise Over 50% of Estimated Total Costs



Source: Mellon Transition Management Services

Transition Trading Frontier



Transition Options

	Legacy Manager	Target Manager	Custodian Bank / Index Manager	Third Party Specialist
Pros	Expeditious, Does not require additional contract	No additional contract required, Very incentiviced to transition portfolio in low cost fashion as this cost affects their inception performance, As fiduciary to client, firm incentivized to provide overall best execution	No additional contract required, Generally have sufficient operational controls to reduce risks during the transition	Because transition management is a business unit, firm sufficiently staffed and resourced for portfolio transition activity, Able to provide sufficient pre and post trade reporting, Has sufficient operational controls and risk management tools to ensure low risk transition, As business unit firm is highly incentivized to provide best execution
Cons	No incentive to obtain best execution - can be costly	May be of insufficient size or trading expertise to achieve best execution, May have insufficient operational controls and risk management tools to ensure a smooth, low risk transition, Not able to provide sufficient pre and post trade analysis for client to assess trading effectiveness during transition	Traders generally not very sophisticated since majority of commercial bank trading experience is in the short term cash and fixed income instruments, Usual approach is to trade expeditiously without regard to cost, May have insufficient pre and post trade analysis	Requires additional contract, Ability to provide best execution impacted by whether firm trades on principal or agency basis, May not be able to provide best execution across all asset classes due to limited trading expertise or size in one or more markets

Third Party Transition Options

Provider	Crossing	Market Interaction	Strengths	Weaknesses	Potential Conflicts
Index Fund Managers	Internalized flow or affiliated broker-dealer flow	Via affiliated broker dealer and non-affiliated broker dealers	Internal crossing flow, process capabilities	Reliance on internal crossing has potential to create additional opportunity costs	Incentive to wait and cross regardless of opportunity costs
Agency Brokers	Consistent use of public crossing networks	As broker dealer and via non-affiliated broker	Trading expertise, diverse crossing capabilities, process capabilities	If no use of outside brokers, may not always get best execution in-house, Historically did not act as fiduciary	Incentive to recommend agency strategy
Principal Brokers	Internalized flow and interaction with prop-traders	Irrelevant	Complete elimination of risk through capital commitment, simplified process	Cost of capital may be high, Business model based on leveraging, rather than protecting flow information	Incentive to cross subsidize brokerage affiliate regardless of execution strategy
Consultants	Some use of public crossing networks	Usually via affiliate	Fiduciary responsibility, risk control approach	Sole use of external brokers translates to high commission costs	Not motivated to perpetuate relationship

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To:	**The Ohio Bureau of Workers' Compensation Investment Committee**
Cc:	Bruce Dunn
From:	Mark E. Brubaker, CFA
Phone:	(412) 434-1580
Date:	September 21, 2006
Subject:	***Common Trust Fund***

Background:

On September 7, 2005, the Ohio Bureau of Workers' Compensation ("OBWC") executed an Agreement of Trust with State Street Bank and Trust Company that authorized them to "hold, manage and invest" assets of the OBWC. On January 13, 2006, a Fund Declaration was executed by State Street Bank and Trust Company establishing the Ohio Passive Bond Market Index Securities Lending Common Trust Fund ("OBWC Fund"). Unlike typical common trust funds, this fund consists entirely of assets of the OBWC. No other client assets are commingled with OBWC assets.

The OBWC Investment Committee has requested that Wilshire provide an assessment of the primary differences between common trust fund investment vehicles and separate accounts.

Wilshire Assessment:

Many Wilshire clients invest in common trust funds and other forms of commingled funds. While common trust funds are most frequently associated with smaller institutional funds, they are also widely utilized by large institutional investors, particularly in the area of passive management.

Wilshire generally recommends that our clients obtain the most cost-effective form of exposure to any particular investment mandate. Depending on the circumstances, this could lead to either a common trust fund or a separate account. Highlighted below are what Wilshire believes to be the primary issues for investors to consider when evaluating the differences between common trust funds and separate accounts:

> ***Fees:***
> Due to economies of scale, common trust funds often provide lower total management expenses for investors. This is a primary advantage of common trust

funds over separate account investments. Given the size of the assets of the OBWC Fund and the fact that it is not commingled with any other investor assets, the economies of scale benefit versus a separate account is limited.

Security of Assets:
Wilshire believes that assets held in a common trust fund are as secure as assets held in a separate account in the event of the bankruptcy of the trustee/custodian. In both cases, these assets are held in trust and are not able to be accessed by the creditors of the trustee/custodian for any reason.

Custom guidelines:
Separate accounts allow clients to give managers specific portfolio guidelines, while common trust funds are governed by the manager's standard Fund Declaration and/or Declaration of Trust. Clients must review these documents carefully to ensure that they are consistent with the client's risk profile and objectives.

Access to funds:
The OBWC Fund is valued daily and provides the required liquidity for the OBWC's operating needs. In the event of a large withdrawal request, 15 days notice may be required and State Street may, depending on the circumstances at the time the request is made, elect to distribute either cash or securities in kind.

Corporate actions:
Common trust funds will typically vote corporate actions and proxies in the best interest of fund investors. Because the OBWC Fund consists only of OBWC assets, the OBWC could maintain proxy voting authority if so desired; however, this responsibility was specifically signed over to State Street as part of the Agreement of Trust

Securities lending:
The OBWC Fund specifically allows for securities lending, with State Street named as securities lending agent. Common trust fund investments limit investors' ability to select third party securities lending agents.

Wilshire believes that investing with SSgA via a common trust fund was a prudent decision given the situation at OBWC at the time it was implemented. As the OBWC moves forward with the implementation of the new asset allocation policy, Wilshire and staff will assess the appropriate investment vehicle for each individual mandate.

Please feel free to call me on (412) 434-1580 should you have any questions.

Ohio Bureau of Workers' Compensation

July 2006 Monthly Performance Flash Report

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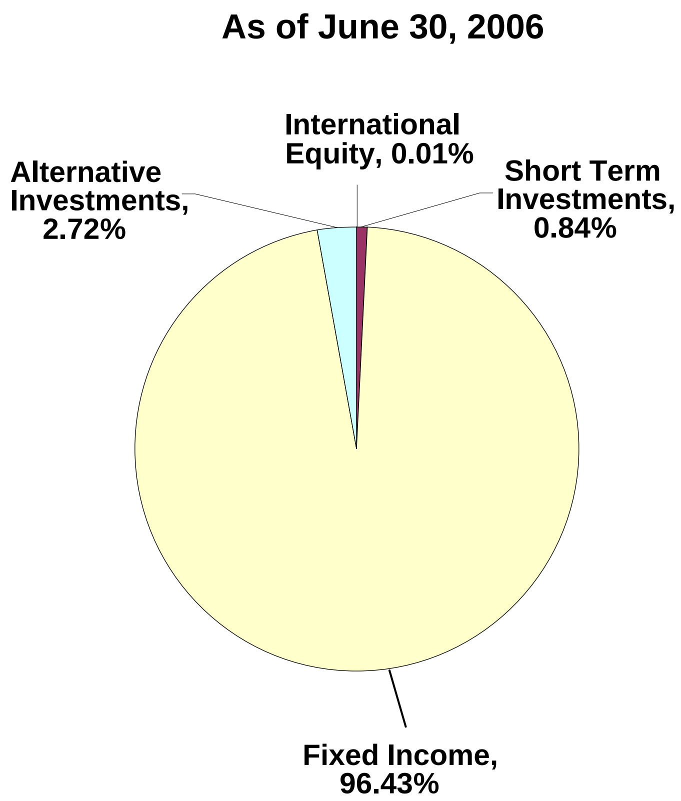
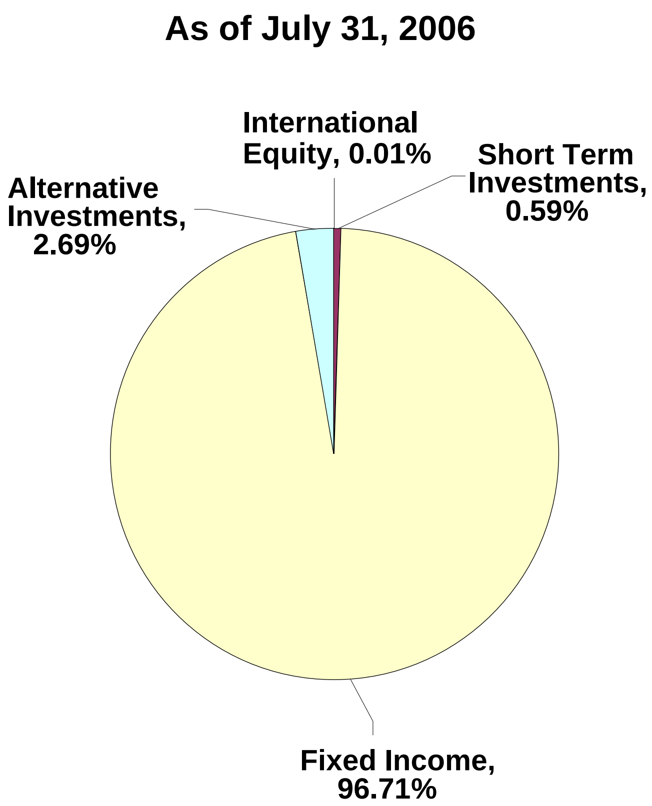
Asset Allocation – State Insurance Fund





Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 7/31/06

Manager	Returns Month	Prior Month	QTD	3 Months	YTD	1 Year	Market Value $(000)	Percent
Ohio BWC Total Fund	1.33	-0.06	1.33	1.14	2.41	5.55	16,295,561	100.00
Total Fund Policy	1.35	0.21	1.35	1.45	2.04	4.43		
State Insurance Fund	1.33	-0.09	1.33	1.12	2.52	5.79	15,031,378	91.70
SIF Custom Policy	1.35	0.21	1.35	1.45	2.04	4.43		
SSgA Passive Agg Bond SI CTF	1.36	0.20	1.36	1.44			14,478,664	88.85
Lehman Aggregate	1.35	0.21	1.35	1.45				
Ancillary Composite	1.32	0.25	1.32	1.44	1.23	2.61	1,361,115	8.35
Lehman Aggregate	1.35	0.21	1.35	1.45	0.62	1.45		
Black Lung 2000	1.34	0.21	1.34	1.43	1.08	3.14	224,739	1.38
Disabled Workers Retirement	1.35	0.24	1.35	1.45	1.24	2.44	1,068,989	6.56
Marine 2005	1.33	0.22	1.33	1.44	1.12	3.60	14,871	0.09
Public Workers Relief Fund	1.39	0.26	1.39	1.56	0.95	2.51	20,721	0.13
Self Insured Bond Fund 200	0.43	0.55	0.43	1.24	2.73	4.34	31,795	0.20
Indices								
91 Day T-Bill Index	0.42	0.38	0.42	1.21	2.63	4.19		
Lehman Aggregate	1.35	0.21	1.35	1.45	0.62	1.45		
Standard & Poor's 500	0.62	0.14	0.62	-2.13	3.35	5.39		
DJ Wilshire 5000	-0.12	0.18	-0.12	-3.15	3.26	5.43		
MSCI EAFE Index (N)	0.99	-0.01	0.99	-2.94	11.25	24.00		

Returns are preliminary and subject to change. Alternative investment returns are calculated quarterly and provided in a separate report.

Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 7/31/06

	Returns						Market Value	
Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Cash Composite	1.43	0.71	1.43	2.07	3.72	5.39	96,932	0.59
91-Day Treasury Bill	0.42	0.39	0.42	1.20	2.62	4.18		
Alternative Investments Composite	N/A	-8.88	N/A	-8.88	5.68		440,651	2.70
Restricted Stock - Liquidation	-2.84	-7.94	-2.84	-24.16			1,221	0.01
Tranche #3							13,895	0.09
Tranche #4 - International Equity							15	0.00
Indices								
91 Day T-Bill Index	0.42	0.38	0.42	1.21	2.63	4.19		
Lehman Aggregate	1.35	0.21	1.35	1.45	0.62	1.45		
Standard & Poor's 500	0.62	0.14	0.62	-2.13	3.35	5.39		
DJ Wilshire 5000	-0.12	0.18	-0.12	-3.15	3.26	5.43		
MSCI EAFE Index (N)	0.99	-0.01	0.99	-2.94	11.25	24.00		

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Custom Policy Benchmark Transition – State Insurance Fund

SIF Policy Benchmark Transition			
Start	**End**	**Percent**	**Description**
11/30/2005	1/31/2006	100%	Pre-Transition Policy
1/31/2006	2/28/2006	50%	Pre-Transition Policy
		50%	Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark	
S&P 500 Index	29%
MSCI EAFE Index	11%
Lehman Aggregate	57%
91 - Day T-Bill	3%

Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	Domestic Equity	Domestic Equity	International Equity
Manager	*Apex Capital Management, Inc.* *Bahl & Gaynor Investment Counsel* *Delancey Capital Group* *Gratry & Company* *Gries Financial LLC* *Charter Financial Group* *CIC Asset Management* *Dana Investment Advisors, Inc.* *Edgar Lomax Company* *JPMorgan Investment Management, Inc.* *Eubel Brady & Suttman Asset Management* *Cordillera Asset Management* *Fortaleza Asset Management, Inc.* *Great Northern Asset Management, Inc.* *GW Capital, Inc.* *Ariel Capital Management* *Buckhead Capital* *Daruma Asset Management, Inc.* *Ironwood Capital Management, LLC*	*ING Investment Management - Aeltus* *Lakepoint Investment Partners* *Lazard Asset Management* *Lynmark Capital Group, Inc* *New Amsterdam Partners, LLC.* *Rutland Dickson Asset Management* *Swarthmore Group* *Nottinghill Investment Advisers, Ltd.* *Paradigm Asset Management* *Putnam Advisory Company, Inc* *Sturdivant & Company, Inc.* *Union Heritage Capital Management* *Victory Capital Management Inc.* *Putnam Advisory Company, Inc* *James Investment Research, Inc.* *Quantum Legacy Capital Management, LLC* *Renaissance Investment Management* *Riverbridge Partners LLC* *UBS Global Asset Management, Inc* *Veredus Asset Management* *Loomis Sayles & Co., L.P.* *Opus Capital Management, Inc.* *Penn Capital Management Co., Inc.* *R. Meeder & Associates* *Tamro Capital Partners LLC* *Piedmont Investment Advisors, LLC (fixed income)*	*ING Investment Management* *Capital Gaurdian* *Clay Findlay* *Invesco Global* *Perigee (aka Legg Mason)* *Simms Capital Asset Management* *Lombard Odier* *Montgomery Int'l* *Oeschle* *Putnam Institutional* *Societe General Investment Management*

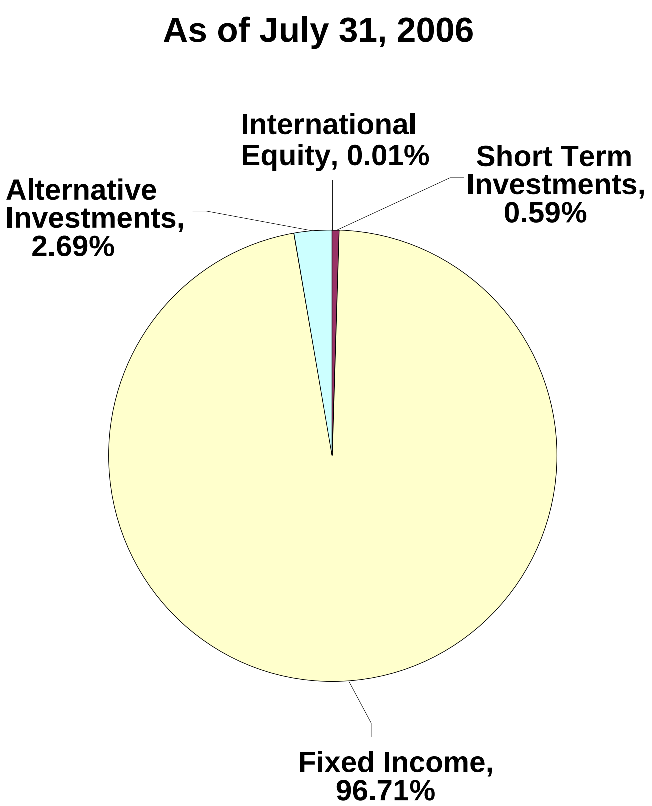
Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	Domestic & International Equity	Fixed Income	Ancillary
Manager	*State Street Global EAFE Index CTF* *SSgA S&P 500 Index CTF*	*Blackrock* *Pugh Capital Management* *Smith Graham Management* *Advent Capital Management* *Alliance Capital* *Blaylock Abacus Financial Group, Inc.* *John Hancock Advisers, LLC.* *LM Capital Group, LLC* *Morgan Stanley Investments LP* *Prima Capital Advisors* *Reams Capital Management, LLC* *Wasmer, Schroeder and Company, LLC* *Western Asset Management* *Banc One Managed 1030* *Fairport Asset Management, LLC* *Holland Capital Management* *Hughes Capital Management* *Taplin, Canida & Habacht*	*Self Insured Bond Fund 200* *Public Workers Relief Fund* *Marine Account 2005* *Disabled Workers Retirement* *Black Lung 2000*

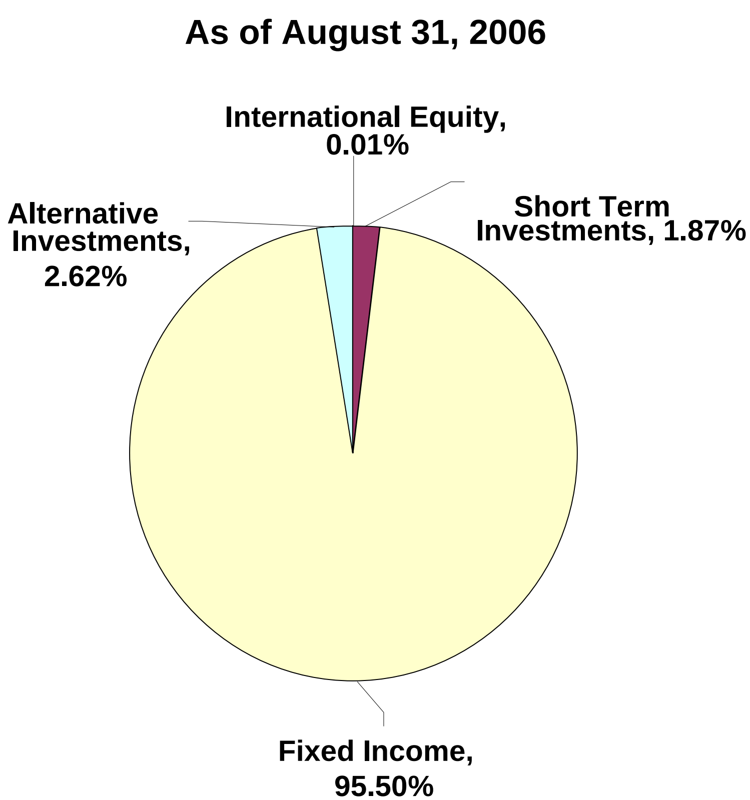
Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

Ohio Bureau of Workers' Compensation

August 2006 Monthly Performance Flash Report

Asset Allocation – State Insurance Fund





Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 8/31/06

Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	Market Value $(000)	Percent
	Returns						Market Value	
Ohio BWC Total Fund ex Alts	1.49	1.37	2.88	3.09			16,408,319	
Ohio BWC Total Fund	1.45	1.33	2.81	2.74	3.90	6.48	16,848,970	
Total Fund Policy	1.53	1.35	2.90	3.12	3.60	5.24		
State Insurance Fund ex Alts	1.49	1.37	2.89	3.09			15,029,096	
State Insurance Fund	1.45	1.33	2.80	2.71	4.01	6.76	15,469,746	
SIF Custom Policy	1.53	1.35	2.90	3.12	3.60	5.24		
Ancillary Composite	1.50	1.32	2.84	3.10	2.75	3.20	1,379,224	
Lehman Aggregate	1.53	1.35	2.90	3.12	2.16	1.70		
Indices								
91 Day T-Bill Index	0.44	0.42	0.87	1.25	3.08	4.33		
Lehman Aggregate	1.53	1.35	2.90	3.12	2.16	1.70		
Standard & Poor's 500	2.38	0.62	3.01	3.16	5.81	8.89		
DJ Wilshire 5000	2.34	-0.12	2.22	2.40	5.67	8.88		
MSCI EAFE Index (N)	2.75	0.99	3.77	3.76	14.31	24.27		

Returns are preliminary and subject to change. Alternative investment returns are calculated quarterly and provided in a separate report.

State Insurance Total Fund
Monthly Performance and Market Value Summary
Periods Ended 8/31/06

	Net of Fee Returns						Market Value	
Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
State Insurance Fund ex Alts	1.49	1.37	2.89	3.09			15,029,096	100.00
State Insurance Fund	1.45	1.33	2.80	2.71	4.01	6.76	15,469,746	100.00
SIF Custom Policy	1.53	1.35	2.90	3.12	3.60	5.24		
SSgA Passive Agg Bond SI CTF	1.52	1.36	2.89	3.10			14,698,462	96.99
Lehman Aggregate	1.53	1.35	2.90	3.12				
Cash Composite	0.37	1.43	1.81	2.53	4.11	5.48	315,336	2.08
91-Day Treasury Bill	0.44	0.42	0.86	1.26	3.08	4.32		
Alternative Investments Composite	N/A	N/A	N/A	-8.88	5.68		440,651	2.91
Restricted Stock - Liquidation	27.63	-2.84	24.00	14.16			1,559	0.01
Tranche #3							13,724	0.09
Tranche #4 - International Equity							15	0.00
Indices								
91 Day T-Bill Index	0.44	0.42	0.87	1.25	3.08	4.33		
Lehman Aggregate	1.53	1.35	2.90	3.12	2.16	1.70		
Standard & Poor's 500	2.38	0.62	3.01	3.16	5.81	8.89		
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Ancillary Funds
Monthly Performance and Market Value Summary
Periods Ended 8/31/06

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	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ancillary Composite	1.50	1.32	2.84	3.10	2.75	3.20	1,379,224	100.00
Lehman Aggregate	1.53	1.35	2.90	3.12	2.16	1.70		
Black Lung 2000	1.51	1.34	2.88	3.09	2.61	3.68	227,953	16.53
Disabled Workers Retirement	1.52	1.35	2.89	3.14	2.78	3.08	1,085,667	78.72
Marine 2005	1.49	1.33	2.84	3.07	2.63	3.94	15,096	1.09
Public Workers Relief Fund	1.51	1.39	2.91	3.18	2.47	2.96	20,946	1.52
Self Insured Bond Fund 200	0.43	0.43	0.87	1.42	3.18	4.50	29,560	2.14
Indices								
91 Day T-Bill Index	0.44	0.42	0.87	1.25	3.08	4.33		
Lehman Aggregate	1.53	1.35	2.90	3.12	2.16	1.70		
Standard & Poor's 500	2.38	0.62	3.01	3.16	5.81	8.89		
DJ Wilshire 5000	2.34	-0.12	2.22	2.40	5.67	8.88		
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Custom Policy Benchmark Transition – State Insurance Fund

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Start	**End**	**Percent**	**Description**
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1/31/2006	2/28/2006	50% 50%	Pre-Transition Policy Lehman Aggregate
2/28/2006	Present	100%	Lehman Aggregate

Pre-Transition Policy Benchmark	
S&P 500 Index	29%
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Lehman Aggregate	57%
91 - Day T-Bill	3%

Tranche Key

Tranche	Tranche 1	Tranche 2	Tranche 3
Asset Type	Domestic Equity	Domestic Equity	International Equity
Manager	Apex Capital Management, Inc. Bahl & Gaynor Investment Counsel Delancey Capital Group Gratry & Company Gries Financial LLC Charter Financial Group CIC Asset Management Dana Investment Advisors, Inc. Edgar Lomax Company JPMorgan Investment Management, Inc. Eubel Brady & Suttman Asset Management Cordillera Asset Management Fortaleza Asset Management, Inc. Great Northern Asset Management, Inc. GW Capital, Inc. Ariel Capital Management Buckhead Capital Daruma Asset Management, Inc. Ironwood Capital Management, LLC	ING Investment Management - Aeltus Lakepoint Investment Partners Lazard Asset Management Lynmark Capital Group, Inc New Amsterdam Partners, LLC. Rutland Dickson Asset Management Swarthmore Group Nottinghill Investment Advisers, Ltd. Paradigm Asset Management Putnam Advisory Company, Inc Sturdivant & Company, Inc. Union Heritage Capital Management Victory Capital Management Inc. Putnam Advisory Company, Inc James Investment Research, Inc. Quantum Legacy Capital Management, LLC Renaissance Investment Management Riverbridge Partners LLC UBS Global Asset Management, Inc Veredus Asset Management Loomis Sayles & Co., L.P. Opus Capital Management, Inc. Penn Capital Management Co., Inc. R. Meeder & Associates Tamro Capital Partners LLC Piedmont Investment Advisors, LLC (fixed income)	ING Investment Management Capital Gaurdian Clay Findlay Invesco Global Perigee (aka Legg Mason) Simms Capital Asset Management Lombard Odier Montgomery Int'l Oeschle Putnam Institutional Societe General Investment Management

Tranche	Tranche 4	Tranche 5	Tranche 6
Asset Type	Domestic & International Equity	Fixed Income	Ancillary
Manager	State Street Global EAFE Index CTF SSgA S&P 500 Index CTF	Blackrock Pugh Capital Management Smith Graham Management Advent Capital Management Alliance Capital Blaylock Abacus Financial Group, Inc. John Hancock Advisers, LLC. LM Capital Group, LLC Morgan Stanley Investments LP Prima Capital Advisors Reams Capital Management, LLC Wasmer, Schroeder and Company, LLC Western Asset Management Banc One Managed 1030 Fairport Asset Management, LLC Holland Capital Management Hughes Capital Management Taplin, Canida & Habacht	Self Insured Bond Fund 200 Public Workers Relief Fund Marine Account 2005 Disabled Workers Retirement Black Lung 2000

Accounts outside of transition:
BWC - Index Fund 1010
SSgA Passive Bond Market

Ancillary Funds Asset Allocation Recommendation

Ohio Bureau of Workers' Compensation Investment Committee

September 28, 2006

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

Ancillary Funds Asset Allocation Recommendation

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

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

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

Asset Allocation Recommendation

Summary Statistics:

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

Recommended Asset Allocation Policy:

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

WILSHIRE CONSULTING

Fund Descriptions

- The Disabled Workers' Relief Fund (DWRF)
  - Provides supplementary payments to workers whose combined Permanent and Total Disabled plus Social Security disability benefits are lower than the DWRF entitlement amount
- The Coal Workers' Pneumoconiosis Fund (CWPF)
  - Provides benefits for injured workers under the Federal Coal Mine Health and Safety Act of 1969. The CWPF provides voluntary coverage to employers who have employees who are exposed to coal dust, as required by federal law
- The Marine Industry Fund (MIF)
  - Provides voluntary coverage to employers who have employees who work on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act

Fund Descriptions

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

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

Implementation Issues

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

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

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

WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

THURSDAY AUGUST 24, 2006, 8:45 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Michael Koetters, Chairman
Denise Farkas
Bill Sopko

Other Oversight Commission Members Present:
Mary Beth Carroll
Thomas Bainbridge, Jr.
William Burga

Members Absent: Edwin McCausland

Others in attendance at the invitation of the Committee:
William Mabe, Administrator
Cathy Moseley, Chief of Staff
Valarie Sansom-Davy, Administrative Assistant, Chief of Staff
Joe Bell, Chief Internal Auditor
Keith Elliott, Director, Internal Audit
Tracy Valentino, Chief Financial Officer
Liz Bravender, Actuarial Director
Barb Ingram, Manager, Financial Reporting
Bruce Dunn, Chief Investment Officer
Lee Damsel, Director of Investments
Vincent Thomas, Investments
Douglas Walouke, Investments
Gregory Stought, Investments
Amy Blateri, Project Manager, Investments
Nancy Smeltzer, Chief Spokesperson
John Williams, Esq., Assistant Attorney General
Ian Lanoff, Esq., Groom Law Group
Karen Huey, Esq., Liaison to the Governor's Office
James Barnes, Esq., Chief Legal Officer
Emily Hicks, Legislative Liaison
Tom Sico, Esq., Director of Legal Operations
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting
Mark E. Brubaker, Wilshire Consulting

Mark Friedberg, Wilshire Consulting
Michael Patalsky, Wilshire Consulting
Nigel Dawn, UBS Investment Bank
Philip Tsai, UBS Investment Bank
Gerald Cooper, UBS Investment Bank
Rich Hartzell, JPMorgan Chase

Public Meeting – Others in attendance not recorded

ROLL CALL

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

OLD BUSINESS

MINUTES OF JULY 20, 2006

Mr. Sopko moved that the minutes of July 20, 2006, be approved. Ms. Farkas seconded and the minutes were approved by unanimous voice vote.

INSURANCE COVERAGE – FIDUCIARY INSURANCE

James Barnes, Chief Legal Officer, reported that the carrier for the director and officer (D&O) insurance had withdrawn its premium quote for the fiduciary bond. The chief problem was the acts of the prior administration. Past events are considered in the industry, even if it will be a "claims made" policy. The Department of Administrative Services (DAS) and the broker are talking to other carriers. BWC may look to other non-government carriers. Even if BWC were to get coverage, premiums may equal the coverage.

Mr. Koetters stated that obtaining coverage will be three-pronged: talk with DAS; talk to the General Assembly; and talk with carriers.

NEW BUSINESS

WILSHIRE JUNE 2006 MONTHLY PERFORMANCE FLASH REPORT AND 2006 QUARTERLY PERFORMANCE REPORTS

Mr. Koetters asked Mark Brubaker, Wilshire Consulting, about differences between its report and the one issued by JPMorgan Chase. Mr. Brubaker reported that the differences arise from reporting of the alternative investment portfolio. Wilshire has a one quarter lag in reporting the results of the alternative investment portfolio. JP Morgan's data is current because the firm uses a roll-forward methodology. This will eventually not be a problem because of sale of the private equity investments or if the Investment Committee can get a consensus on treatment in reports. The executive summary for the quarter report is more detailed.

Mr. Koetters asked that in the future that Wilshire isolate the performance of each of the investment managers. For example, State Street's results compared to the Lehman Aggregate Index. He also requested that results be highlighted with colors that easily indicate under- or over-performance relative to the appropriate benchmark. As BWC selects more managers in the near future, highlighting will become important.

PRIVATE EQUITY PLACEMENT AGENT REQUEST FOR PROPOSAL PROCESS

Bruce Dunn, Chief Investment Officer, reported on the Request for Proposal (RFP) process for selection of the private equity placement agent.

Mark Friedberg, Wilshire Consulting, reviewed Wilshire's memo highlighting the selection of UBS.

Mr. Dunn explained some of the reasons for the selection. UBS has a team dedicated to the sell side of private equity transactions. The firm has completed transactions similar to the BWC portfolio. UBS has a great deal of expertise in the area, led by Nigel Dawn. UBS has a demonstrated credibility, reputation, relationships with potential buyers, tactical strategy, attention to detail, and competitive fees.

Mr. Koetters asked to hear more about the RFP process and then more about UBS. He suggested that since this was a new selection process, the fiduciary duty of the Oversight Commission and the lack of fiduciary insurance compelled a more detailed description of the process to select the agent.

Mr. Friedberg elaborated on the RFP process. Wilshire reviewed the RFP and assisted in its completion. There were only four responses, due in part to lack of fiduciary insurance, BWC indemnification, and the public records requirements. There were many questions asked in the RFP which required detailed scoring. The scoring was done independently by the Evaluation Committee members. The committee conducted a conference call on the scoring and chose three finalists: Lehman Brothers, UBS Securities LLC, and NYPPE Holdings. Triago Group was the fourth bidder and is a small firm with experience in small sales. Each of the finalists was interviewed in ninety minute sessions and the finalist presentations were scored. The committee confered and reached the consensus to hire UBS.

Mr. Koetters asked why the scoring sheets were not delivered to the Investment Committee for review. Mr. Friedberg replied that there are three components to the RFP process: scoring, on-site visits, and arriving at a consensus choice. Scoring was not the only part of the process and the Evaluation Committee did not want scoring to be the sole criterion for selection of the vendor. He reviewed the structure of the score sheet and described each section and type of question. Mr. Friedberg stated he was willing to disclose the scoring template and the RFP weighting. See the August 16 memo of Bruce Dunn in hand-outs for this meeting. For example, regarding experience, the small firms responding to this RFP had been in business longer, but both were deemed too small for the size of this deal. UBS has a dedicated team which works on the sale of private equities and has broad firm support. Finally, the fee structure and conflicts of interest were evaluated. The UBS fees are competitive and have incentives. There will be a flat percentage on the sale price. Other firms requested a percentage plus an incentive. UBS was scored the highest by all members of the Evaluation Committee.

Mr. Koetters remarked that all of these issues are matters of public record. Because Wilshire reports to the Investment Committee, the Investment Committee will need Wilshire comments on the RFP. Disclosure will be especially important if the scoring is closer in later RFPs because it could seem to be a conflict. Mr. Dunn stated that Wilshire and the BWC investment staff had separate recommendations and that each participant in an RFP will have separate records with separate recommendation memoranda.

Mr. Sopko reminded the Investment Committee that its members had requested that they not be part of the selection committee. He suggested that the Investment Committee may want to be included in the future. The Investment Committee will request full information in future RFPs and determine whether to be invited to participate.

Mr. Friedberg stated that this RFP is unique. In the future, there will need to be more independence between Wilshire and the BWC investment staff in selecting the investment managers. The RFP will have a standard methodology.

Mr. Koetters stated that Ms. Farkas had requested the material on the RFP in advance of the day of the meeting. Mr. McCausland had not received the material in the mail. Mr. Mabe reported that a Federal Express receipt had been signed at the address given by Mr. McCausland to which to ship this material.

Mr. Koetters requested that Assistant Attorney General John Williams render an opinion on the RFP process. Mr. Williams stated that that the Wilshire presentation was very helpful on the process and the weighting of the respondents. Wilshire was the representative of the Oversight Commission on the Evaluation Committee. The process is very well documented. Moreover, documents in the possession of agents of the state are public records.

Ian Lanoff, Fiduciary Counsel, stated that the process was prudent and reflected due diligence. However, no information was given to the Investment Committee on the scores. Mr. Lanoff mentioned scores are usually disclosed to boards to which he is advisor.

Mr. Koetters requested a report on the rankings method. Mr. Friedberg described the scoring methods and rankings. The questions are weighted in accordance with their importance. However, the scoring does not capture all of the evaluation. The committee was unanimous on selection of the agent. Triago did not meet the list of finalists became of its size, its location in Paris, and its lack of a reputation in the United States. Lehman was larger, but had no dedicated team. Its largest sale occurred when its private equities unit was part of Deutsche Bank. Lehman was deemed less flexible in executing the deal and it had indemnification concerns. UBS is a large firm, has a dedicated team, and has experience in large transactions. The presentation by NYPPE was excellent and had one ~~a~~ large transaction in its experience. However, its focus was on small transactions.

Mr. Koetters asked what the negatives were associated with UBS. Mr. Friedberg replied that UBS has not had extensive experience with government entities which operate under regulatory guidelines regarding the sale of private equities. However, it has had a lengthy operating history with municipalities in Ohio on bond issuance.

Mr. Barnes commented that a conflict may be present if the WCOC and IC members are in positions to both be a part of the process and ultimately approve the outcome. Mr. Koetters indicated that the current process was not tainted by members and that he would think about whether a conflict would be presented in the future.

Mr. Koetters requested that BWC and Wilshire provide the same level of detail for future RFPs.

Mr. Koetters requested that Mr. Barnes provide his opinion on the RFP process. Mr. Barnes stated that he completely agreed with Mr. Lanoff that the process was prudent.

Mr. Williams advised the Investment Committee that Wilshire should educate UBS on Ohio public records laws.

PRIVATE EQUITY PLACEMENT AGENT RECOMMENDATION

Nigel Dawn, UBS, introduced himself and other members of the UBS team. He stated that this RFP was the most thorough of any government contracting process. The sale of the BWC private equity portfolio will be one of the largest sales of this year.

Mr. Koetters asked what the policy of UBS on political contributions was. Gerald Cooper, UBS, reported that no member of UBS to be involved in this engagement has contributed to Ohio officials in the last five years.

Mr. Dawn described the organization of the UBS private equity financial group. The group has an exclusive focus on the sale of private equities. The team uses other divisions of UBS: Relationship Managers, Internal Legal Counsel, and the Financial Sponsors Group. The Wealth Management Division has a significant presence in Ohio. The greatest benefit of working with UBS will be getting the best price for the sale. Other benefits are that UBS will fulfill its fiduciary duty; assume the administrative burden of the sale process; has leverage through its institutional relationships; maintains confidentiality; has good buyer perception; and has the best expertise. In the current environment, finding capital is less important than the time of sale.

Philip Tsai, UBS, reported on factors that differentiate it from its competitors. UBS has no conflicts of interest, especially no conflicts with Wilshire. UBS is experienced in large transactions, especially complex structured transactions. UBS has an extensive network of limited partnership relationships. UBS also has strong relationships with a network of general partners. By screening buyers before offers are made, there will lead be a better sale price. Mr. Dawn added that there are no additional conflicts foreseen.

Mr. Tsai further described other treatments and types of sales of secondary market sales. Ms. Farkas asked where the State Insurance Fund fell in. Mr. Tsai replied that it would be an auction. Mr. Mabe asked how many buyers are there potentially for BWC. Mr. Tsai responded that it would be less than ten and that six buyers would be realistic. Mr. Dawn added it would depend on the buyers’ capital reserves.

Mr. Tsai described the pitfalls in an auction. Overcoming pitfalls will require working with general partners and limited partners. Mr. Tsai then described case studies of large UBS transactions.

Mr. Mabe asked what would be the time to complete after UBS and potential buyers conclude their due diligence. Mr. Tsai responded that it would be two to three months. The preparation time is less for BWC because BWC has good records and knows what it owns.

Mr. Dawn reviewed the timelines. Fees are $155,000 per month and are applied against the final fee. There is a good market environment for the sale of private equity partnerships at this time.

Mr. Koetters asked what the penalty to BWC is if the sale is rejected. Mr. Dawn replied that UBS will rely upon its monthly fee.

Mr. Sopko reported that Stamco Industries of which he is CEO has its pension and private investment plans with UBS. The advice of Ian Lanoff, Fiduciary Counsel, is that he has no conflict of interest in voting for this proposal.

Ms. Farkas reported that UBS is responsible for some of the research and trades for her firm, Spero Smith Investment Advisors. However, she also has been advised by counsel that she does not have a conflict of interest.

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 UBS Securities LLC to serve as the private equity investment agent for BWC, upon such terms as UBS Securities set forth in its response to the Request For Proposal issued May 16, 2006, and such other terms as are favorable to BWC. Mr. Sopko seconded the motion and the motion was approved by unanimous roll call vote.

AMENDMENT OF THE INVESTMENT POLICY

Mr. Dunn described “to be announced” pools (TBAs) and their use by State Street. TBAs are mortgage-backed securities in which the specific underlying mortgage pools are not identified at time of commitment, but which share defined characteristics. The investment policy needs to be amended because TBAs constitute 7% of the portfolio. TBAs do not present added risk because they are not leveraged. State Street maintains $1.6 billion in cash at all times, versus $1.15 billion in TBAs, so State Street has sufficient cash to cover all commitments. The use of TBAs is a State Street policy, not BWC policy.

Mr. Koetters asked if State Street is following BWC policy. Mr. Dunn replied that the governing document for the State Street commingled fund is a declaration of trust and that State Street represents that it is following <u>its</u> own policy, which it believes is more stringent. However, State Street is not legally required to follow the BWC policy because it has a commingled funds agreement with BWC.

Mark Brubaker, Wilshire Consulting, suggested that the declaration of trust could be amended to comply with the BWC investment policy.

Mr. Koetters stated he needs assurances.

Mr. Dunn stated that BWC receives a written statement from State Street each quarter which states that State Street is fully compliant. Mr. Brubaker stated that it would possible to go to State Street to get specific assertions that it is compliant with BWC policy. Mr. Dunn stated BWC had initiated that discussion and there had been push back with assertions that State Street follows its own standards. For example, in order to meet the Lehman Index, it must use TBAs for mortgaged-backed securities. If State Street can not use TBA's, State Street wants indemnification if it cannot meet the results of the index.

Mr. Koetters stated that TBA's are not a high risk investment since they are issued by U.S. government agencies, but that the bigger issue is whether TBAs meet the BWC Investment Policy.

Mr. Williams reviewed the policy amendments. On page 13, the exception for investment in derivatives adds TBAs. On page 18, there is a change in percentages for alternative investments. There is also a new Appendix IX to replace the Callan Associates asset allocation recommendation with the one provided by Wilshire.

Mr. Koetters asked how the footnote on page 18 compares with other timelines. Mr. Dunn replied that it will depend on the other RFPs for investment managers. The process could last until April 2007.

Ms. Farkas moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve and adopt certain clarifying revisions to the Bureau of Workers' Compensation Statement of Investment Policy and Guidelines as set forth on the appendix to this motion, which is incorporated herein. Mr. Sopko seconded the motion and the Investment Committee approved the motion by a unanimous roll call vote

Mr. Dunn stated that in the transition of the State Insurance Fund portfolio, the use of derivatives will be important in its completion. He requested feedback from the Oversight Commission. Mr. Koetters responded that the Oversight Commission will rely on the CIO and Wilshire to bring forth a recommendation and that the probability of consideration is high.

ADJOURNMENT

Mr. Koetters tabled other items on the agenda.

Ms. Farkas moved that the meeting be adjourned. Mr. Sopko seconded and Mr. Koetters adjourned the meeting.

Prepared by: Larry Rhodebeck, BWC Attorney
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September 20, 2006

Ohio Bureau of
Workers' Compensation

Transition Manager RFP Process

September 28, 2006

Transition Management RFP Process

Steps in the Transition Management RFP Process:

- Drafting of the RFP
- Evaluation and review of the RFP responses
- Interview of finalist candidates
- On site due-diligence with recommended finalists
- Consultation with Wilshire throughout the RFP process

Transition Manager RFP Revised Timeline

RFP ACTION ITEM	**TIMELINE**
OVERSIGHT COMMISSION MEETING	***June 16 – Complete***
Send RFP Advertisement to Newspapers/Journal	June 16 – Complete
Issue RFP	June 23 – Revised June 30 – Complete
Open period for respondent's questions via email	June 30 - July 6 – Complete
Respond to questions via website	July 7 - July 14 – Complete
OVERSIGHT COMMISSION MEETING	***July 20 – Complete***
DEADLINE FOR RFP PROPOSALS (2:00 PM)	**July 25 – Revised July 20 –** Complete
BWC/Consultant Evaluation Committee review of proposals	July 25 - Aug 7 – Revised July 21 - Aug 7 – Complete
Finalist Candidate Interviews (3 – 4 Candidates) – Increased to 6 Candidates	August 8 – Revised August 8 - 9 – Complete
Grade Finalist Candidate interviews / notify Finalists for on-site visits	August 10 – Revised August 24 – Complete
OVERSIGHT COMMISSION MEETING	***August 24*** – Complete
On-Site visits of Finalists	August 11-14 – Revised August 28 - September 18 – Complete
WCOC Packet Deadline	September 20 – Complete
OVERSIGHT COMMISSION MEETING – Approval of Recommended Finalists	***September 28***

RFP Respondents and Scoring

- A Request for Proposals (RFP) was publicly issued on June 30, 2006 for the services of a Transition Manager(s)

- BWC received eleven responses (see Appendix for descriptions of qualified firms shown below):

1) Barclays Global Investors (BGI)
2) Bear Stearns (disqualified at bid opening)
3) BNY Brokerage
4) Credit Suisse
5) JP Morgan
6) Lehman Brothers
7) Mellon
8) Merrill Lynch
9) Northern Trust
10) Russell
11) State Street

- RFP respondents were scored by the Evaluation Committee (EC) comprised of the BWC CIO, BWC Director of Investments, two BWC Investment Staff members, and the combined scores of two Wilshire associates

- Respondents were scored on questions with respective weightings established by the BWC CIO, pertaining to:

Process/Strategy (45%)
Organization/Structure (20%)
Experience (20%)
Fees (15%)

- Conference calls between EC members were held to discuss the scoring and to establish the best candidates for finalist interviews to be held at BWC's William Green Building

Initial Evaluation Summary of RFP Respondents (Phase I)

Barclays Global Investors (BGI)

BGI has provided customized transition management services since 1985 and views transition management as a short term asset management assignment. BGI is the largest passive manager of fixed income in the U.S. and leverages these assets to offer a large and diversified pool of liquidity at a low cost. BGI has a very experienced transition management team. **Invited to interview.**

BNY Brokerage

BNY Global Transition Management was established in 2001 within the BNY Brokerage division. The firm was comparatively weak in overall Process/Strategy questions as well as costs to manage a transition. Not invited to interview.

Credit Suisse

Credit Suisse's Transition Management Group has managed transitions since 1998. Credit Suisse has been gaining market share in the transition management industry over the last few years. Their transition management product appeared to be geared more towards principal trading over agency trading. Credit Suisse derives approximately 19% of revenue from proprietary trading. Scored high on Process/Strategy questions. **Invited to interview.**

JP Morgan Chase

JP Morgan established a separate and independent transition management team in 2001. JP Morgan's transition management team contained some experienced professionals, however the dynamic of the team was a concern. The firm scored in the middle range in all categories. **Invited to interview.**

Lehman Brothers

Lehman Brothers has offered transition management services for over 23 years, beginning in 1983. They are a world leader in fixed income management and indexing. Lehman, refusing to act as a fiduciary, offered a joint proposal with U.S. Trust. The proposal would have U.S. Trust act in a fiduciary capacity overseeing the transition while conducting all trading activity through Lehman Brothers. The Evaluation Committee was not comfortable with this arrangement. Not invited to interview.

Initial Evaluation Summary of RFP Respondents (Phase I)

Mellon Transition Management Services

Mellon Transition Management Services was created in 2001. The transition management staff at Mellon are experienced and the top two individuals have been with the Transition Management Service division since its inception. However, Mellon scored low for Process/Strategy and was judged not to have as well defined of a process compared to most other respondents. Not invited to interview.

Merrill Lynch

Merrill Lynch has performed transition management services since 1993. Merrill Lynch is acquiring BlackRock, a leading institutional fixed income management firm. Merrill Lynch presented one of the lowest cost structures among all respondents. Although not scoring near the top in any broad category, Merrill was judged to have strength across the board and found the upcoming merger with BlackRock to be intriguing. **Invited to interview.**

Northern Trust

Northern Trust established a separate unit for transition management in 2002. Northern Trust's core transition team was less experienced than the majority of all respondents. Did not compare favorably in exhibiting a well defined process. Not invited to interview.

Russell

Russell began offering transition management to third party clients in 1992. Russell has a very seasoned team of professionals in their transition management unit with virtually no turnover in recent years. Russell is the pioneer of the "T-Standard" which is the industry standard for measuring the success of transitions. Scored high on Process/Strategy and Organization/Structure. **Invited to interview.**

State Street

State Street is widely regarded as the largest transition manager in the world and began providing transition management services to third parties in 1992. Like BGI, State Street is a very large passive index manager. The transition management team at State Street is very experienced and has experienced very low turnover. State Street scored high in all major categories across the board. **Invited to interview.**

Finalist Candidate Interviews and Scoring (Phase II)

- Six respondents were selected for interviews held in the William Green Building on August 8, 2006 and August 9, 2006

- The six respondents selected for Finalist Candidate interviews were:
  1) Barclays Global Investors (BGI)
  2) Credit Suisse
  3) JP Morgan
  4) Merrill Lynch
  5) Russell
  6) State Street

- Finalist Candidates were graded on specific questions that arose from their respective RFP responses

- At the conclusion of the interviews a conference call was held by the Evaluation Committee to discuss the scoring and to select Finalists for on-site visits

Finalist Candidate Interviews and Scoring (Phase II)

- There was a clear separation in scoring and opinion by the EC between the four Finalist Candidate Firms selected for on-site visits and the two Finalist Candidate firms not selected for on-site visits

- Firms selected as Finalists for on-site visits:
  1) Barclays Global Investors
  2) Merrill Lynch
  3) Russell
  4) State Street

- Firms not selected as Finalists for on-site visits:
  1) Credit Suisse
  2) JP Morgan Chase

Finalist Candidate Interviews and Scoring (Phase II)

Credit Suisse

- TM experience appeared much more devoted to equity transitions than fixed income transitions compared to others
- Lack of size and sufficient depth of TM team presented to BWC compared to chosen Finalists
- More dependent on crossing trades acting as a principal rather than agent than desired which creates potential conflicts of interest

JP Morgan Chase

- Relative latecomer to forming a stand alone TM team (2001)
- Still in process of building TM team with comparatively low market share
- World class parent organization with strong presence in fixed income markets as large broker/dealer; however, this was not sufficient to overcome comparisons versus larger, fully-focused, and balanced TM teams offered by each of the chosen Finalists

On Site Visits

BARCLAYS GLOBAL INVESTORS

Russell

STATE STREET.

Merrill Lynch

Facts

- One of the largest asset managers in the world with assets under management of over $1.6 trillion with almost $1.1 trillion passively managed ($550 billion in U.S. Equities, $200 billion in U.S. Fixed Income)
- 1,452 transitions performed between 2003 – 2005 totaling $553 billion (average of $380 million)
- One of the largest passive index managers in the world and largest U.S. passive manager of Fixed Income assets
- Global leader in exchange-traded funds with more than 100 ETF’s offered
- TM services offered since 1985 with dedicated U.S. TM team since 1995
- Over 45 dedicated TM professionals
- Acts only as agent and never as principal in executing trades

Positives

- Huge daily order flow as largest asset manager in world creating high liquidity and competitive price execution
- Impressive senior transition team with complementary skills and creative thinking
- Known as highly quantitative shop with high budget for capital spending to create and maintain innovative, state-of-the-art platform
- No conflicts of interest acting as a fiduciary model by serving only as agent
- Well-developed risk management techniques

Concerns

- Several key senior manager of TM joined BGI within last year but all worked together in TM for years at another firm

Facts

- Large investment management firm with $171 billion in assets under management
- Large investment consulting firm advising clients with assets of $2.4 trillion
- 1,613 transitions performed between 2003 – 2005 totaling $668 billion (average of $414 million)
- TM services offered for over 25 years with stand alone TM team since 1992
- 38 professionals currently dedicated exclusively to TM
- Pure agency model never acting as principal in executing trades

Positives

- Heart of culture is to serve clients with the highest integrity and transparency
- Trading desk focused more on transition management rather than asset management
- Firm and TM team known for very low turnover and high employee satisfaction
- Very balanced TM team with complementary skills
- No employee at this highly regulated firm has ever been terminated or fined due to inappropriate behavior
- Very impressive and detailed pre-trade and post-trade analytical reports
- Ranked #1 among TM assets by widely-recognized Greenwich Associates survey for 2005
- TM dedicated to providing top quality personal service

Concerns

- High use of large external broker network may mean higher explicit trading costs, but prevents any conflict of interest

Facts

- Assets under management in excess of $1.4 trillion, including over $1.0 trillion passively managed ($300 billion U.S. Equities, $500 billion Fixed Income)
- 2,393 transitions performed between 2003 – 2005 totaling $967 billion (average of $404 million)
- One of the largest passive index managers in the world
- World's largest custodian with more than $9.4 trillion in assets under custody
- Considered world's largest fixed income transition manager
- TM services offered since 1978 with stand-alone TM team since 1992
- 81 dedicated TM individuals with very low turnover

Positives

- Impressive balance of transition experience across all important asset classes
- BWC had good experience with firm on major transition to Ohio Passive FI Index Fund earlier this year
- Top four senior TM officers have worked together on TM team for almost 10 years
- Able to manage in-kind fixed income exchanges as very large passive fixed income manager
- Offer customized high level research services as part of TM relationship
- Firm does no proprietary trading even though very large asset manager

Concerns

- Performs both agency and principal trading, but reduces conflict of interest issues by using other brokers to bid and execute principal transactions

Merrill Lynch

Facts

- One of the world's leading financial management and advisory companies operating in more than 36 countries with total client assets of $1.8 trillion
- Began offering TM services in 1993
- As a fiduciary, 287 transitions performed between 2003 – 2005 totaling $144 billion (average of $504 million)
- As a broker-dealer, Merrill undertook some 4,800 transitions in 2005 totaling over $600 billion (average of $125 million)
- Merrill Lynch Investment Managers merging into BlackRock, Inc. (expected closing date of September 29, 2006) which would bring combined institutional assets under management in excess of $1 trillion

Positives

- Significant track record in the transition management business and a commitment to continue its growth and development
- Passion for the transition management business and client service exhibited at all levels of the transition management team
- Strong project management skills evident in both personnel and proprietary technology
- Potential for tremendous synergies between the combined Merrill Lynch Investment Managers and BlackRock

Concerns

- Timing and implementation of merger with BlackRock
- Equity bias in presentations by transition management team
- Current concern over the continuity of the newly merged Merrill Lynch and BlackRock transition team

Evaluation Committee Finalist Decision

- Evaluation Committee, after attending all on-site visits, has decided to exclude Merrill Lynch from its recommendations

- Evaluation Committee recommends that Barclays Global Investors, Russell and State Street be approved as Transition Managers for the BWC

Transition Manager Recommendations

BARCLAYS GLOBAL INVESTORS

Russell

STATE STREET.

DATE: September 18, 2006

TO: BWC Investment Committee
Bill Mabe, Administrator/CEO

FROM: Bruce Dunn, Chief Investment Officer

RE: **State Street Compliance and Controls Due Diligence**
CIO Recommendation

An investment manager due diligence meeting involving BWC Investment staff (Bruce Dunn and Doug Walouke), Wilshire Associates (Michael Patalsky), and a number of representatives of State Street Global Advisors (State Street) occurred at the offices of State Street in Boston on September 13, 2006. Among the topics discussed were portfolio management, risk management, compliance, and accounting processes of the Ohio Passive Bond Market Fund ("Ohio Fund") managed by State Street.

This report will focus on providing observations and comments on risk management and compliance operations in place at Street State to assure separation of duties between portfolio management, accounting, and custody services.

State Street Bank & Trust is one of the largest custodians in the world with $11 trillion in assets under custody. State Street currently has $1.5 trillion in total assets under management. The firm has a very strong corporate governance structure with a strict Code of Ethics that all employees must adhere and certify annually. A thorough background check on each prospective employee occurs before a new employee can join the organization.

State Street is staffed with highly experienced Compliance and Risk Management professionals. The Compliance and Risk Management department has an independent reporting structure directly to the CEO and has significant interaction with the Corporate Audit and Enterprise Risk Management departments. The firm develops and maintains a formal, continuous compliance and risk management monitoring and testing system program for regulatory and contractual requirements.

Each portfolio manager at State Street is subjected to a compliance module that is programmed by the Compliance and Risk Management department so as to always satisfy the relevant portfolio guidelines. For example, such guidelines would consist of all of the guidelines imposed by the creator of the targeted benchmark index for passively managed client commingled account structured portfolios and specific client imposed investment guidelines for actively managed separate account structured portfolios. These compliance modules are designed so as to block a portfolio manager and/or trader from executing a trade that would violate an investment guideline.

The Compliance and Risk Management Department also conducts routine periodic reviews of client account activity to ensure compliance with client imposed guidelines as well as adherence to regulatory requirements.

Daily pricing of securities for accuracy from various external pricing sources is carefully monitored and is subjected to a formalized centralized exceptions process with defined tolerances to avoid inaccurate or stale prices. State Street performs a daily reconciliation of both cash and securities for portfolios under management.

Price Waterhouse Coopers (PWC) serves as the outside auditor of State Street and performs a SAS 70 review on control activities and processes. The commingled funds managed by State Street are subject to an annual outside audit performed by PWC. PWC also performs Sarbanes-Oxley reviews on State Street on a regular basis.

State Street has represented that their investment clients are permitted to have client auditors visit the appropriate State Street office to conduct internal audit examinations on their particular portfolio(s). State Street has represented to me that appropriate BWC employees are welcome to visit the Boston operations for the purpose of conducting specific audit reviews on the Ohio Fund.

In summary, the BWC Chief Investment Officer is satisfied that proper controls, processes and segregation of duties are in place throughout the State Street organization.
It is these well defined internal structures and the culture of compliance being given the highest of priorities that enables passive investment management clients of State Street to be comfortable with the commingled account structure and the State Street role serving as custodian.

It is recommended that the commingled account trust structure for the Ohio Fund be maintained with State Street.

Securities Lending Overview

Ohio Bureau of Workers' Compensation Investment Committee

September 28, 2006

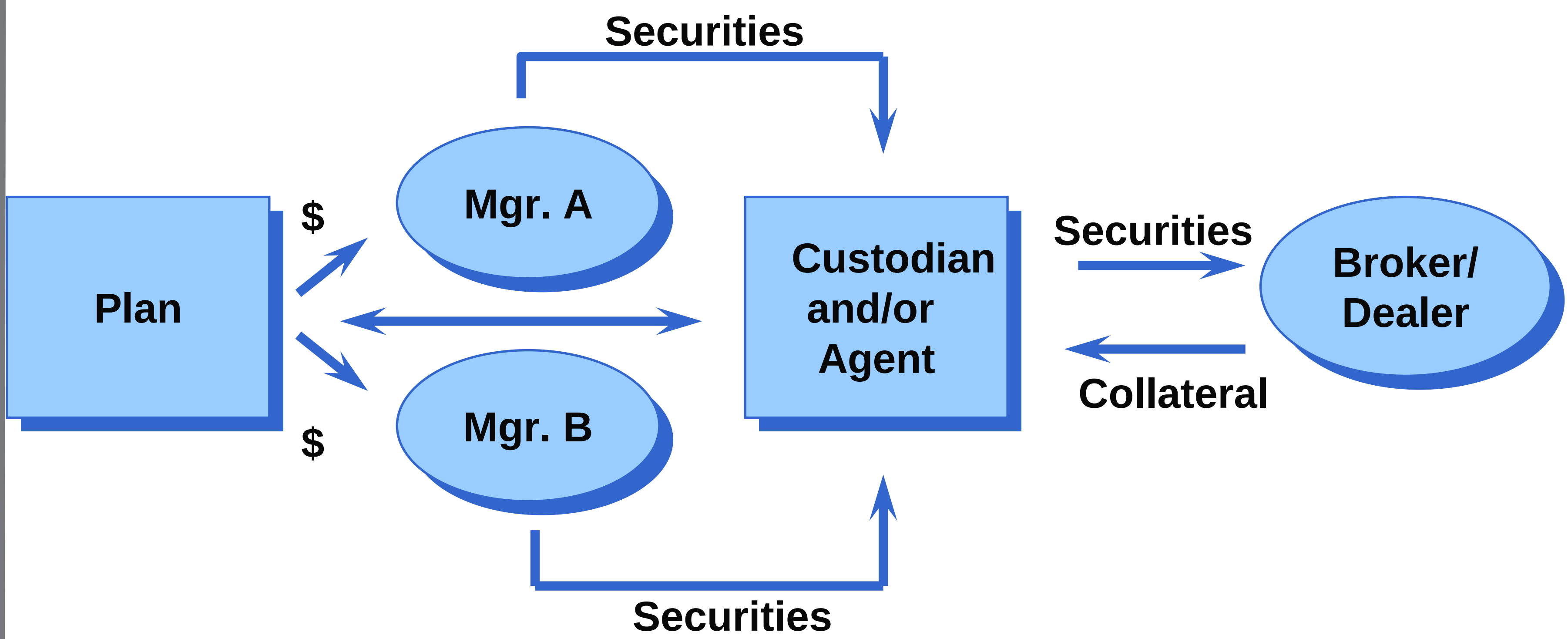
Mark E. Brubaker,
Managing Director
(412) 434-1580

Securities Lending - Introduction

How does Securities Lending Work?

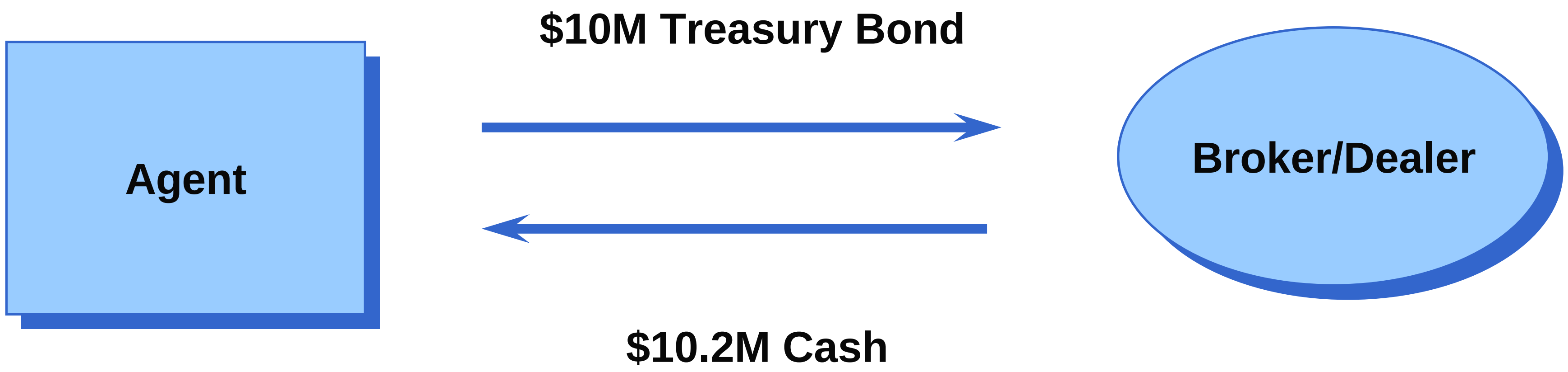
- An agent lends securities to a third party, typically a broker/dealer
- In exchange for the securities, the broker/dealer delivers collateral (typically cash) to the agent:
  - 102% on domestic securities
  - 105% on international securities.
  - Marked to market on a daily basis.
- The agent invests the cash collateral in short term investments to earn income
- After rebating a negotiated amount to the broker, the agent splits the remaining income (i.e. spread over the rebate to broker) with the plan based on a negotiated fee sharing arrangement
- Securities lending is designed to be transparent to the ongoing activities of the investment manager(s)

Securities Lending Process Flow Chart



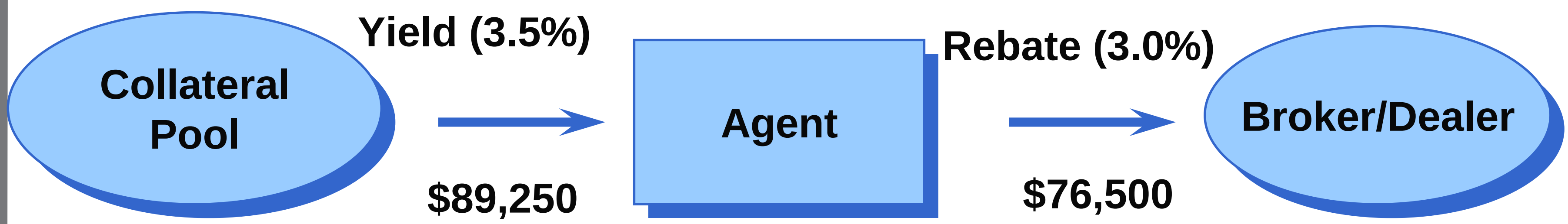
- In the U.S., custodian banks and index fund managers are the largest source of securities for the “street” due to the amount of assets that are custodied or managed for institutional investors

Example Of A Lending Transaction



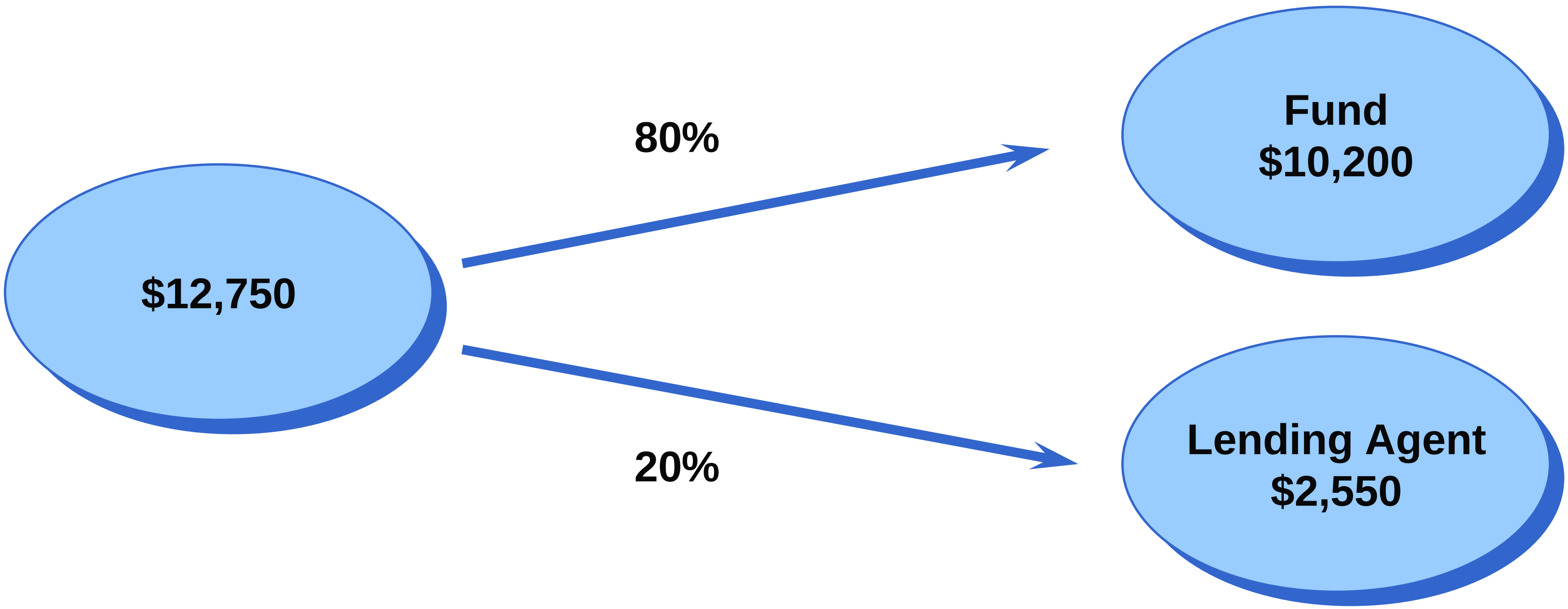
- Agent provides $10M U.S. Treasury note to broker. Assume the security is prices at par and the loan will last 90 days.
- Agent delivers securities to broker: Broker delivers 102% collateral (cash) to the agent

Example of a Lending Transaction (Cont.)



- At the time of the loan, the agent will negotiate a rebate with the borrower on the collateral
- Negotiated rebate is 3.0%. Annualized yield on the cash collateral pool is 3.5%. Spread on the loan is 50 basis points
- After 90 days, net income for this transaction is $12,750 ($89,250-$76,500)

Example of a Lending Transaction (Cont.)



- Net income is split between agent and plan sponsor based on negotiated split

Spreads

- Represents the income differential between the yield on the collateral pool and the rebate negotiated with the borrower
- Rebate is typically bogeyed to the Fed Funds rate
- Rebate differs between security type but will not be significantly different between lenders due to competitive pressures
- Rebate is affected by the supply-demand forces in the market and changes in interest rates
  - ➔ Large demand, lower rebate, higher spread, more income
  - ➔ Large supply, higher rebate, lower spread, less income

Supply - Demand Driven Market

- Supply and demand relationship for security types and specific issues determines income potential
  - Larger spreads are caused by:
    - Less supply
    - Higher demand
    - Assuming greater investment risk
  - Higher income is created by:
    - Larger spreads
    - Higher volume
- Factors affecting supply and demand include:
  - New issues in short supply, issues being sold short, issue/sector squeeze, acquisition/merger transaction activity

Risks Involved with Securities Lending

- Investment risk
- Asset / liability risk
- Broker default risk
- Sell - fail risk

Investment Risk

- Securities lending is not a "free lunch"
- Lending agent must take on investment risk to earn a spread on each loan
- The degree of investment risk can vary dramatically by lending agent
  - ➔ Funds must take greater responsibility for monitoring investment risk
- Primary investment risks are interest rate risk and default (credit) risk
  - ➔ A steep yield curve is the best environment for securities lending
  - ➔ A flattening to inverted yield curve is the worst environment for securities lending

Investment Risk - Prudent Rules For Protection

- Establish sound investment guidelines for investment of cash collateral which cover:
  - Interest rate risk, credit quality, sector diversification, issuer/ issue exposure, benchmark, derivatives, disposition of assets
- Treat lending agent like an investment manager with reporting on a monthly basis
- Require lending agent to periodically "stress test" the portfolio
  - Determine impact on portfolio income and marked to market ratio at different levels of interest rates and yield curve changes

Asset / Liability Risk ("Mismatching")

- Refers to the difference between the maturity profile of liabilities (broker loans) and the assets (cash collateral portfolio)
- "Mismatching" is a popular method of earning a spread from securities lending
  - ➔ The wider the mismatch, the more risk assumed by lenders
- If the lending agent is required to sell assets to return borrower collateral, this would "lock in" market value losses and thus create losses to participants in the program
- Lending agents should be using models designed to help them profile and manage their asset / liability risk

Broker Default Risk

- The risk that the securities on loan will not be returned by the borrower on the settlement date
- Forces the lender to go into the market and buy the security to replace the one held by the broker
- Loss occurs when the price of the loaned security is more than the value of the collateral held by the custodian
- Unless the fund sponsor is indemnified by the lending agent, the fund sponsor absorbs the loss
- Agent minimizes risk to broker default by conducting ongoing credit reviews of brokers and by marking to market daily

Broker Default Risk (Cont.)

- Indemnification
  - “Insurance policy” offered by lender to protect the plan sponsor from broker default risk
  - In the event of default, lender will cover the difference between the purchase price of the security and the value of the collateral
  - Cost to the plan is usually a reduction in the securities lending split (i.e., 60/40 is reduced to 50/50)
- Because broker default risk is relatively low and collateral is marked to market daily, Wilshire generally does not recommend indemnification because the cost is usually too high

Sell - Fail Risk

- Agent lends a security that the manager subsequently sells
- Agent is unable to retrieve the security before trade settlement
- Plan has an opportunity cost because it is unable reinvest the proceeds of the trade
- Agent covers any interest lost due to sell-fail
- Timely communication of trades between manager and agent is required to eliminate this risk
- Some agents do not cover sell-fail risk on international lending due to settlement problems in many countries
- International securities have the highest incidence of sell-fail

Conclusions

- Securities lending is utilized by the majority of institutional investors as a means of generating incremental income in their portfolios

- Securities lending is not without risk - *Lending agents must be monitored on a periodic basis, and held to the same due diligence standards as investment managers*

- Institutional investors must weigh the tradeoff between the incremental income and risk involved with securities lending and consider that many borrowers of securities (i.e. short sellers) are working counter to the interests of the Fund's investment managers

Ohio Bureau of Workers' Compensation

Index Manager RFP

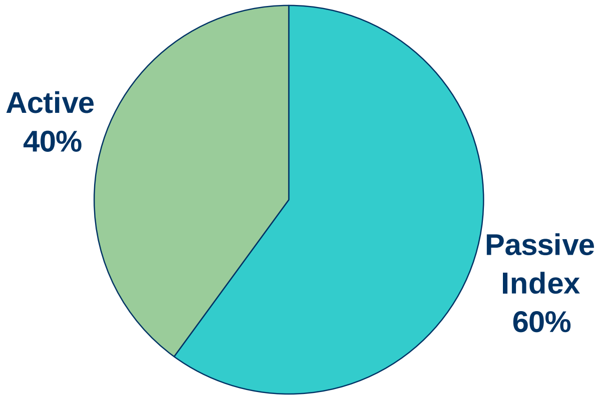
September 28, 2006

Index Manager RFP Mandates

The combined four passive manager mandates in this RFP represent 60% of the BWC SIF investment portfolio

- Passive Long Duration U.S. Fixed Income — $4.0 Billion
- Passive Treasury Inflation Protection Securities (TIPS) — $3.0 Billion
- Passive Large Cap U.S. Equity — $1.8 Billion
- Passive Non-U.S. Equity — $0.2 Billion

BWC SIF ASSETS
$15 billion



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

Index Manager RFP Process

All qualified Respondents will be graded on the following three categories to determine the Interview Finalists:

- Organization and Experience
- Process and Strategy
- Performance and Fees

Interview Finalists will be graded on firm specific questions related to their RFP responses for finalist selection.

Index Manager RFP Timeline

<u>**RFP ACTION ITEM**</u>	<u>**TIMELINE**</u>
<u>***OVERSIGHT COMMISSION MEETING***</u>	<u>***August 24***</u> – ***Complete***
Send RFP Advertisement to Newspapers/Journal	August 28 – Complete
Issue RFP	September 13 – Revised Sept. 18 – Complete
Open period for respondent's questions via email	September 18 - 20 – Revised Sept. 20 -26 – Complete
<u>***OVERSIGHT COMMISSION MEETING***</u>	<u>***September 28***</u>
Respond to questions via website	September 25 - 27 – Revised Oct. 3
DEADLINE FOR RFP PROPOSALS (2:00 PM)	**October 3 – Revised Oct. 10**
BWC staff initial review of proposals	October 4 - 9 – Revised Oct. 11 - 31
Evaluation Committee review / finalist candidates identified	October 10 – Revised Nov. 1
Finalist candidate Interviews / Re-grade finalist candidates / Notify finalist candidates	October 18 - 19 – Revised Nov. 7 - 17
On-Site visit of finalists (tentative)	October 24 - November 3 – Revised Nov. 20 - Dec. 21
WCOC MEETING PACKET DEADLINE	November 8
<u>***OVERSIGHT COMMISSION MEETING***</u>	<u>***November 16***</u>
WCOC MEETING PACKET DEADLINE	December 6
<u>***OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist***</u>	<u>***December 14***</u> and/or <u>***January 25***</u>

Index Manager RFP Evaluation Committee

Composition:

Five member Evaluation Committee

BWC CIO

Three BWC Investment Staff Members

Wilshire Consultant

Advertising:	Dates
Wall Street Journal (The Mart)	September 12 – 14
Pensions and Investments (Bi-weekly)	Issue of September 4 - 18

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR

Monthly

- CIO Report
  - Progress on Goals
  - Updates (RFPs, actions)
  - Compliance
  - Legislative
- JP Morgan Performance Reports
- Wilshire Flash Performance Reports
- Monthly Actual vs. Budget
  - Investment Division Budget
  - Investment Expenses – Manager and Operational Fees

July

- Annual BWC Investment Personnel Review
  - CIO Certification
  - Ethics/Conflict of Interest/Compliance
- Annual Review of Investment Manager benchmarks

August

- Wilshire quarterly performance reports

September

- Annual Outside Investment Manager Review
- Annual CIO Report (begin 2007)
  - Year in Review – portfolio performance
  - Asset Allocation
  - FY Goals
  - Environment
- WCOC Consultant Annual Report Card

October

- WCOC Consultant Renewal/RFP
- Investment Division Review (SWOT)

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR

November

- Administrator's Investment Agenda Goals
- Wilshire quarterly performance reports

December

- Semi-annual economic and interest rate outlook (begin 2007)

January

- Annual review of securities lending program

February

- Wilshire quarterly performance reports

March

- Annual Custodial Review

April

- Investment Policy Update
- Investment Committee Charter Update

May

- Wilshire quarterly performance reports
- Consultants ALM Study (Actuarial & Investment)

June

- Semi-annual economic and interest rate outlook

Bruce Dunn, CIO
September 28, 2006

OHIO BUREAU OF WORKERS' COMPENSATION
TOTAL FUND
July, 2006
Executive Summary

Domestic Fixed Income Overview:

Overall, the economic reports released throughout the month pointed to a slowdown in the pace of economic activity. The relatively weak increase in Q2 real GDP growth of 2.5% was the result of surprisingly soft capital spending and a slower pace of inventory accumulation, confirming the beginning of the downshift in growth. Despite the usual noise in initial jobless claims data due to distortions caused by the annual auto plant retooling shutdowns, some of July's labor market data pointed to slightly softer labor market conditions. Payrolls increased by 121,000 in the month of June, a rise that is not necessarily weak but one still much lower than the 170,000 – 190,000 gains earlier in the year. The unemployment rate remained unchanged at 4.6%. Nonetheless, consumer confidence remained solid, with the July Conference Board Consumer Confidence index edging up to 106.5 from 105.4 in the previous month. The ISM manufacturing index rebounded to a still-healthy 54.7 the same month

Housing data released in July was consistent with a continued slowdown in the housing sector. Both new and existing homes sales declined, with the latter falling for the third consecutive month. Housing starts slipped another 5.3% in June and have fallen a total of 19.2% since February. Months' supply of new and existing homes increased to 6.1 and 6.8 months, respectively. This indicator, a key measure in the softening housing market, shows how long the current inventory of homes on the market would last given the current sales rate if no additional new houses were built.

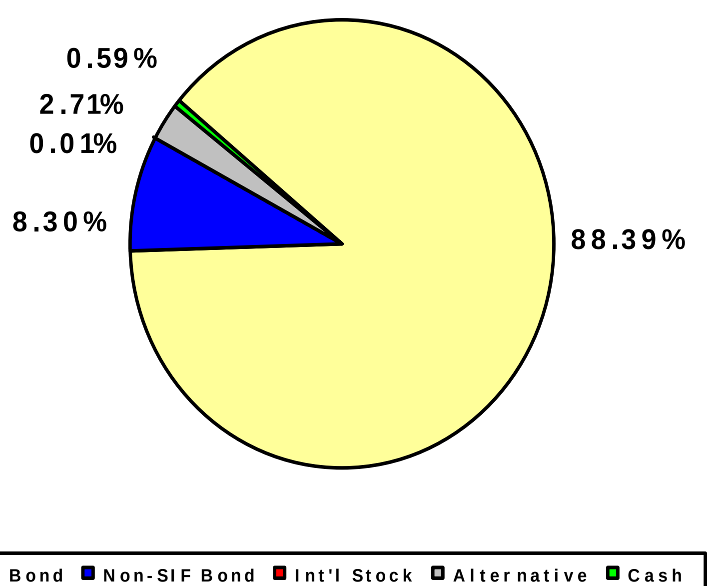
Inflation pressures continued to accelerate in June. The core CPI continued its uptrend, rising by 0.3% for the fourth consecutive month. Year-on-year, the index is now up 2.6%. The core PCE deflator edged up another 0.2% and is now up 2.4% since last year.

The U.S. Treasury yield curve was unchanged during the month, as the spread between two- and five-year Treasury notes ended June and July at -6 basis points (bps).

Ohio Bureau of Workers' Compensation
TOTAL FUND
Portfolio Market Value & Asset Allocation
July, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	14,490,814,835	88.39%
Non-SIF Bond Total	$1,361,115,401	8.30%
International Stock Total*	$1,758,786	0.01%
Alternative Asset Total	$444,519,910	2.71%
Cash Reserve Total	$96,931,763	0.59%
GRAND TOTAL	**$16,395,140,696**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending July, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total Fund Investments	1.33%	1.35%	-0.02%	1.53%	1.46%	0.07%	6.48%
Non-SIF Bonds	1.32%	1.35%	-0.03%	1.44%	1.46%	-0.02%	2.75%
SIF Bonds	1.35%	1.35%	0.00%	1.44%	1.46%	-0.02%	2.44%
International Stocks	0.81%	N/A	N/A	-4.52%	N/A	N/A	18.12%
Alternative	-0.02%	N/A	N/A	4.82%	N/A	N/A	8.47%
Cash	1.43%	0.42%	1.01%	2.03%	1.22%	0.81%	5.30%
Tranche #3 - TM	24.49%	1.35%	23.14%	15.91%	1.46%	14.45%	N/A

BENCHMARK INFORMATION:

•Lehman Brothers Aggregate Index

•M.L. 3 Month US T-Bill

Summary of Investment Manager Fee Impact:

•Investment Manager fees had no impact on the performance of the Total Fund for the period.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending July, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total Fund Investments	1.33%	1.35%	-0.02%	1.53%	1.46%	0.07%	6.64%
Non-SIF Bonds	1.32%	1.35%	-0.03%	1.44%	1.46%	-0.02%	2.75%
SIF Bonds	1.35%	1.35%	0.00%	1.44%	1.46%	-0.02%	2.44%
International Stocks	0.81%	N/A	N/A	-4.52%	N/A	N/A	18.32%
Alternative	-0.03%	N/A	N/A	4.80%	N/A	N/A	8.47%
Cash	1.62%	0.42%	1.20%	2.43%	1.22%	1.21%	5.71%
Tranche #3 - TM	24.49%	1.35%	23.14%	15.91%	1.46%	14.45%	N/A

BENCHMARK INFORMATION:

•Lehman Brothers Aggregate Index

•M.L. 3 Month US T-Bill

<u>**Summary of Monthly Performance Attribution:**</u>

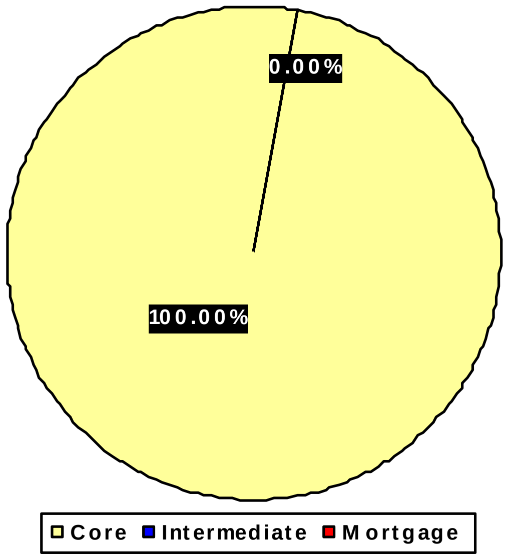
•BWC's Total Fund underperformed its' Benchmark by 0.02% for the period.

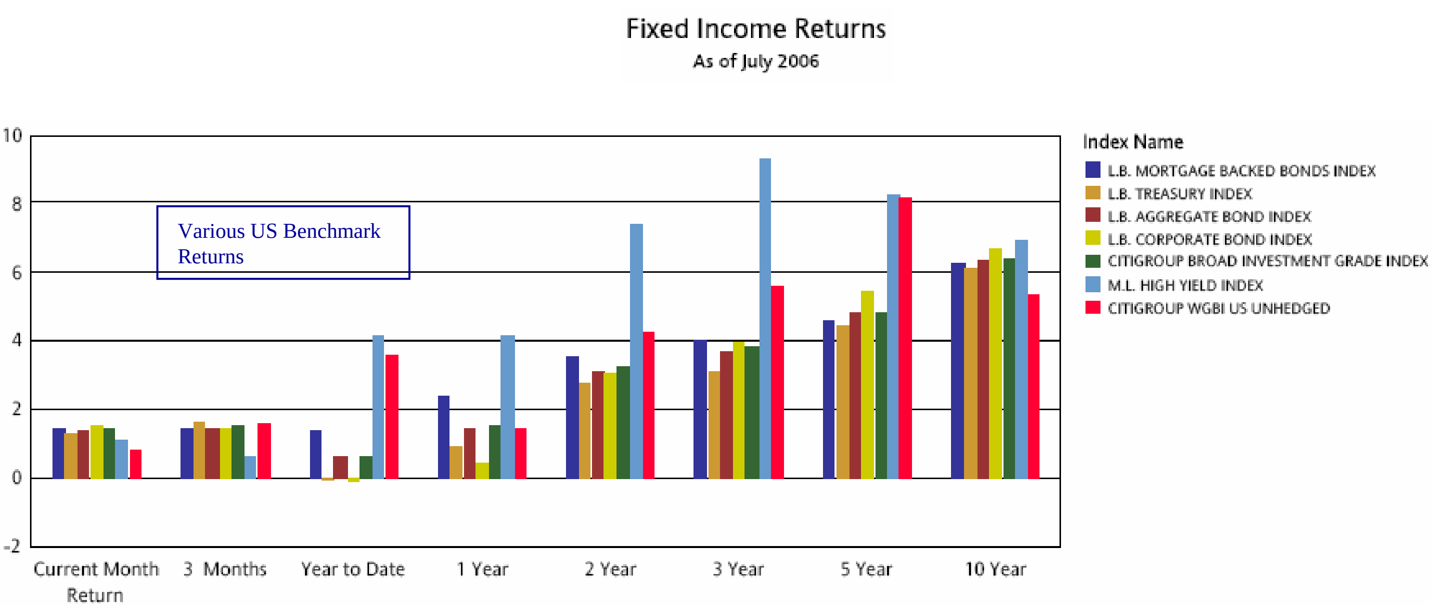
•Performance Relative to Benchmark Performance:

(-) BWC's Non-SIF Bond Portfolio underperformed its' Benchmark for the current period.

(+) BWC's SIF Bond Portfolio performed comparably to its' Benchmark for the current period.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Fixed Income Allocation & Returns
July, 2006

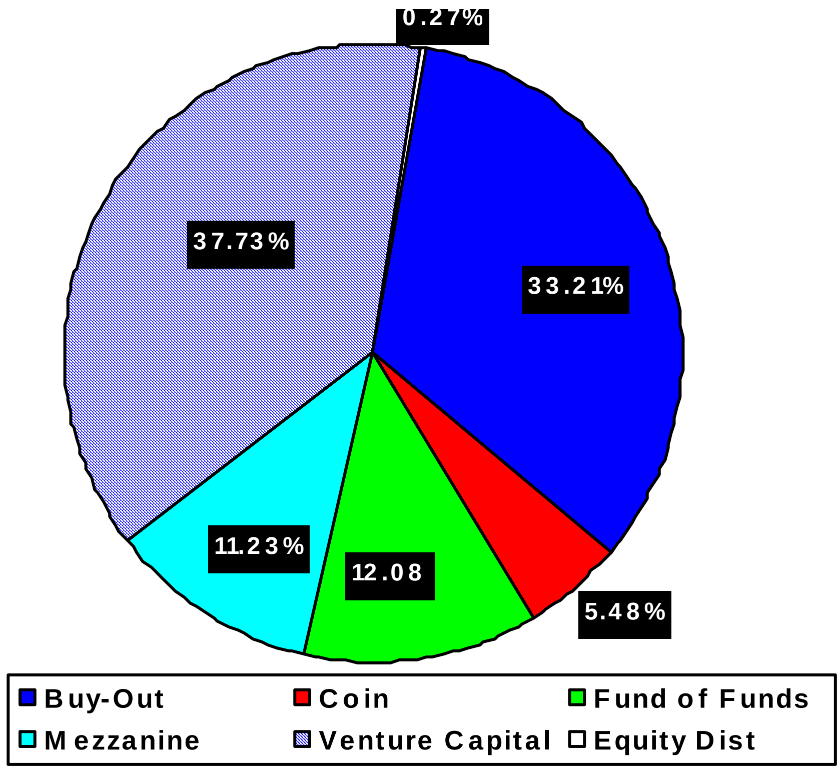




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Alternative Asset Allocation
July, 2006



Ohio Bureau of Workers' Compensation
TOTAL FUND
Fees Paid in the month of
July, 2006

Manager	Type	Fees Paid	Period Paid for
Western Asset Mgmt. Co.	Bond	$165,750.06	1st Qt 2006
Total Fees Paid		**$165,750.06**	

OHIO BUREAU OF WORKERS' COMPENSATION
TOTAL FUND
August, 2006
Executive Summary

Market review

On balance, the economic reports released in August pointed to further slowing in the pace of economic activity. Payrolls increased by an unimpressive 128,000 in August (versus a 4-month average of 160,000 in the beginning of the year) while the unemployment rate edged down to 4.7%. Despite a slowdown in the pace of hiring, the number of layoffs has not yet accelerated, as exhibited by the stability in jobless claims data, which have remained in the 310,000 – 320,000 range since the beginning of June. The combination of a cooling housing market, still-elevated gas prices, and the perception of deteriorating labor market conditions translated into a decline in both the Conference Board Consumer Confidence and the University of Michigan Consumer Sentiment gauges last month. The recent behavior in the manufacturing indicators suggests that the sector remained in good shape through August.

Housing data released throughout the month signaled further weakening in that sector. Both new and existing home sales declined in July, with the latter (which accounts for about 85% of the housing market) falling for the fourth consecutive month. In addition, the weekly MBA index of purchase applications slipped for three consecutive weeks in August, dropping to its lowest level since November 2003.

The moderation in growth helped slow the acceleration in inflation. Core CPI edged up by 0.2% (its smallest gain in five months) in July, pushing its year-on-year increase to 2.7% from 2.6%. The core PCE deflator posted a 0.1% rise, translating into a year-on-year increase of 2.4% from 2.3% previously.

The U.S. Treasury yield curve was slightly more inverted on the month, as the spread between two- and five-year Treasury notes ended August at -9 basis points (bps), down from -6 bps at the end of July.

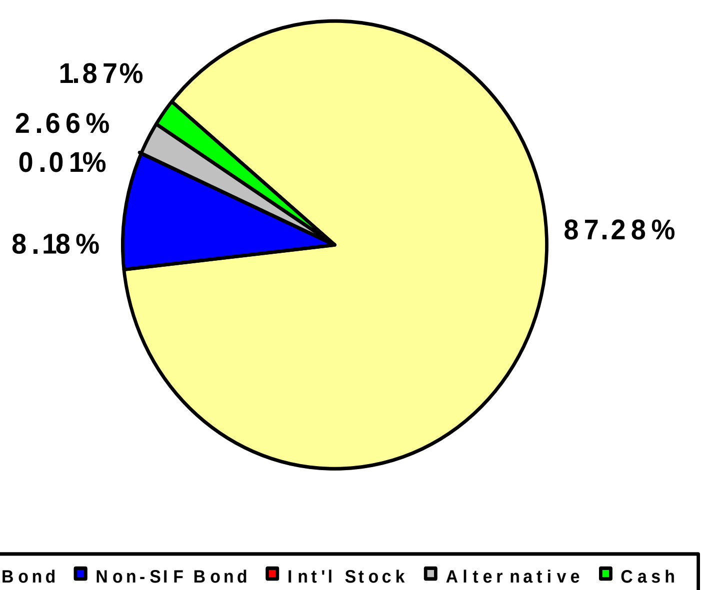
Outlook

We expect the Fed to stay on the sidelines in the September and October meetings and that the probability of further Fed tightening in the December meeting will be dependent on real economic data as opposed to price data. We look for Q3 GDP growth to range from 2.25% – 2.50% and for the manufacturing sector to remain healthy in the balance of the year as economic growth picks up overseas.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Portfolio Market Value & Asset Allocation
August, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	14,710,697,548	87.28%
Non-SIF Bond Total	$1,379,223,508	8.18%
International Stock Total*	$1,503,263	0.01%
Alternative Asset Total	$447,701,230	2.66%
Cash Reserve Total	$315,335,887	1.87%
GRAND TOTAL	**$16,854,461,436**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending August, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total Fund Investments	1.48%	1.53%	-0.05%	3.05%	3.12%	-0.07%	7.45%
Total Fund sans Alternatives	1.50%	1.53%	-0.03%	3.05%	3.12%	-0.07%	7.21%
Non-SIF Bonds	1.46%	1.53%	-0.07%	3.06%	3.12%	-0.06%	3.33%
SIF Bonds	1.52%	1.53%	-0.01%	3.10%	3.12%	-0.02%	3.14%
International Stocks	6.33%	N/A	N/A	8.13%	N/A	N/A	21.91%
Alternative	0.94%	N/A	N/A	1.49%	N/A	N/A	10.32%
Cash	0.24%	0.44%	-0.20%	2.40%	1.25%	1.15%	5.25%
Tranche #3 - TM	1.96%	1.53%	0.43%	20.41%	3.12%	17.29%	N/A

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

Summary of Investment Manager Fee Impact:

- Investment Manager fees dampened Total Performance of the Total Fund for the period by 0.01%

Ohio Bureau of Workers' Compensation
TOTAL FUND
Performance Measures
For the Month Ending August, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total Fund Investments	1.49%	1.53%	-0.04%	3.06%	3.12%	-0.06%	7.59%
Total Fund sans Alternatives	1.50%	1.53%	-0.03%	3.09%	3.12%	-0.03%	7.39%
Non-SIF Bonds	1.49%	1.53%	-0.04%	3.09%	3.12%	-0.03%	3.33%
SIF Bonds	1.52%	1.53%	-0.01%	3.10%	3.12%	-0.02%	3.14%
International Stocks	6.33%	N/A	N/A	8.13%	N/A	N/A	22.11%
Alternative	0.94%	N/A	N/A	1.47%	N/A	N/A	10.32%
Cash	0.51%	0.44%	0.07%	3.02%	1.25%	1.77%	5.93%
Tranche #3 - TM	1.96%	1.53%	0.43%	20.41%	3.12%	17.29%	N/A

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

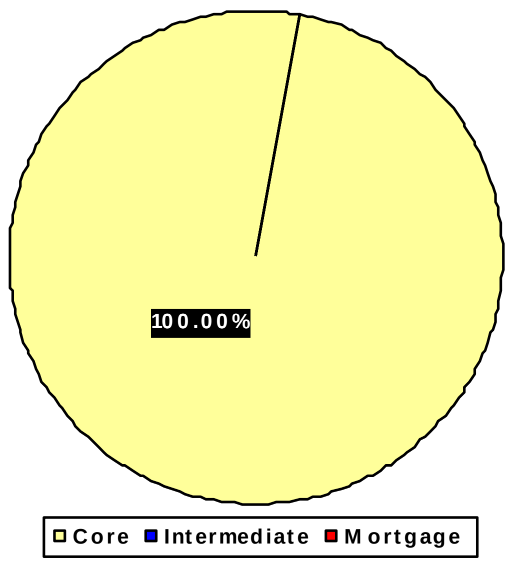
Summary of Monthly Performance Attribution:

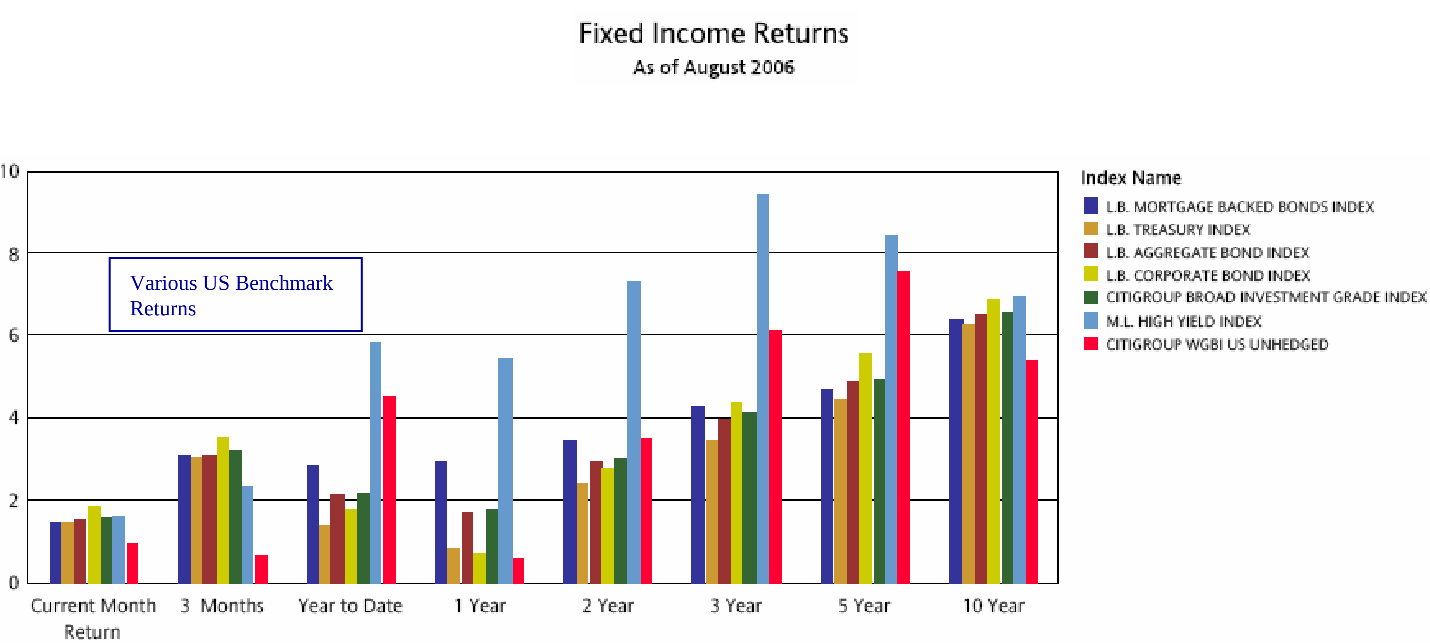
- **BWC's Total Fund underperformed its' Benchmark by 0.04% for the period.**
- **Performance Relative to Benchmark:**

    (-) BWC's Non-SIF Bond Portfolio underperformed its' Benchmark for the current period.

    (-) BWC's SIF Bond Portfolio underperformed its' Benchmark for the current period.

Ohio Bureau of Workers' Compensation
TOTAL FUND
Fixed Income Allocation & Returns
August, 2006

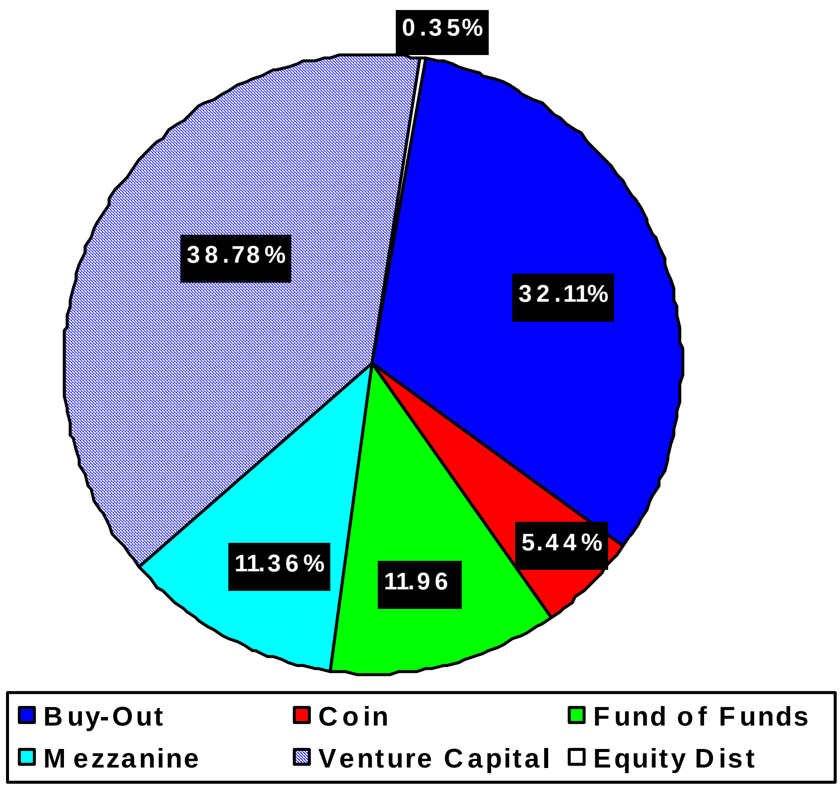




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
TOTAL FUND
Alternative Asset Allocation
August, 2006



Ohio Bureau of Workers' Compensation
TOTAL FUND
Fees Paid in the month of August, 2006

Manager	Type	Fees Paid	Period Paid for
State Street Global Advisors	Int'l Equity	$55,857.44	1st Qtr 2006
Reams Asset Mgmt	Bonds	$17,910.00	1st Qtr 2006
JPMorgan Asset Management	Bonds	$129,099.70	1st Qtr 2006
JPMorgan Asset Management	Bonds	$313,340.95	4th Qtr 2005
JPMorgan Asset Management	Bonds	$179,906.97	3rd Qtr 2005
JPMorgan Asset Management	Equity	$107,546.53	4th Qtr 2005
JPMorgan Asset Management	Equity	$105,494.60	3rd Qtr 2005
Cordillera Asset Management	Equity	$42,541.07	4th Qtr 2005
BlackRock Financial Management	Bonds	$36,518.00	1st Qtr 2006
BlackRock Financial Management	Bonds	$105,602.00	4th Qtr 2005
Total Fees Paid		**$1,093,817.26**	

OHIO BUREAU OF WORKERS' COMPENSATION
State Insurance Fund
July, 2006
Executive Summary

Domestic Fixed Income Overview:

Overall, the economic reports released throughout the month pointed to a slowdown in the pace of economic activity. The relatively weak increase in Q2 real GDP growth of 2.5% was the result of surprisingly soft capital spending and a slower pace of inventory accumulation, confirming the beginning of the downshift in growth. Despite the usual noise in initial jobless claims data due to distortions caused by the annual auto plant retooling shutdowns, some of July's labor market data pointed to slightly softer labor market conditions. Payrolls increased by 121,000 in the month of June, a rise that is not necessarily weak but one still much lower than the 170,000 – 190,000 gains earlier in the year. The unemployment rate remained unchanged at 4.6%. Nonetheless, consumer confidence remained solid, with the July Conference Board Consumer Confidence index edging up to 106.5 from 105.4 in the previous month. The ISM manufacturing index rebounded to a still-healthy 54.7 the same month

Housing data released in July was consistent with a continued slowdown in the housing sector. Both new and existing homes sales declined, with the latter falling for the third consecutive month. Housing starts slipped another 5.3% in June and have fallen a total of 19.2% since February. Months' supply of new and existing homes increased to 6.1 and 6.8 months, respectively. This indicator, a key measure in the softening housing market, shows how long the current inventory of homes on the market would last given the current sales rate if no additional new houses were built.

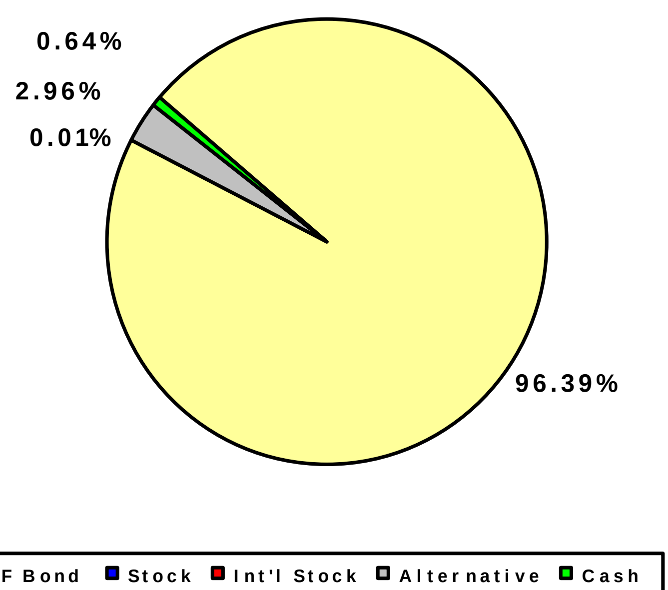
Inflation pressures continued to accelerate in June. The core CPI continued its uptrend, rising by 0.3% for the fourth consecutive month. Year-on-year, the index is now up 2.6%. The core PCE deflator edged up another 0.2% and is now up 2.4% since last year.

The U.S. Treasury yield curve was unchanged during the month, as the spread between two- and five-year Treasury notes ended June and July at -6 basis points (bps).

Ohio Bureau of Workers' Compensation
State Insurance Fund
Portfolio Market Value & Asset Allocation
July, 2006

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	14,490,814,835	96.39%
International Stock Total*	$1,758,786	0.01%
Alternative Asset Total	$444,519,910	2.96%
Cash Reserve Total	$96,931,763	0.64%
GRAND TOTAL	**$15,034,025,295**	



*International Equity Holdings are comprised of dividend and tax reclaim receivables from previous international equity investments and international currencies resulting from such payments

Ohio Bureau of Workers' Compensation
State Insurance Fund
Performance Measures
For the Month Ending July, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total SIF Investments	1.33%	1.35%	-0.02%	1.53%	1.46%	0.07%	6.35%
SIF Bonds	1.35%	1.35%	0.00%	1.44%	1.46%	-0.02%	2.44%
International Stocks	0.81%	N/A	N/A	-4.52%	N/A	N/A	18.12%
Alternative	-0.02%	N/A	N/A	4.82%	N/A	N/A	8.47%
Cash	1.43%	0.42%	1.01%	2.03%	1.22%	0.81%	5.30%
Tranche #3 - TM	24.49%	1.35%	23.14%	15.91%	1.46%	14.45%	N/A

BENCHMARK INFORMATION:

- Lehman Brothers Aggregate Index
- M.L. 3 Month US T-Bill

Summary of Investment Manager Fee Impact:

- Investment Manager fees had no impact on the performance of the SIF for the period

JPMorgan

Ohio Bureau of Workers' Compensation
State Insurance Fund
Performance Measures
For the Month Ending July, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total SIF Investments	1.33%	1.35%	-0.02%	1.54%	1.46%	0.08%	6.54%
SIF Bonds	1.35%	1.35%	0.00%	1.44%	1.46%	-0.02%	2.44%
International Stocks	0.81%	N/A	N/A	-4.52%	N/A	N/A	18.32%
Alternative	-0.03%	N/A	N/A	4.80%	N/A	N/A	8.47%
Cash	1.62%	0.42%	1.20%	2.43%	1.22%	1.21%	5.71%
Tranche #3 - TM	24.49%	1.35%	23.14%	15.91%	1.46%	14.45%	N/A

BENCHMARK INFORMATION:

•Lehman Brothers Aggregate Index

•M.L. 3 Month US T-Bill

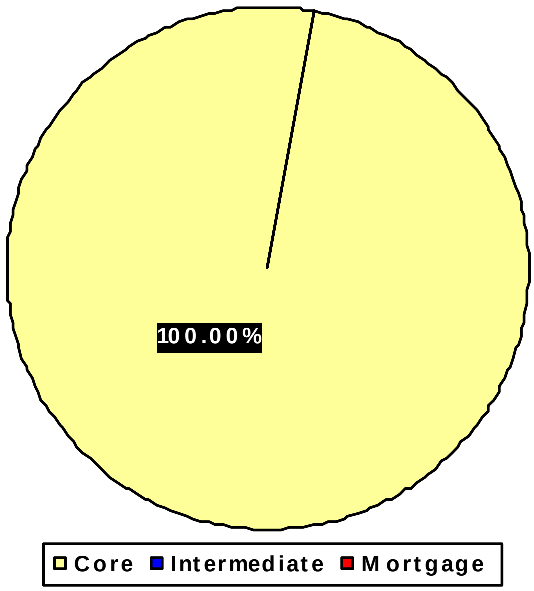
Summary of Monthly Performance Attribution:

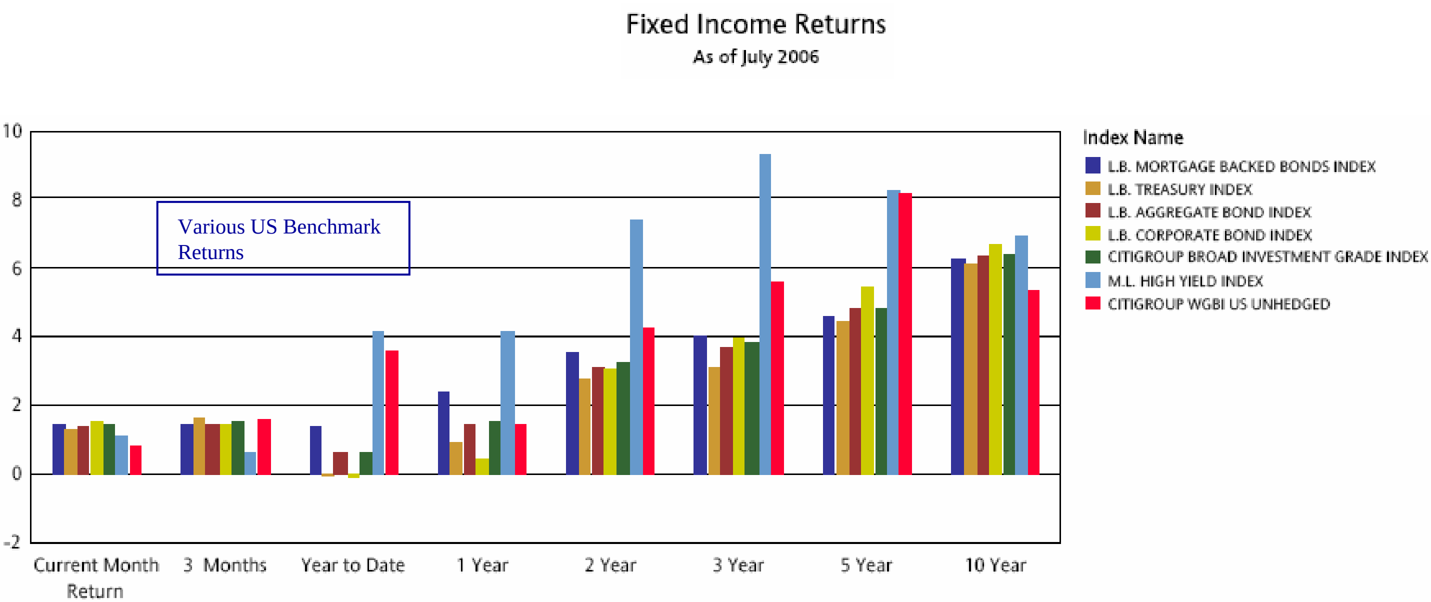
•BWC's Total SIF performed comparably with its' Benchmark for the period.

•Performance Relative to Benchmark Performance:

(+) BWC's SIF Bond Portfolio performed comparably to its' Benchmark for the current period.

Ohio Bureau of Workers' Compensation
State Insurance Fund
Fixed Income Allocation & Returns
July, 2006

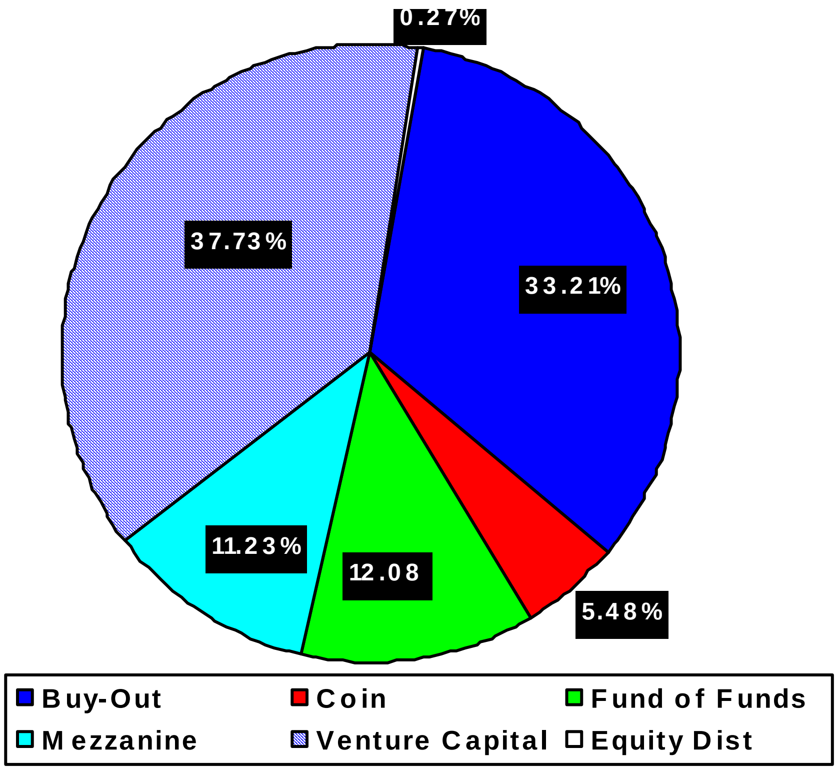




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

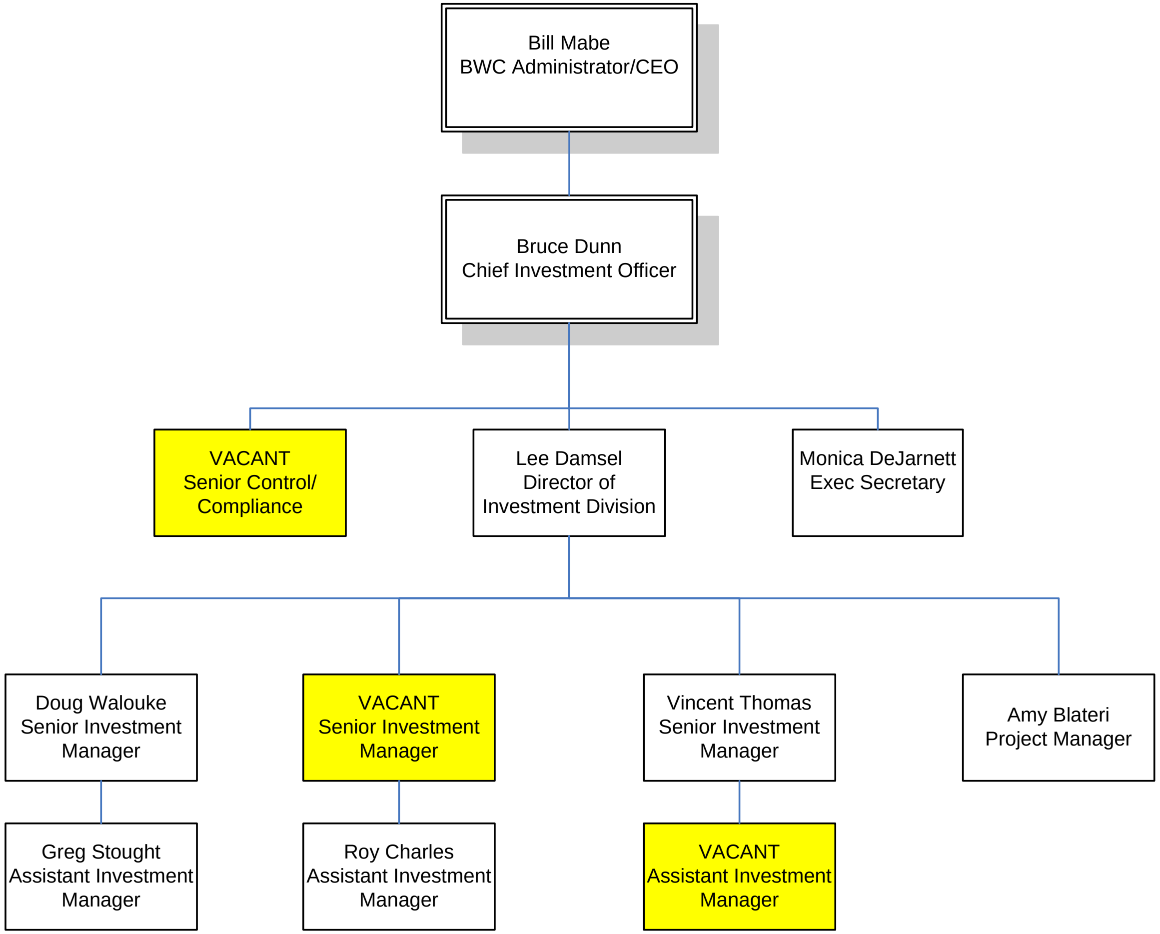
Ohio Bureau of Workers' Compensation
State Insurance Fund
Alternative Asset Allocation
July, 2006



Ohio Bureau of Workers' Compensation
State Insurance Fund
Fees Paid in the month of
July, 2006

Manager	Type	Fees Paid	Period Paid for
Western Asset Mgmt. Co.	Bond	$165,750.06	1st Qt 2006
Total Fees Paid		**$165,750.06**	

BWC INVESTMENT DIVISION
Table of Organization
8/07/06



BWC State Insurance Fund
RFP Timelines

BWC SIF ASSETS

Passive Management	September-06	October-06	November-06	December-06	January-07	February-07	March-07	April-07
$4.0 Billion	Passive Long Duration Fixed Income							
$3.0 Billion	Passive U.S. TIPS							
$1.8 Billion	Passive U.S. Large Cap Equity							
$0.2 Billion	Passive Non-U.S. Equity							
$9.0 Billion (Passive Total)								
Active Management								
$4.1 Billion			Active Long Duration Fixed Income					
$0.6 Billion				Active Non-U.S. Equity				
$0.5 Billion					Active Small/Mid Cap U.S. Equity			
$0.8 Billion						Active High Yield Fixed Income		
$6.0 Billion (Active Total)								
$15.0 Billion (Grand Total)								

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

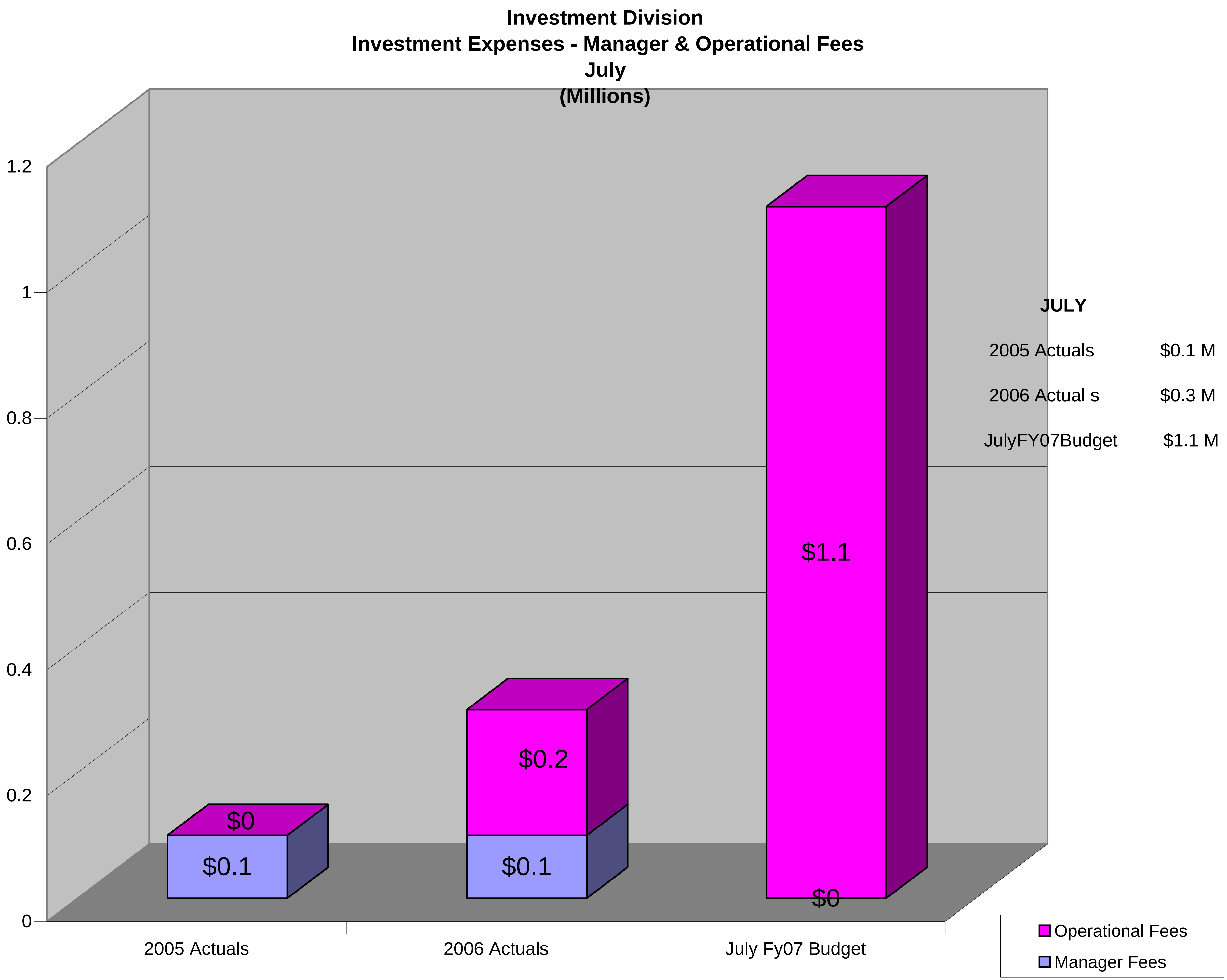
BWC INVESTMENT DIVISION
NEW STAFF ADDITIONS
AUGUST 2006

Douglas Walouke, CFA, Senior Investment Manager

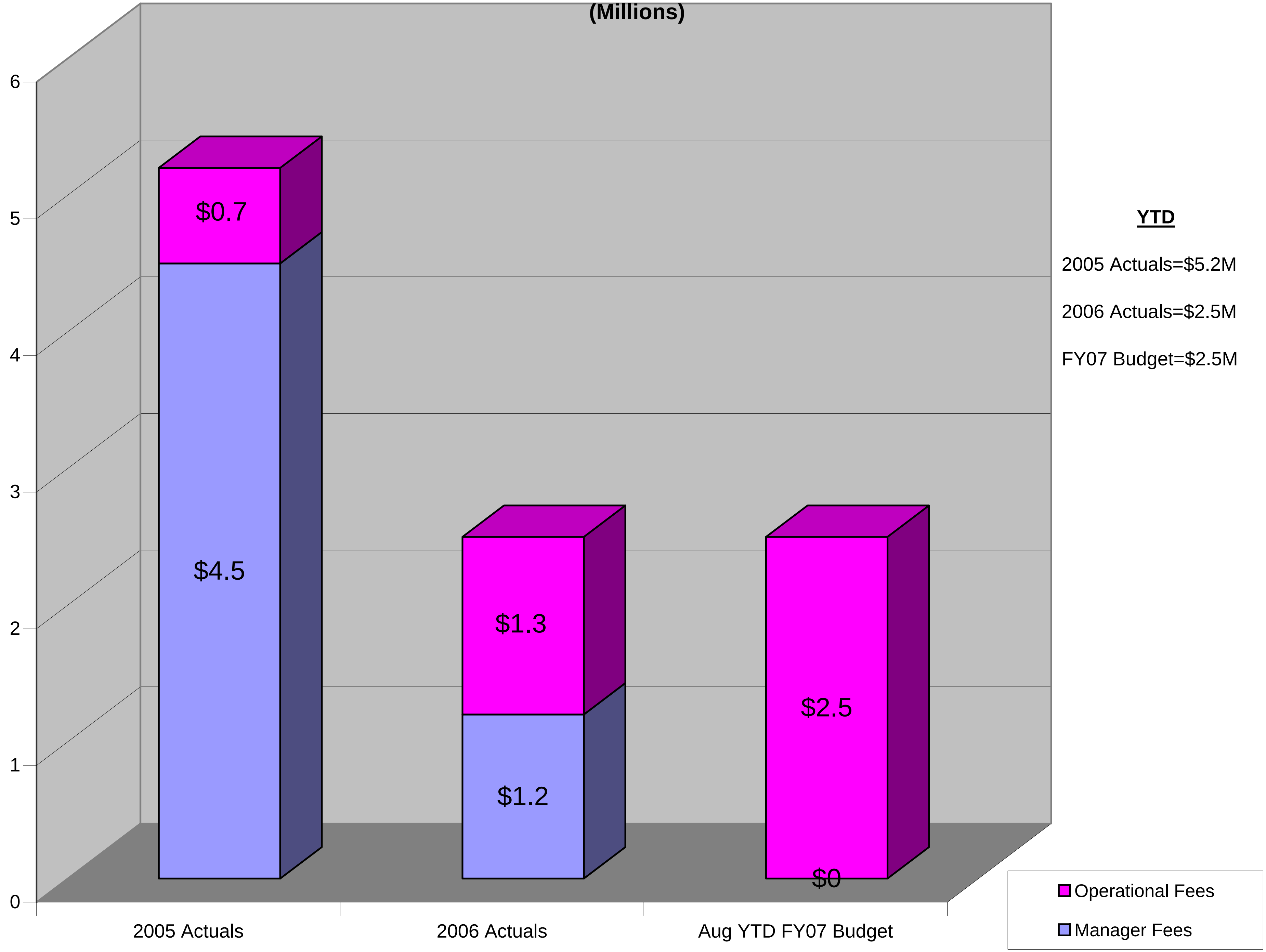
Doug Walouke joined BWC on August 7, 2006 as a Senior Investment Manager. Doug has 15 years of experience as a portfolio manager, fixed income trader, equity research analyst, and investment banker with Banc One Corp, The Ohio Company, and Hilliard Lyons. He is a Chartered Financial Analyst (CFA) and has been a long-time Board Member and recent President of the CFA Society of Columbus. Doug earned his BBA in Finance with a minor in Economics from the University of Cincinnati.

Gregory Stought, Assistant Investment Manager

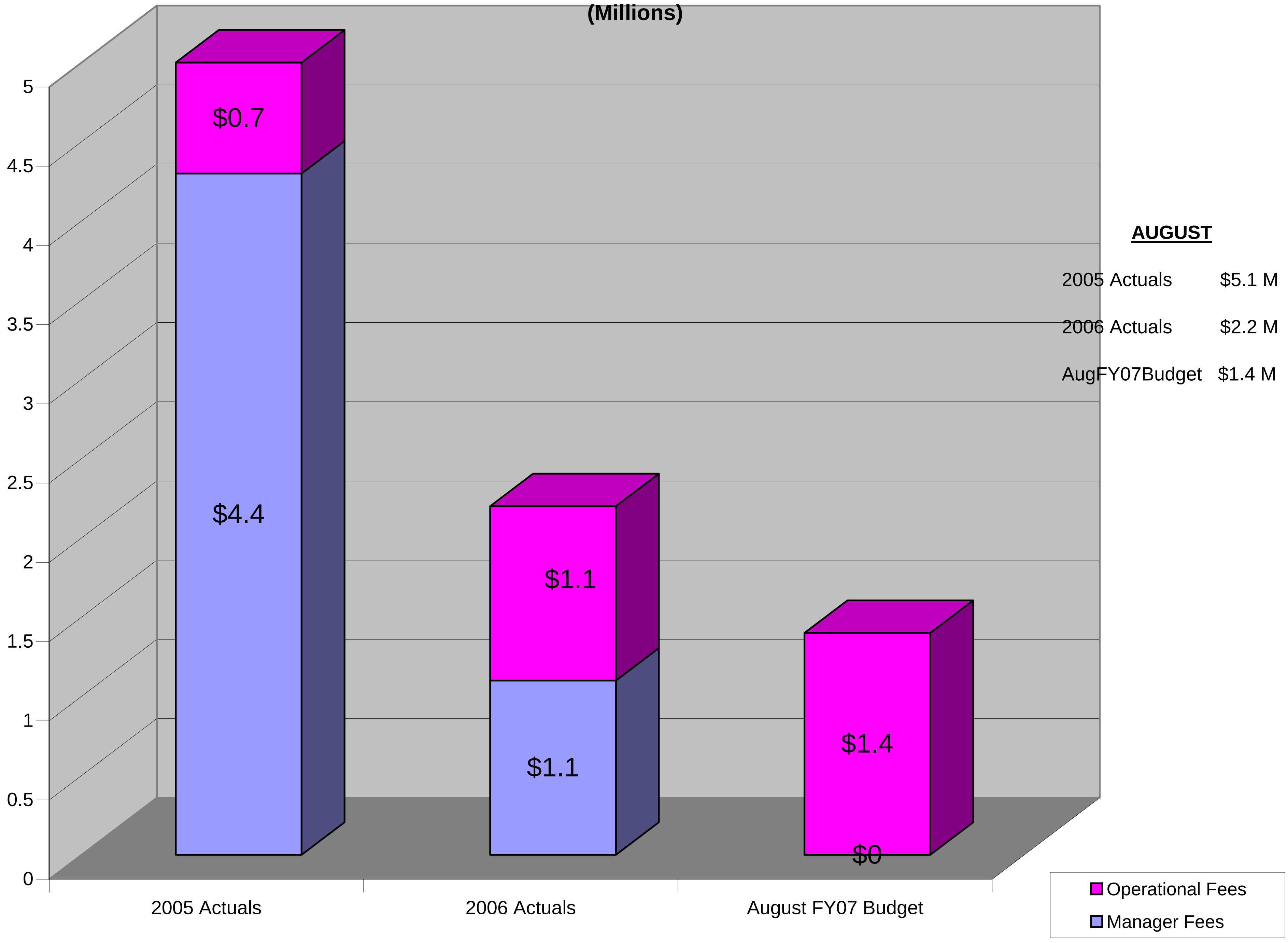
Greg Stought joined BWC on August 7, 2006 as an Assistant Investment Manager. Greg has over 7 years of investment industry experience as an investment analyst, investment accountant, portfolio control associate, and proprietary equity trader with Goldman Sachs, Bank of New York, Hold Brothers, and Prudential Investments. Greg has recently passed Level III of the CFA (Chartered Financial Analyst) exam and his charter is pending approval. He also holds series 7, 66, and 55 licenses. Greg earned his BSBA in Finance from Ohio State University.


Investment Division
Investment Expenses - Manager & Operational Fees
July
(Millions)
1.2
1
0.8
0.6
0.4
0.2
0
$0
$0.1
$0.2
$0.1
$1.1
$0
2005 Actuals
2006 Actuals
July Fy07 Budget
JULY
2005 Actuals $0.1 M
2006 Actual s $0.3 M
JulyFY07Budget $1.1 M
Operational Fees
Manager Fees

Investment Division
Investment Expenses - Manager & Operational Fees
FY06 vs FY07 (July-Aug) YTD
(Millions)



Investment Division
Investment Expenses - Manager & Operational Fees
August
(Millions)



AUGUST

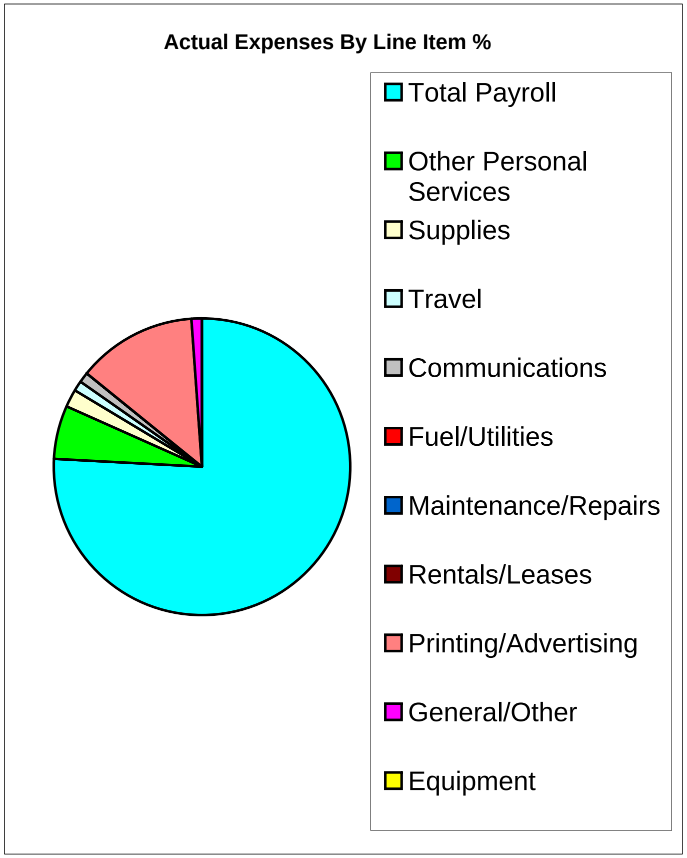
2005 Actuals	$5.1 M
2006 Actuals	$2.2 M
AugFY07Budget	$1.4 M

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

	Year-to-Date			Total 2006		
	[2]	[3]	[4]	[6]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	160,771	171,223	10,452	201,943	1,137,767	935,824
Maintenance (200)	36,146	45,596	9,450	39,665	273,582	233,917
Equipment (300)	-	-	-	10,958	300,000	289,042
Total	196,917	216,819	19,902	252,566	1,711,349	1,458,783

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	149,421	149,421	-
Purchased Services (13)	10,955	19,936	8,981
Other Personal Services (15)	395	1,866	1,471
Total Personal Services	160,771	171,223	10,452
Supplies (21 +21I)	3,679	2,070	(1,609)
Travel (23)	2,432	7,710	5,278
Communications (24 + 24I)	2,063	1,112	(951)
Fuel/Utilities (25)	-	-	-
Maintenance/Repairs (26)	-	2,014	2,014
Rentals/Leases (27)	-	6,574	6,574
Printing/Advertising (28 +28I)	25,907	15,492	(10,415)
General/Other (22 +22i +29 + 29I)	2,065	10,624	8,559
Total Maintenance	36,146	45,596	9,450
			-
Office Equipment (31)	-	-	-
Communic. Equipment (34)	-	-	-
Data Process Equipment (37 + 37i)	-	-	-
Other Equipment (30+32+35+36+38+39)	-	-	-
Total Equipment	-	-	-
Grand Total	196,917	216,819	19,902



IC
CIO Reports Calendar

Documents for this section will be provided the day of the meeting.

Workers' Compensation Oversight Commission

INVESTMENT DIVISION

TO:	Bill Mabe, Administrator/CEO Mike Koetters, Chairman, Investment Committee Denise Farkas, Investment Committee Win McCausland, Investment Committee Bill Sopko, Investment Committee
FROM:	Bruce Dunn, Chief Investment Officer
DATE:	September 20, 2006
SUBJECT:	CIO Report for August, 2006

The Investment Division in August, 2006 continued to work on many important investment initiatives/directives given by the WCOC Investment Committee and Administrator Mabe. This report summarizes some of these activities, issues, and action plans relating to the Ohio Bureau of Workers' Compensation Investment Division.

2006 Strategic Initiatives

The Investment Division has the following 2006/2007 goals:

1.	Transition BWC's portfolio to a fixed income allocation while increasing annual cash income by a stated goal of $100 million.	12/31/06	TRANSITION COMPLETED
2.	Establish a new BWC internal investment organization for restructured portfolio	12/31/06*	
3.	Create and implement a new monthly reporting system by outsourcing to custodian	03/31/06	COMPLETED
4.	Establish proper investment controls and procedures to protect the assets of the State Insurance Fund	12/31/06	
5.	Establish new investment accounting process for the restructured portfolio	12/31/06**	

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

Strategic Initiative One- TRANSITION COMPLETED

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

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

2006 YTD ending August 31 was $151.4 million higher for 2006 versus 2005, thus achieving in the first eight months of calendar year 2006 a level significantly higher than the comparable period target for this entire calendar year.

Strategic Initiative Two

Training continues for the two newest senior and assistant investment managers of the Investment Division. Two other investment managers, with six and five years of tenure within the Investment Division, were reassigned to other Divisions within BWC effective May 30, 2006. These reassigned investment managers have now been replaced with the hiring of two new investment managers, Doug Walouke (Senior Investment Manager) and Greg Stought (Assistant Investment Manager), who both joined the Investment Division team on August 7, 2006. A brief biographical sketch for both Doug and Greg is included in the tab providing the updated BWC Investment Division Table of Organization that reflects these staff changes. Further additions to staff will occur during the remainder of 2006, as the Investment Division executes the new Investment Policy approved last month.

Temporary personnel continues to focus on assisting in the organization of the private equity files and in fulfilling both internal and external requests for additional information on past investment and trading activities. The imaging of all the private equity files and documents is essentially completed for the process of supporting UBS towards the objective of selling the private equity funds.

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

Strategic Initiative Four

The WCOC/IC approved a new Investment Policy at the April 27, 2006 meeting. This Investment Policy was amended at the July 20, 2006 meeting with respect to the State Insurance Fund, allowing for both active equity and passive equity managed investments as well as new fixed income asset sectors to be managed with a combination of active and passive managers. The Internal Audit Division will be 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 last month.

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

Strategic Initiative Five

Increase priority is now being given to the review and possible selection of a new investment accounting system. The higher importance of an improved investment accounting system is a result of the approval of the new Investment Policy at the July 20, 2006 meeting. The project plan for the possible selection and purchase of a new investment accounting system is being accelerated with the anticipation that a RFP on this matter will be issued by no later than October, 2006. The Investment Division will be involved with Financial Reporting/Accounting, IT and Internal Audit for the support and development of the project plan.

Compliance

A general report discussing securities lending by Wilshire Associates as well as a securities lending report previously provided by State Street to the Investment Committee in April 2006 is provided in the appropriate tab. In addition, this tab includes a report providing relevant summary information and results for BWC of the securities lending activity coordinated by State Street in serving in its capacity as manager of the Ohio Passive Bond Market Index Fund from April 1, 2006 inception through August 31, 2006. There is a resolution before the IC/WCOC members at the scheduled September 28, 2006 meetings to amend section IV.B.vii of the BWC Investment Policy and Guidelines which states that the WCOC will review the appropriateness of the Fund's securities lending activities and expects to make a final decision on its continued use by June 2006.

Private Equity Sale Update

At the IC/WCOC meetings of August 24, 2006, UBS Securities LLC was approved to represent BWC as agent in the potential sale of some or all of its private equity funds. The contract of engagement was executed the day of approval. This contract had a commencement date of September 11, 2006. UBS is currently in the information gathering stage of receiving and reviewing the appropriate BWC private equity files. BWC is in the process of selecting an outside counsel to represent it in this potential sale.

Transition Manager RFP Update

A Transition Manager RFP timeline was presented to the IC/WCOC at the June 16, 2006 meetings. This RFP was issued on June 30, 2006 with a stated deadline of July 20, 2006 for submissions of proposals. BWC received ten qualified submissions for proposals and selected six finalist candidates who were each interviewed on August 8 and 9, 2006. The six finalist candidates were narrowed down further to four finalists who were each interviewed further at on-site due diligence visits with each respective team. It is being recommended by both Wilshire Associates and the BWC Investment Division at the scheduled IC/WCOC meetings on September 28, 2006 that three Transition Manager finalists be approved to be engaged by BWC. These transition managers would be selected to oversee and effectively manage one or more of the many specific investment asset class exchanges anticipated in fulfilment of the new Investment Policy approved at the July 20, 2006 WCOC meeting. See Transition Manager RFP Process tab for details.

Index Manager RFP Update

An initial Index Manager RFP timeline was presented to the IC/WCOC at the June 16, 2006 meetings. The initial timeline was predicated on the presentation/approval of the Consultant's (Wilshire) asset liability study/proposal at the June, 2006 meetings. The anticipated approval vote at the June meeting was delayed one month to the July 20, 2006 WCOC/IC meeting. This necessitated a delay in the initial timeline for the index manager search. The asset allocation approved at the July 20, 2006 meeting was further recommended by the Consultant (Wilshire) as to the mandate and percentage requirements for index management. 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. See RFP update tab for the revised timeline reflecting the use of additional index managers as per the new investment policy.

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 it now appears that the Columbus Dispatch will enter settlement agreements with each of the private equity funds. The private equity funds are releasing Tabs 4 and 5 of the Ennis Knupp Report to the Columbus Dispatch with slight redactions. BWC is consenting to the settlements. The impact is that BWC and the WCOC members should not release to the public the full version of Tabs 4 and 5 from the final Ennis Knupp Report. For any future public records request, BWC will provide only the agreed upon version of those Tabs for the Funds.

Legislative Updates/HB66 Compliance

This legislature is expected to reconvene November 14, 2006. Both the Ohio House of Representatives and the Ohio Senate have scheduled legislative session throughout the months of November and December. The items below have been introduced during the 126th General Assembly. Each bill references the BWC investment program.

SCR 21 (Dann)
This resolution would require the return of all political contributions made by Thomas Noe.

This resolution has not been assigned to a committee

SB 151 (Dann)
This bill would require the Ohio Retirement Study Council to oversee investment of funds under the Workers' Compensation Law and approve contracts entered into concerning the investment of those funds, to change the investment authority of the Administrator of Workers' Compensation, to establish restrictions concerning contracts for the investment of those funds, to require that criminal records checks be conducted on persons involved with the investment of those funds, to prohibit the Administrator from awarding a contract for the investment of those funds to an investment manager or business entity who has made specified campaign contributions, and to prohibit certain state officials from soliciting or accepting campaign contributions from those investment managers or business entities.

Currently in Senate Insurance, Commerce & Labor Committee
No hearings scheduled at this time

SB 282 (Fingerhut)
This bill was introduced on March 7, 2006. This bill would require the WCOC to employ its own professional and clerical staff rather than use staff provided by the Administrator of Workers' Compensation, and to require the WCOC to adopt rules to establish the objectives, policies, and criteria for the investment program of the BWC.

Currently in Senate Insurance, Commerce & Labor Committee
No hearings scheduled at this time

HB 354 (Patton)
This bill would require that any state agency with the authority to invest state funds to report on those investments using the Global Investment Performance Standards established by the CFA Institute.

Currently in House State Government Committee
No hearings scheduled at this time

HB 376 (Patton)
This bill would create the Workers' Compensation Investment Board and would transfer the Workers' Compensation Oversight Commission's powers and duties regarding the investment program of the Bureau of Workers' Compensation to the Investment Board.

Currently in House State Government Committee
No hearings scheduled at this time

HCR 23 (Redfern)
This resolution would establish a committee to investigate BWC malfeasance.

Currently in House State Government Committee
No hearings scheduled at this time.

HB 66 Compliance
BWC has continued to work with all parties to ensure that HB 66 if fully implemented throughout BWC.

SB 7 (Cates)

SB 7 took effect June 30, 2006; however, half of the provisions are subject to the referendum effort spearheaded by the Committee to Protect Injured Workers, Widows and Orphans. On June 29, 2006, the Committee to Protect Injured Workers, Widows and Orphans filed signatures with the Secretary of State (SOS). This group did not attain the required amount of signatures and a 10 day time period was provided to gather the remaining signatures. The group filed 103,000 additional signatures on September 15. The Secretary of State's Office is currently in the process of validating the additional signatures.

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

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

BWC STATE INSURANCE FUND
INVESTED ASSET SECTOR TRANSITION

Above excludes Cash Assets targeted at 1% of Total Assets or $150 million

Appendix XI

OBWC State Insurance Fund Asset-Liability Valuation – Final

WCOC Presentation

July 20, 2006

Mark E. Brubaker, CFA
Managing Director

Julia Bonafede, CFA
Senior Managing Director

Agenda

I. Recommended Asset Mix

Recommendation

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

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

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

II. Legislative Background and Purpose

Legislative Background: OBWC Purpose and WCOC Duties

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

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

Legislative Background: Premiums and Surplus

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

Definitions

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

What is Ohio Bureau of Workers' Compensation?

Insurance Company

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

Other?

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

III. Asset-Liability Valuation Background

What is Asset Allocation?

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

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

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

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

A Multitude of Risks

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

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

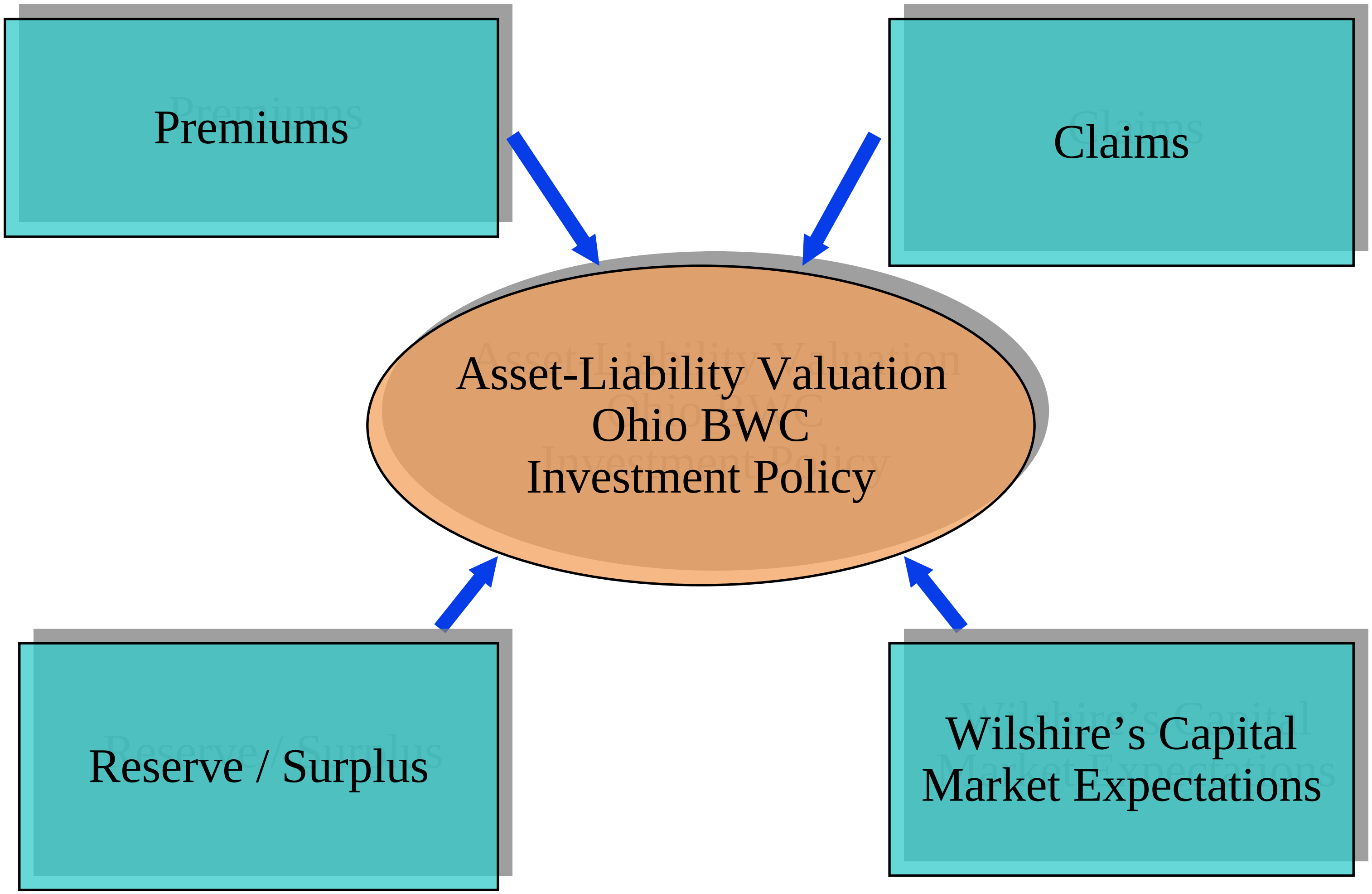
Example 2 - Risk of Mismatch Between Assets and "Accounting" Liabilities

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

Example 3 - Insufficient Asset Risk

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

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



Current BWC Accounting Status

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

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

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

Net Assets ($ mm)	870.00

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

Source: BWC Financial and Operational Report – March 2006

IV. Capital Markets Expectations and Efficient Frontier

A Long Term Capital Market Perspective

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

Wilshire's 10-Year Capital Market Assumptions

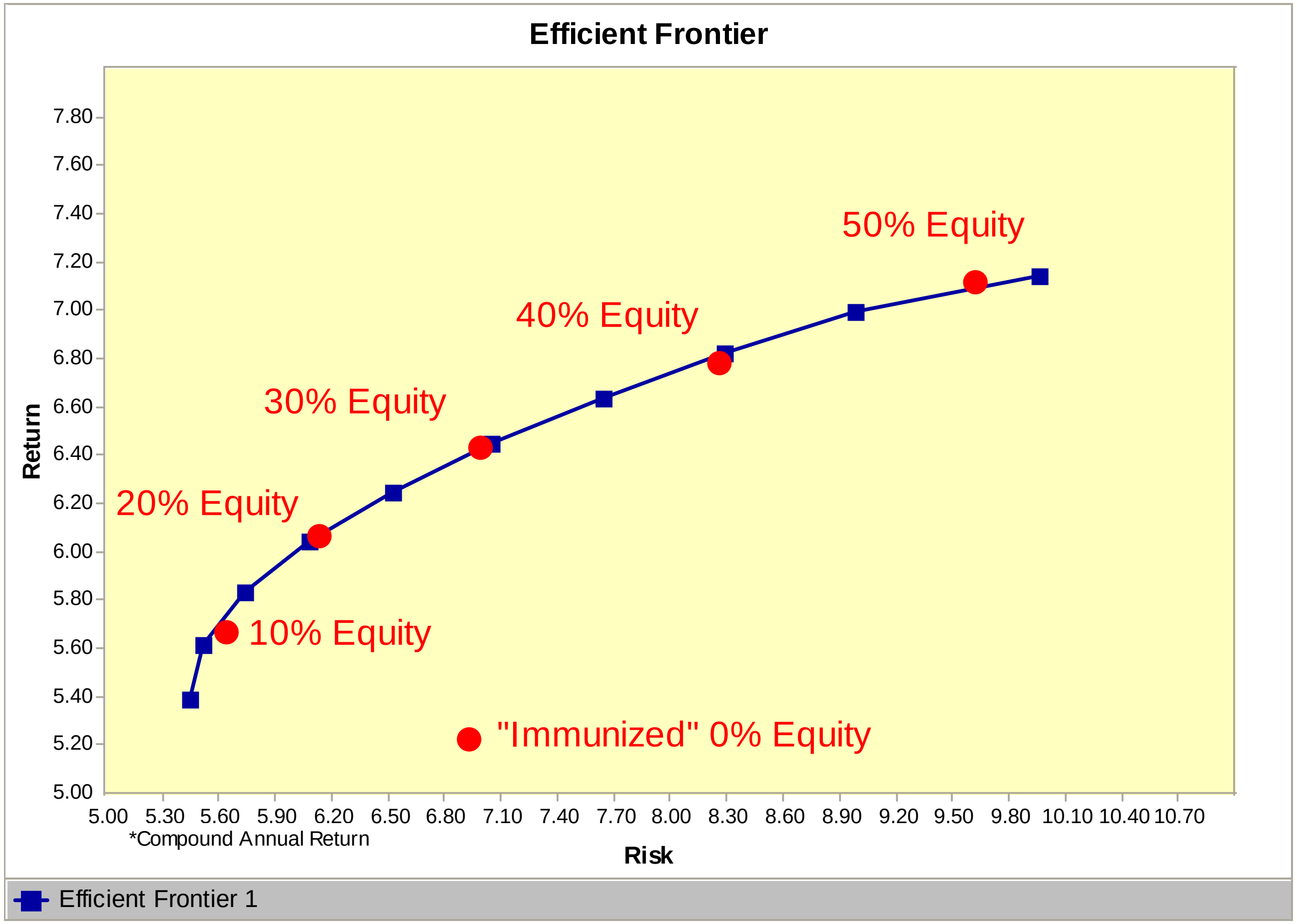
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00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

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

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

Efficient Frontier

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



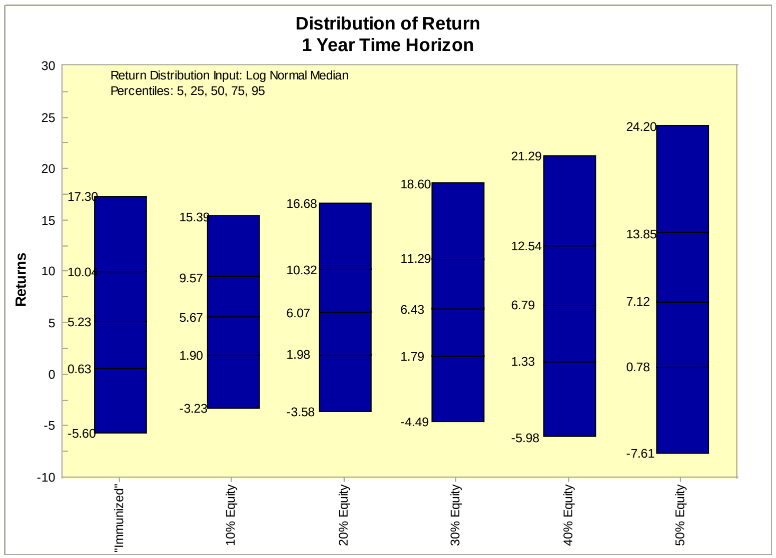
Efficient Portfolios

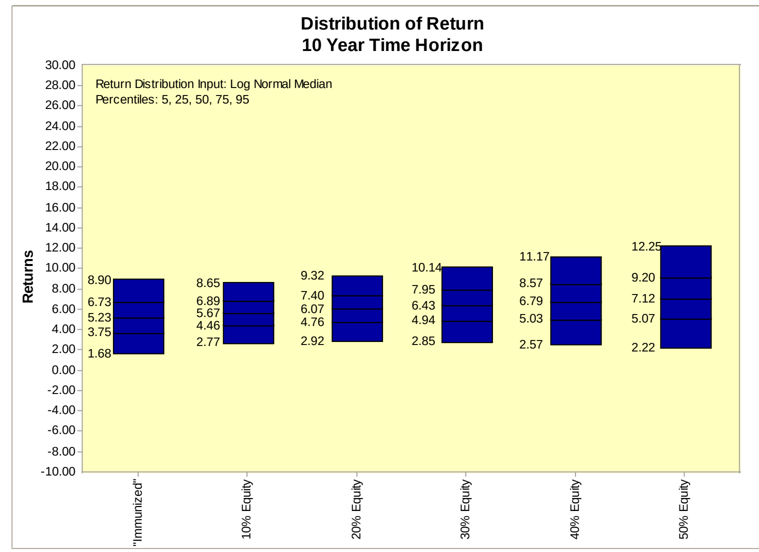
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income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

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

1 and 10-Year Distribution of Expected Returns

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





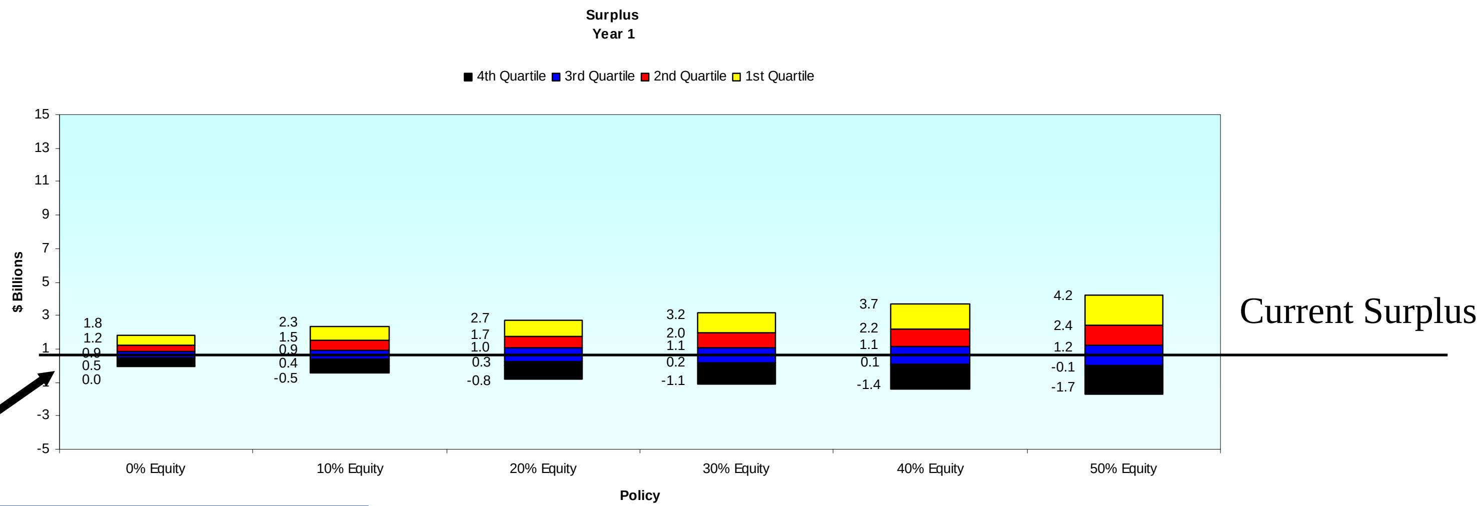
	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
1 Year	Top 5%	17.3	15.4	16.7	18.6	21.3	24.2
	Top Quartile	10.0	9.6	10.3	11.3	12.5	13.9
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	0.6	1.9	2.0	1.8	1.3	0.8
	Bottom 5%	-5.6	-3.2	-3.6	-4.5	-6.0	-7.6

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

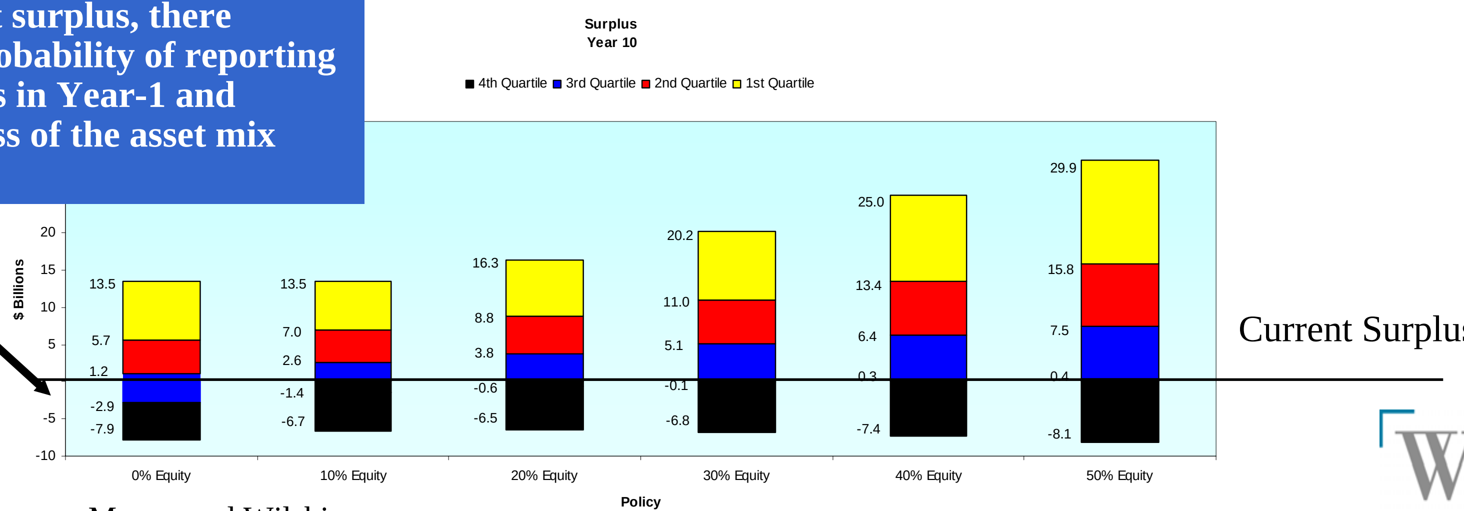
V. Asset-Liability Modeling

Stochastic Simulation of Surplus: Year 1 and Year 10

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



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



Source: Mercer and Wilshire

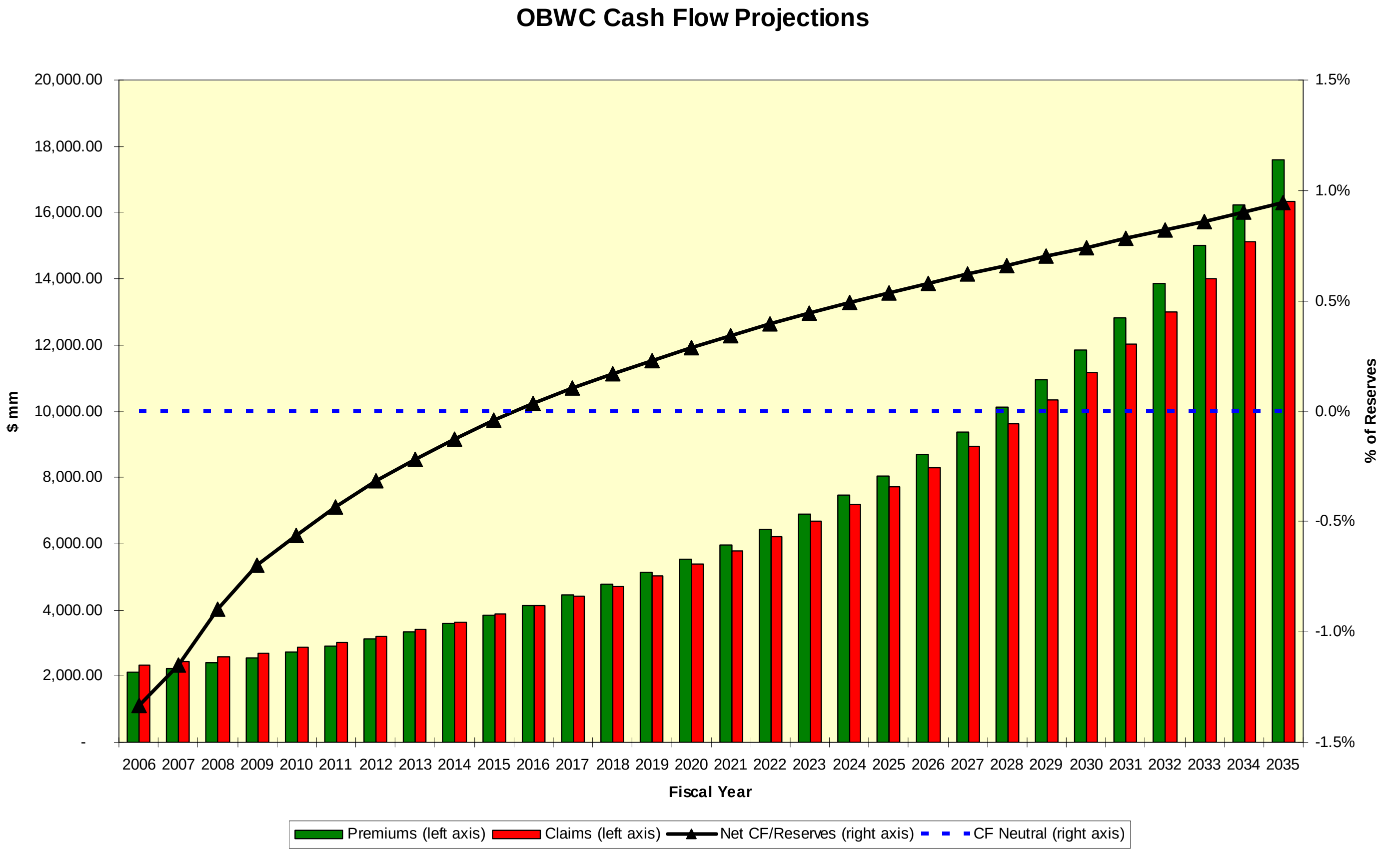
Potential Outcomes: Surplus

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

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

OBWC Cash Flow Projections

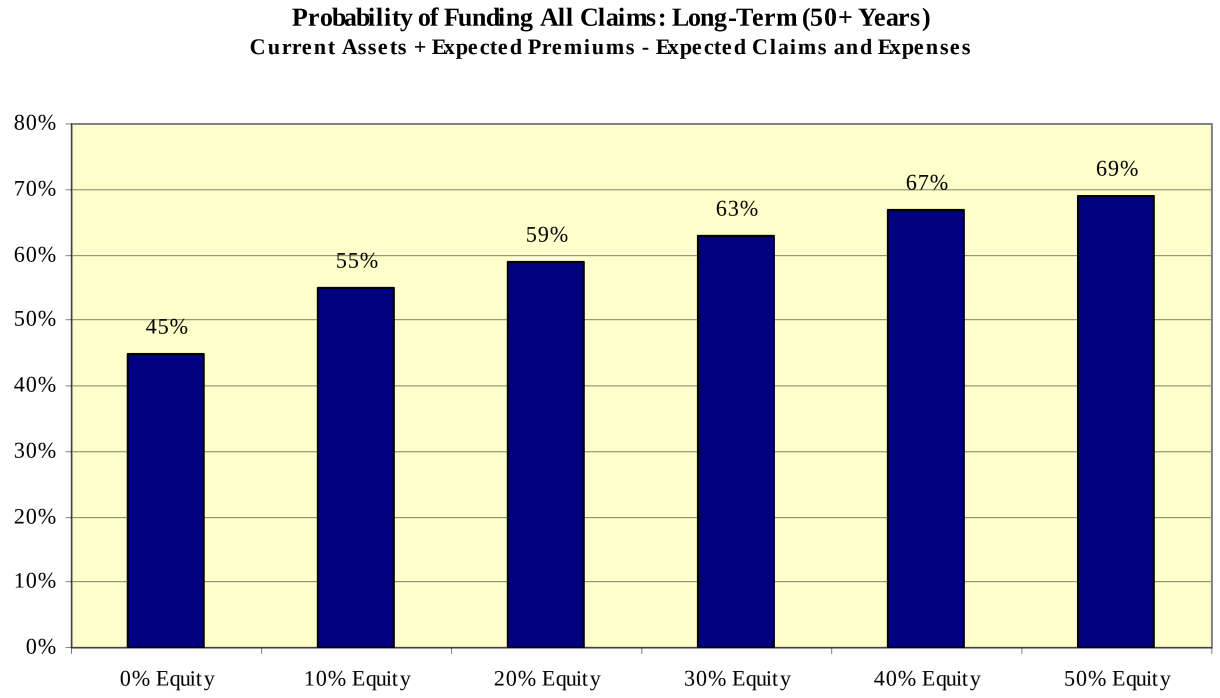
- Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows
- This illustration excludes expected investment income



Source: Mercer Oliver Wyman Projections

Probability of Success

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



Observations

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

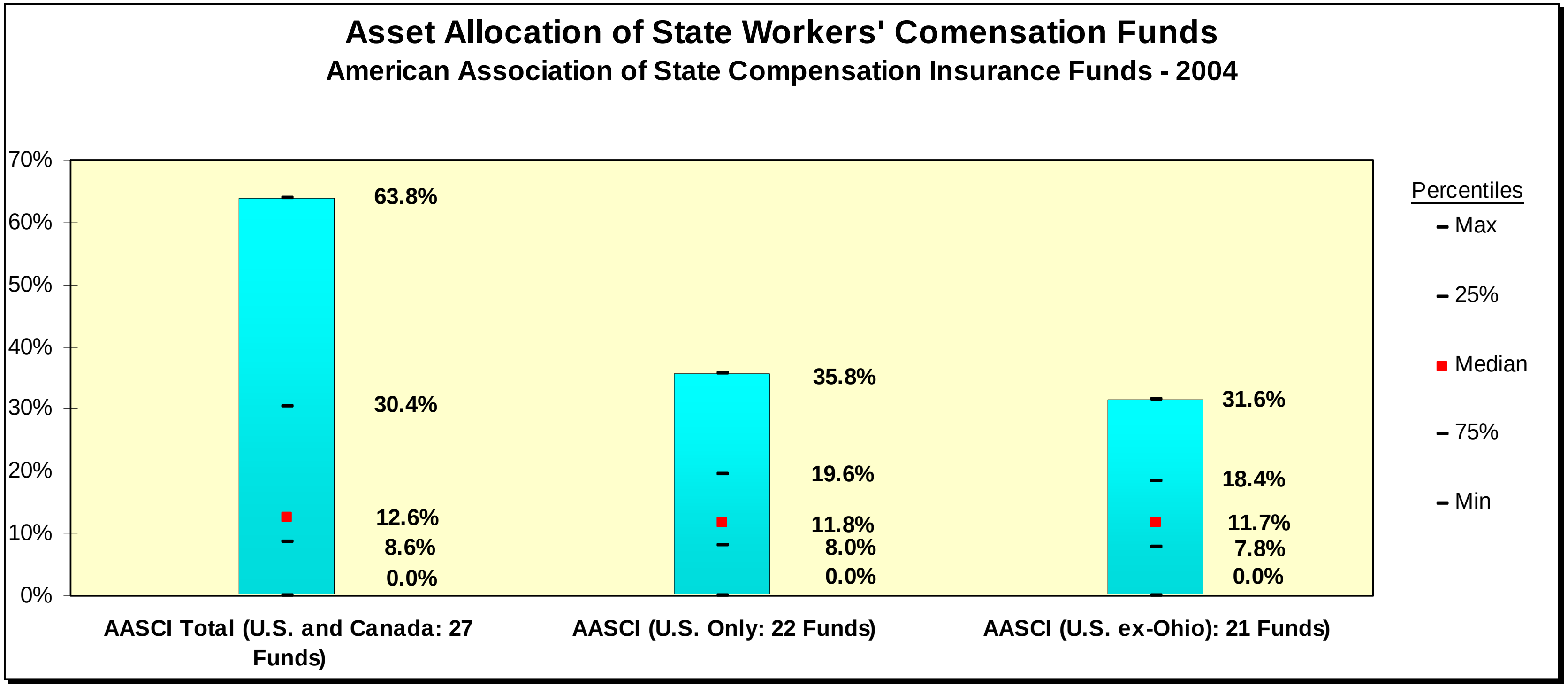
VI. Industry Peer Comparisons

Legislative Background: Industry Standards

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

Industry Comparison

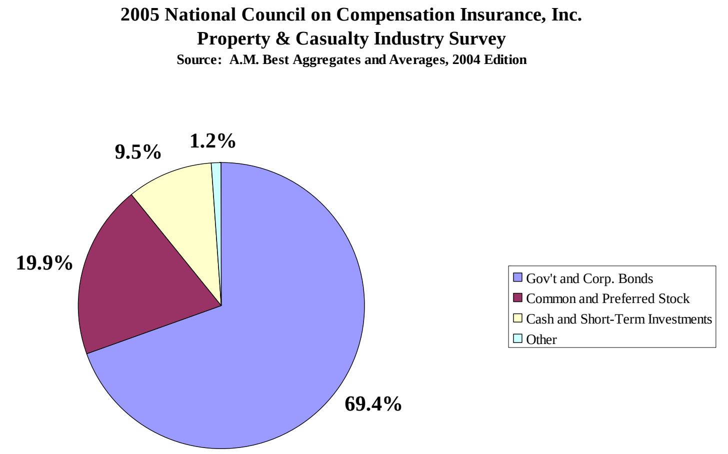
- The American Association of State Workers' Compensation Funds 2005 Survey (based on year-end 2004 data) provides the range of equity allocations of 27 U.S. and Canadian State and Province-run funds:



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

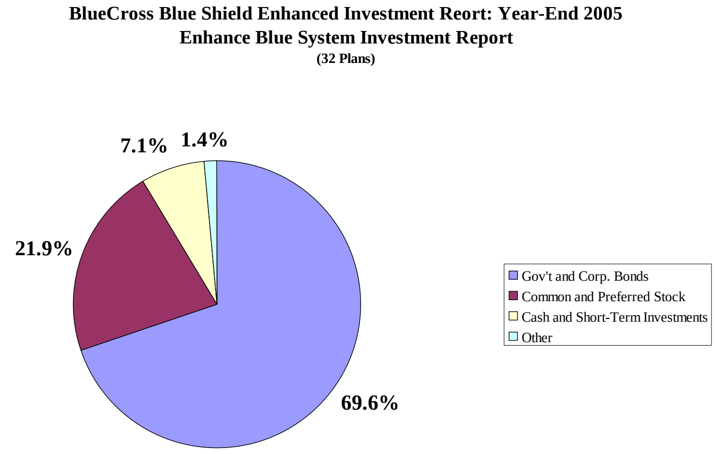
Industry Comparison

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



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

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



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

Peer Comparison: State Monopoly Funds

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

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

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

VII. Proposed Dividend / Adequate Surplus Policy

Ohio Revised Code: Dividends

- **Ohio Revised Code § 4123.32**

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

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

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

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

VIII. Asset Class Structure and Implementation

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

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.

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: August 24, 2006

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

I. INVESTMENT OBJECTIVES

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

II. BACKGROUND

A. Purpose

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

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

B. Fiduciary Standard

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

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

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

III. ROLES AND RESPONSIBILITIES

A. WCOC Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. OBWC Staff Responsibilities

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

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

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

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

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

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

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

vii. Implement the directives of the WCOC.

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

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

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

xi. Monitor manager trade execution.

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

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

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

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

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

C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. General Partners' Responsibilities

Each General Partner shall:

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

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

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

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

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

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

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

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

i. Provide independent and unbiased information to the WCOC, the Administrator and the CIO.

ii. Assist in the development and amendment of this Investment Policy.

iii. Assist in the establishment of strategic asset allocation targets.

iv. Assist in the development of performance measurement standards.

v. Report the monthly investment results and quarterly risk characteristics of the Funds to the WCOC.

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

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

viii. Establish a procedural due diligence search process.

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

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

xi. Provide any other advice or services that the WCOC or the Administrator and Chief Investment Officer determine from time to time is necessary, useful or appropriate to fulfill the objectives of this Investment Policy in accordance with the Investment Consulting Agreement.

IV. INVESTMENT POLICY GUIDELINES

A. Asset Allocation Guidelines

The Funds are part of the Ohio Workers' Compensation System, an exclusive state insurance fund system that is held for the sole benefit of the injured workers and employers of Ohio.

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as fixed income, U.S. equity, non-U.S. equity, alternative investments and cash equivalents. The asset allocation decision reflects the Funds' return requirements as well as the Funds' tolerance for return variability (risk) within the context of the expected liabilities of the Funds. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, premiums and total assets. These factors are important for identifying the investment horizon of the Funds and their cash flow requirements. A formal asset/liability analysis for each Fund will be conducted annually, or more frequently if conditions warrant.

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

B. Rebalancing Policy

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

The Funds' asset allocations are to be monitored quarterly, or more frequently if market conditions warrant. Should the actual asset allocations for a particular class of investments deviate from the indicated range for a particular asset class, the Administrator and Chief Investment Officer will make the necessary adjustments to satisfy the asset allocation guidelines established by this Investment Policy. In order to minimize turnover, Fund cash flows, such as premiums received or benefits paid, will be used to the fullest extent to achieve rebalancing objectives.

C. General Guidelines

The following represent the general guidelines that will apply to the management of Fund assets. In addition, each Investment Manager will have specific guidelines that are part of their Investment Management Agreement that will document the Funds' performance expectations and the Investment Manager's role in the overall portfolio. The Funds use these guidelines to establish, guide and control the strategy for each Investment Manager.

i. The following guidelines serve to diversify the organizational risk of Investment Management firms or General Partners providing services to the Funds and to minimize the dependence by the Funds on any one investment firm. The diversification guidelines are as follows:

- No one investment organization or General Partner, utilizing active investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The WCOC, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
- The Funds' assets managed by any one firm, utilizing either active or passive investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that specific strategy, style or partnership, at the time it is hired, unless unique circumstances – such as the need to hire a manager in a capacity-constrained asset class such as high yield or small cap U.S. equity - warrant an exception.

ii. Fixed Income Investments

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

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

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

Diversification

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

By Sector:

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

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

By Credit Quality:

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

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

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

iii. **U.S. Equity**

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

Diversification

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

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

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

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

iv. **Non-U.S. Equity**

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

Diversification

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

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

v. **Alternative Investments**

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

Future investments in Alternative Investments are not presently anticipated.

vi. **Cash Equivalents**

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

vii. **Securities Lending**

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

(The WCOC will be reviewing the appropriateness of the Funds' securities lending activities and expects to make a final decision on its continued use by June 2006.)

viii. **Derivatives**

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

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

CMOs are mortgage-backed bonds that separate mortgage pools into different maturity classes. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government-guaranteed or other top-grade mortgages. To qualify for investment by the Funds, CMOs must be rated AA or better and not be levered. Interest-only (IOs) and principal-only (POs) instruments are prohibited.

ABS are bonds or notes backed by loan paper on accounts receivable originated by banks, credit card companies or other providers of credit and often "enhanced" by a bank letter of credit or by insurance coverage provided by an institution other than the issuer. To qualify for investment by the Funds, ABS must be rated AA or better.

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

ix. **Commission Recapture / Directed Brokerage**

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

x. **General Prohibitions**

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

a. Short selling in any form.
b. All forms of leverage, including, but not limited to, purchasing securities on margin, treasury rolls and reverse repurchase agreements.
c. Coins, artwork, horses, jewelry, gems, stamps, antiques, artifacts, collectibles, and memorabilia.
d. Direct or indirect investments in vehicles that target specified assets, which includes unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity and that lack readily determinable valuation.

V. PERFORMANCE OBJECTIVES

A. Total Fund

The primary performance objective for each Fund is to achieve an aggregate rate of return that exceeds the return of each Fund's Performance Benchmark on a consistent basis. The Benchmark combines designated market and/or custom indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are:

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

B. Asset Class Composites

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

C. Investment Managers

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

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

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

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

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

VI. COMMUNICATIONS

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

VII. REVIEW PROCEDURES

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

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

VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

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

Qualified Ohio Managers - Criteria

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

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

Minority Managers – Criteria

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

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

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

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

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: August 24, 2006

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

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Appendix IX: Asset Allocation Criteria

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

Appendix X: State Insurance Fund (SIF)

The State Insurance Fund's ("the Fund's") liabilities consist of the following primary components:

- Indemnity cost: the compensation paid to injured workers for lost wages
- Medical cost: the cost of providing medical coverage to injured workers

These liabilities are long-term in nature, with an approximate duration of 10 years. Premiums are set each year at a level that is expected to cover the cost of future claims. Future claims are estimated based on actuarial methods that measure the expected indemnity and medical costs. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

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

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

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

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

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

Appendix X: Coal Workers' Pneumoconiosis Fund (CEPF)

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[1] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

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

The table below highlights the general asset classes approved for investment, the strategic target weights and the allowable ranges around the target weights:

Asset Class	**Min.**	**Policy Target**	**Max.**
Fixed Income:	94%	98%	100%
U.S. Equity	0	0	0
Non-U.S. Equity	0	0	0
Alternative Investments	0	0	0
Cash Equivalents	0	2	5

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

Appendix X: Marine Industry Fund (MIF)

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

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

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[2] 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, the strategic target weights and the allowable ranges around the target weights:

Asset Class	**Min.**	**Policy Target**	**Max.**
Fixed Income:	94%	98%	100%
U.S. Equity	0	0	0
Non-U.S. Equity	0	0	0
Alternative Investments	0	0	0
Cash Equivalents	0	2	5

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

Appendix X: 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[3] 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, the strategic target weights and the allowable ranges around the target weights:

Asset Class	**Min.**	**Policy Target**	**Max.**
Fixed Income:	94%	98%	100%
U.S. Equity	0	0	0
Non-U.S. Equity	0	0	0
Alternative Investments	0	0	0
Cash Equivalents	0	2	5

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

Appendix X: 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[4] 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, the strategic target weights and the allowable ranges around the target weights:

Asset Class	Min.	Policy Target	Max.
Fixed Income:	94%	98%	100%
U.S. Equity	0	0	0
Non-U.S. Equity	0	0	0
Alternative Investments	0	0	0
Cash Equivalents	0	2	5

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

Appendix X: 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, the strategic target weights and the allowable ranges around the target weights:

Asset Class	**Min.**	**Policy Target**	**Max.**
Fixed Income:	94%	98%	100%
U.S. Equity	0	0	0
Non-U.S. Equity	0	0	0
Alternative Investments	0	0	0
Cash Equivalents	0	2	5

Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HISTORICAL AND STATUTORY NOTES

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

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

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

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

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

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

CROSS REFERENCES

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

LIBRARY REFERENCES

Workers' Compensation 🔑1049.
Westlaw Topic No. 413.
C.J.S. Workmen's Compensation § 358.
Baldwin's Ohio Legislative Service, 1989 Laws of Ohio, H 222--LSC Analysis, p 5-832

Baldwin's Ohio Legislative Service, 1993 Laws of Ohio, H 107--LSC Analysis, p 5-941

RESEARCH REFERENCES

Encyclopedias

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

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

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

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

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

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

1. Constitutional issues

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

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

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

2. In general

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

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

3. Disbursements; investments

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

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

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

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

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

4. Fiduciary obligations

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

5. Effective date

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

R.C. § 4123.44, OH ST § 4123.44

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

Appendix XIII: Legal Requirements Summary

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

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

I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

III. Administrator's Investment Duties

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

> R.C. 4121.121: (B) The administrator is responsible for the management of the bureau of workers' compensation and for the discharge of all administrative duties imposed upon the administrator in this chapter and Chapters 4123., 4127., 4131., and 4167. of the Revised Code, and in the discharge thereof shall do all of the following: . . .
>
> (7) Exercise the investment powers vested in the administrator by section 4123.44 of the Revised Code in accordance with the investment objectives, policies, and criteria established by the oversight commission pursuant to section 4121.12 of the Revised Code and in consultation with the chief investment officer of the bureau of workers' compensation. The administrator shall not engage in any prohibited investment activity specified by the oversight commission pursuant to division (G)(6) of section 4121.12 of the Revised Code and shall not invest in any type of investment specified in division (G)(6)(a) to (j) of that section. All business shall be transacted, all funds invested, all warrants for money drawn and payments made, and all cash and securities and other property held, in the name of the bureau, or in the name of its nominee, provided that nominees are authorized by the administrator solely for the purpose of facilitating the transfer of securities, and restricted to the administrator and designated employees.

IV. Chief Investment Officer Duties

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

> R.C. 4123.441: (A) The bureau of workers' compensation, with the advice and consent of the workers' compensation oversight commission shall employ a person or designate an employee of the bureau who is designated as a chartered financial analyst by the CFA institute and who is licensed by the division of securities in the department of commerce as a bureau of workers' compensation chief investment officer to be the chief investment officer for the bureau of workers' compensation. After ninety days after the effective date of this section, the bureau of workers' compensation may not employ a bureau of workers' compensation chief investment officer, as defined in section 1707.01 of the Revised Code, who does not hold a valid bureau of workers' compensation chief investment officer license issued by the division of securities in the department of commerce. The oversight commission shall notify the division of securities of the department of commerce in writing of its designation and of any change in its designation within ten calendar days after the designation or change.
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> (B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the

funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

(2) After an investment manager enters into a contract with the administrator to invest bureau of workers' compensation funds and before an investment manager enters into a contract with a business entity to facilitate those investments, the investment manager shall request from any business entity with whom the investment manager wishes to contract to make those investments a list of all employees who will be investing assets of the bureau of workers' compensation funds. The list shall specify each employee's state of residence for the five years prior to the investment manager's request. The investment manager shall forward to the administrator the list received from the business entity. The administrator shall request the superintendent to conduct a criminal records check in accordance with this section and section 109.579 of the Revised Code with respect to every employee the business entity names in that list. Upon receipt of the results of the criminal records check, the administrator shall forward a copy of those results to the investment manager.

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

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

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

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

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

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

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

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

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

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

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

VI. Fiduciary Requirements

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

> R.C. 4121.126: Except as provided in this chapter, no member of the workers' compensation oversight commission or employee of the bureau of workers' compensation shall have any direct or indirect interest in the gains or profits of any investment made by the administrator of workers' compensation or shall receive directly or indirectly any pay or emolument for the member's or employee's services. No member or person connected with the bureau directly or indirectly, for self or as an agent or partner of others, shall borrow any of its funds or deposits or in any manner use the funds or deposits except to make current and necessary payments that are authorized by the administrator. No member of the oversight commission or employee of the bureau shall become an indorser or surety or become in any manner an obligor for moneys loaned by or borrowed from the bureau.
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> The administrator shall make no investments through or purchases from, or otherwise do any business with, any individual who is, or any partnership, association, or corporation that is owned or controlled by, a person who within the preceding three years was employed by the bureau, a board member of, or an officer of the oversight commission, or a person who within the preceding three years was employed by or was an officer holding a

fiduciary, administrative, supervisory, or trust position, or any other position in which such person would be involved, on behalf of the person's employer, in decisions or recommendations affecting the investment policy of the bureau, and in which such person would benefit by any monetary gain.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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February 21, 2006

XIV: Campaign Contribution Policy

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

APPENDIX XIV: CAMPAIGN CONTRIBUTION POLICY

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

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

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

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

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

Appendix XV: Investment Committee – Financial and Operational Requirements

Model of infrastructure data to be provided to the IC

To: The Commissioners of the Investment Committee

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

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

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

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

Respectfully submitted,

Michael C. Koetters

Monthly Report to IC - 12 reports annually

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

Quarterly Report to IC – 4 reports annually

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

1st Quarter Reporting - July, August and September

- Auditor Report
  - Internal auditor
  - External Auditor
- B-Team list – Managers in the wings
- CIO's Annual Report

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

2nd Quarter Reporting - October, November and December

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

3rd Quarter Reporting - January, February and March

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

4th Quarter Reporting - April, May and June

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