Workers' Compensation
Oversight
Commission

Investment Committee

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

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives LLC

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

The next WCOC
Investment Committee meeting is scheduled for:

Date: Dec. 14, 2006
Time: 8:45 a.m.
Location: William Green Building,
Second Floor, Room 2

INVESTMENT COMMITTEE
Agenda

Date: **Nov. 16, 2006**
Time: **9:15 a.m. – 11:15 a.m.**
Location: **William Green Building, Second Floor, Room 2**

Opening remarks

Chairman's comments .... Mike Koetters

Old business

Approval of previous meeting minutes.............................. Mike Koetters

Insurance coverage – fiduciary insurance confirmation ....James Barnes

Actuarial consultant – RFP status .... Win McCausland

New business

1. Wilshire contract, *motion to renew* ....Michael Koetters

2. Portfolio performance – September 2006
   3Q 2006 Quarterly Performance ....Mark Brubaker

3. Portfolio Non-Compliance to Investment Policy............ Mike Koetters

   Investment in Foreign Government Securities ....Bruce Dunn

4. Manage portfolio transition to approved asset allocation
   .... Mike Koetters

   Pert / Gant chart ....Bruce Dunn

   One Custodian Structure, *vote to recommend approval to the WCOC* ....Bruce Dunn

   Terminate securities lending, *vote to recommend approval to the WCOC* ....Bruce Dunn

   High priority utilization of S&P 500 index, *vote to recommend approval to the WCOC* ....Bruce Dunn

Report Updates

5. Calendar of reports for Investment Committee
6. CIO reports
7. Private Equity
8. Index managers RFP
9. Investment Department organizational chart ....Bruce Dunn

Adjourn .... Mike Koetters

WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

THURSDAY, SEPTEMBER 28, 2006, 10:00 A.M.
DAYTON CONVENTION CENTER
22 EAST FIFTH STREET, ROOM 305
DAYTON, OHIO 45402

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

Other Oversight Commission Members Present:
Mary Beth Carroll
Charles Kranstuber
William Burga

Members Absent: None

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
Maurice Selekman, Administrative Assistant, Chief of Staff
Joe Bell, Chief Internal Auditor
Keith Elliott, Manager, Internal Audit
David Logan, Internal Audit
Tracy Valentino, Chief Financial Officer
Liz Bravender, Actuarial Director
Bruce Dunn, Chief Investment Officer
Lee Damsel, Director of Investments
Vincent Thomas, Investments
Douglas Walouke, Investments
Barb Young, Chief Human Resources Officer
Jeremy Jackson, Chief Marketing Officer
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
Michael Patalsky, Wilshire Consulting
Danielle London, Wilshire Consulting
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 AUGUST 24, 2006

Ms. Farkas moved that the minutes of August 24, 2006, be approved. Mr. Sopko seconded and the minutes were approved by unanimous voice vote.

ACTUARIAL CONSULTANT

Mr. McCausland reported that he had prepared a proposal of items for reports from actuarial and other financial consultants. The proposal will be sent to the Chief Financial Officer after this meeting. Among other items, an actuarial study would compare the work of Mercer Oliver Wyman and Pinnacle Actuarial Services if significant differences were discovered.

INSURANCE COVERAGE – FIDUCIARY INSURANCE

James Barnes, Chief Legal Officer, reported that BWC met during the week of September 18 with two underwriters who had previously declined to provide fiduciary insurance coverage. Lloyds of London reconsidered its prior decision and agreed to provide coverage for $10 million limit. The deductible is being discussed (minimum of $75,000, maximum of $175,000) and the policy will cover all directors and officers. The vendor proposal will be presented to the Controlling Board on October 16. BWC and the underwriter have agreed, in principle, on coverage language and, upon receipt, BWC counsel and counsel for the Oversight Commission will review the carrier’s final draft policy. Mr. Barnes emphasized that the deductible will be absorbed by BWC. Mr. Koetters thanked Mr. Barnes for a successful conclusion.

NEW BUSINESS

WILSHIRE JULY AND AUGUST 2006 MONTHLY FLASH PERFORMANCE REPORT

Mark Brubaker, Wilshire Consulting, presented the Monthly Flash Performance Reports for July and August. The August report adds “ex Alts” as a line-item. This enables the Oversight Commission to reconcile the Wilshire reports with those of JPMorgan Chase. Mr. McCausland thanked Mr. Brubaker for reconciliation of Wilshire and JPMorgan results.

ESTIMATED TIMELINES, INVESTMENT DIVISION REQUESTS FOF PROPOSAL

Bruce Dunn, Chief Investment Officer, reported on the Requests for Proposal (RFP) for new managers of the State Insurance Fund portfolio. Mr. Dunn reviewed a chart prepared by the Investment Division regarding the asset allocation process and timeline. He emphasized the overlap in RFPs, especially in November, December, and January 2007. Mr. Koetters requested that the chart showing timelines be updated as each action is completed.

Mr. McCausland urged BWC to make expeditious transfer of funds when managers have been selected. Mr. Dunn agreed with that strategy. He indicated that the transition manager will be engaged soon after the end of each RFP process when managers have been approved. However, transfer of funds should be timed to not cause losses. For example, BWC will be one of the largest investors in Treasury Inflation Protected Securities (TIPS) and individual transactions will affect the market price. Mr. Dunn also indicated that the process can be accelerated in an overlay strategy by the effective use of futures contracts. He would like guidance from the Investment Committee on utilization of futures contracts.

Mr. Brubaker indicated that derivatives provide for a fast, low cost transition. Mr. Koetters was concerned that the derivatives may appear as a loss in an overlay strategy, which the public may not understand. Mr. Dunn desired no counterparty risk, nor leverage. Mr. McCausland expressed a preference that no fixed income derivatives be utilized in any overlay strategy.

Mr. Koetters stated that derivatives are currently prohibited in the Investment Policy. In the event that the Oversight Commission is advised by Wilshire and others of the appropriateness of derivatives, then the policy could be changed to accommodate derivatives. Mr. Dunn added that in the opinion of Mr. Barnes, the Ohio Revised Code does not prohibit investment in derivatives by the BWC.

TRANSITION MANAGERS RECOMMENDATION

Mr. Brubaker presented a report from Wilshire on the selection of transition managers. He reviewed various items pertinent in the BWC’s selection of a transition manager. For example, the manager’s benchmark is to be the T-Standard, the cost free benchmark for a transition. The manager is also to have experience across all asset classes. Mr. Brubaker distinguished three different types of transition managers:

1. Broker/dealers that act as principals (for their own accounts) and/or agents (intermediaries). Broker/dealers provide more certainty with pre-determined quotes, but the quotes may be high.

2. Index fund managers provide cost effective, internal crossing opportunities.

3. Fiduciary managers act as asset managers.

Mr. Brubaker also reported that opportunity costs are difficult to predict, but can be up to 50% of the total cost of a transition. This is relevant with regard to the use of futures to reduce both opportunity and transaction costs.

Mr. Brubaker highly recommends the use of a transition manager for the BWC because of the large size of the BWC portfolio.

Mr. Dunn provided a detailed review of the RFP process in the selection of Barclays Global Investors, Russell Investment Group, and State Street Global Markets as the transition managers. He reported that the BWC received ten qualified responses. There were 44 questions weighted and evaluated in the RFP responses. Fees were considered, but were not the primary consideration. The quality of the firm was more important, especially in execution.

Mr. McCausland inquired about how fees are quoted. Mr. Dunn responded that both management and execution fees are quoted in basis points. Mr. Brubaker indicated that fees are based upon pre-trade price estimates and are typically executed within one standard deviation.

Mr. Dunn continued with a profile of each firm. The ten firms were narrowed to six firms after review and evaluation of RFP responses. The six firms were interviewed by the Evaluation Committee at BWC headquarters and were further narrowed to four finalists after these interviews. Site visits were conducted for the four finalists. After these site visits, three finalists (Barclays, Russell, and State Street) were recommended as BWC transition managers. Merrill Lynch was not recommended because of concerns regarding integration transition in its impending merger with BlackRock.

Michael Patalsky, Wilshire, reported on the role taken by Wilshire in the RFP process and reviewed the Wilshire RFP report.

Ms. Carroll requested that page 8 of the Wilshire RFP report be corrected to show that State Street does have a prior relationship with BWC.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve the selection of Barclays Global Investors, Russell Investment Group, and State Street Global Markets to serve as the transition managers for BWC assets, upon such terms as are set forth in the firms' responses to the RFP issued June 30, 2006, and such other terms as are favorable to the Bureau, and that BWC investment staff have the discretion to selection among these managers for specific transition assignments. Ms. Farkas seconded and the motion was approved by unanimous roll call vote.

John Williams, Assistant Attorney General, advised that scoring documents not be entered into the public record prior to finalizing the contracts with the managers because it may be an invitation to litigation. Mr. Koetters and Mr. McCausland requested advice on the method of dissemination of the scoring documents. Mr. Koetters stated that he was concerned about criticism of the Oversight Commission in approving choices of BWC without complete information on the basis of its actions.

INVESTMENT POLICY RECOMMENDATION, BWC ANCILLARY PORTFOLIOS

Mr. Brubaker presented the Wilshire report on the Ancillary Funds Asset Allocation Recommendation.

Ms. Farkas moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve and adopt the Revised Asset Allocations for BWC’s Ancillary Funds, including those for disabled workers, coal workers, public relief workers, marine industry workers, and workers for former self-insured employers, for 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. McCausland seconded and the motion was approved by unanimous roll call vote.

SECURITIES LENDING ACTIVITY REPORT

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it approve and adopt an amendment to Section IV.C.vii. of the Bureau of Workers’ Compensation Statement of Investment Policy and Guidelines for the purpose of changing the action date for the Commission’s review of securities lending activities from “June 2006” to “January 2007.” Mr. Sopko seconded and the motion was approved by unanimous roll call vote.

STATE STREET ROLES AND RESPONSIBILTIES: INVESTMENT MANAGER FOR OHIO PASSIVE BOND MARKET INDEX FUND

Mr. Koetters requested that the written opinions of Mr. Barnes and Tracy Valentino, on the commingling of BWC funds, be added to the meeting record.

TABLING OF AGENDA ITEMS

Mr. Koetters tabled agenda items on the Chief Investment Officer calendar for reports, CIO Monthly Report—August 2006, Investment Division Table of Organization, and the Index Manager RFP Report.

ADJOURNMENT

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

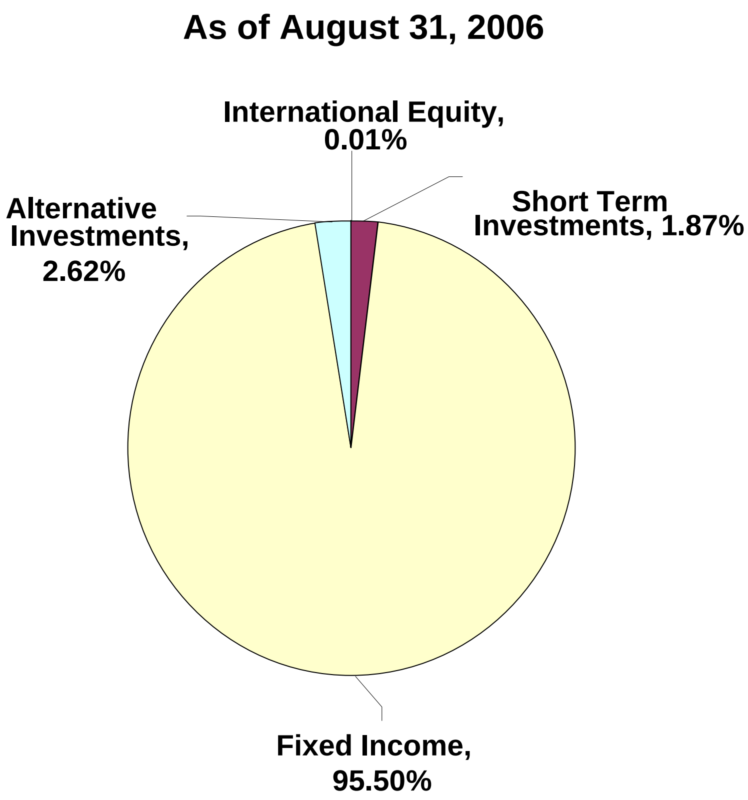
Prepared by: Larry Rhodebeck, BWC Attorney
H:\Word\ldr\WCOC InvC 0806.doc
October 26, 2006

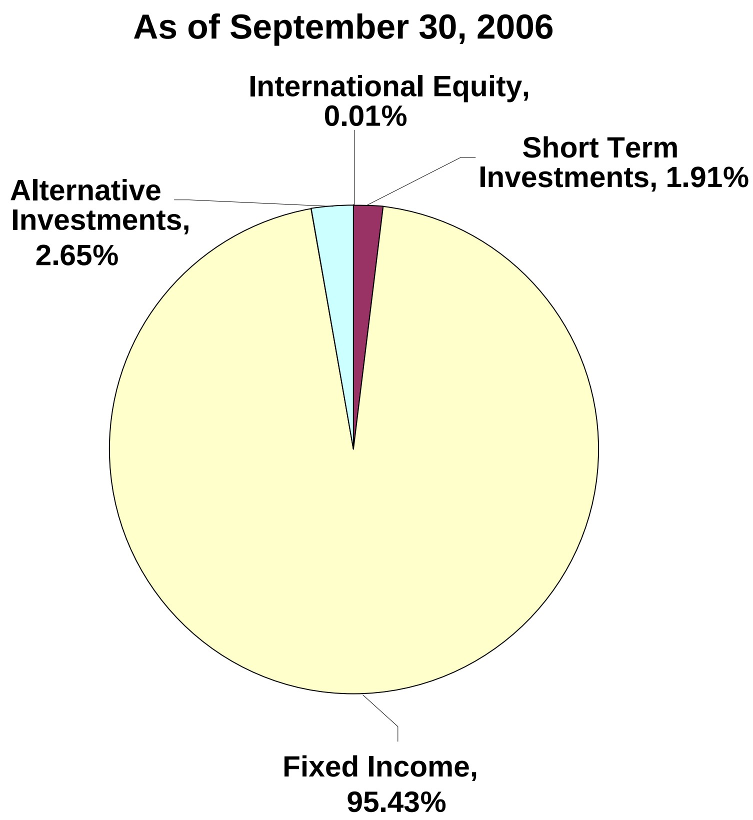
Ohio Bureau of Workers' Compensation

September 2006 Monthly Performance Flash Report

WILSHIRE
CONSULTING

Asset Allocation – State Insurance Fund





Ohio Bureau of Workers' Compensation
Monthly Performance and Market Value Summary
Periods Ended 9/30/06

	Returns						Market Value	
Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ohio BWC Total Fund ex Alts	0.87	1.49	3.77	3.77			16,568,144	
Ohio BWC Total Fund	0.91	1.45	3.74	3.74	4.85	6.86	17,021,585	
Total Fund Policy	0.88	1.53	3.81	3.81	4.51	6.01		
State Insurance Fund ex Alts	0.87	1.49	3.78	3.78			15,166,038	
State Insurance Fund	0.92	1.45	3.75	3.75	4.96	7.08	15,619,479	
SIF Custom Policy	0.88	1.53	3.81	3.81	4.51	6.01		
Ancillary Composite	0.88	1.47	3.72	3.72	3.62	4.29	1,402,106	
Lehman Aggregate	0.88	1.53	3.81	3.81	3.06	3.67		
Indices								
91 Day T-Bill Index	0.44	0.44	1.31	1.31	3.54	4.48		
Lehman Aggregate	0.88	1.53	3.81	3.81	3.06	3.67		
Standard & Poor's 500	2.58	2.38	5.67	5.67	8.54	10.81		
DJ Wilshire 5000	2.20	2.34	4.47	4.47	7.99	10.38		
MSCI EAFE Index (N)	0.15	2.75	3.92	3.92	14.48	19.16		

Returns are preliminary and subject to change.

State Insurance Total Fund
Monthly Performance and Market Value Summary
Periods Ended 9/30/06

Manager	Month	Prior Month	QTD	3 Months	YTD	1 Year	Market Value $(000)	Market Value Percent
	Net of Fee Returns						Market Value	
State Insurance Fund ex Alts	0.87	1.49	3.78	3.78			15,166,038	100.00
State Insurance Fund	0.92	1.45	3.75	3.75	4.96	7.08	15,619,479	100.00
SIF Custom Policy	0.88	1.53	3.81	3.81	4.51	6.01		
SSgA Passive Agg Bond SI CTF	0.88	1.52	3.80	3.80			14,828,466	96.95
Lehman Aggregate	0.88	1.53	3.81	3.81				
Cash Composite	0.57	0.37	2.39	2.39	4.70	5.77	324,987	2.12
91-Day Treasury Bill	0.44	0.44	1.31	1.31	3.53	4.47		
Alternative Investments Composite	2.66	0.00	2.66	2.66	8.50		451,827	2.95
Restricted Stock - Liquidation	3.51	27.63	28.34	28.34			1,614	0.01
Tranche #3	-9.07						12,570	0.08
Tranche #4 - International Equity	-0.39						15	0.00
Indices								
91 Day T-Bill Index	0.44	0.44	1.31	1.31	3.54	4.48		
Lehman Aggregate	0.88	1.53	3.81	3.81	3.06	3.67		
Standard & Poor's 500	2.58	2.38	5.67	5.67	8.54	10.81		
DJ Wilshire 5000	2.20	2.34	4.47	4.47	7.99	10.38		
MSCI EAFE Index (N)	0.15	2.75	3.92	3.92	14.48	19.16		

Returns are preliminary and subject to change.

Ancillary Funds
Monthly Performance and Market Value Summary
Periods Ended 9/30/06

Manager	Net of Fee Returns						Market Value	
	Month	Prior Month	QTD	3 Months	YTD	1 Year	$(000)	Percent
Ancillary Composite	0.88	1.47	3.72	3.72	3.62	4.29	1,402,106	100.00
Lehman Aggregate	0.88	1.53	3.81	3.81	3.06	3.67		
Black Lung 2000	0.89	1.49	3.76	3.76	3.49	4.72	229,935	16.40
Disabled Workers Retirement	0.89	1.50	3.78	3.78	3.67	4.18	1,094,545	78.06
Marine 2005	0.88	1.46	3.72	3.72	3.50	6.08	15,300	1.09
Public Workers Relief Fund	0.88	1.48	3.79	3.79	3.35	4.17	21,130	1.51
Self Insured Bond Fund 200	0.43	0.43	1.30	1.30	3.62	4.64	41,196	2.94
Indices								
91 Day T-Bill Index	0.44	0.44	1.31	1.31	3.54	4.48		
Lehman Aggregate	0.88	1.53	3.81	3.81	3.06	3.67		
Standard & Poor's 500	2.58	2.38	5.67	5.67	8.54	10.81		
DJ Wilshire 5000	2.20	2.34	4.47	4.47	7.99	10.38		
MSCI EAFE Index (N)	0.15	2.75	3.92	3.92	14.48	19.16		

Returns are preliminary and subject to change.

Custom Policy Benchmark Transition – State Insurance Fund

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

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

Tranche Key

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

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

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

Ohio Bureau of Workers' Compensation

Executive Summary of Investment Performance
Quarter Ending September 30, 2006

Market Review (Periods Ending September 30, 2006)

Market Observations

After 17 consecutive ¼ point rate hikes, the Federal Reserve paused during the third quarter, leaving rates unchanged at 5.25%. During the second quarter, GDP growth slowed to 2.6% compared with growth of 5.6% in the first quarter. This rapid deceleration prompted concerns by some of a looming U.S. recession and contributed to the Fed's decision to hold rates steady. Oil prices remained volatile during the quarter, reaching an all-time high near $78 per barrel in early August before selling off sharply to half-year lows near $60 as the quarter ended.

Inflation data was mixed during the quarter. Signs of slowing productivity in the second quarter coupled with rising labor costs created inflationary pressures. The annual change in Core CPI rose to 2.8% in August, up from 2.4% in May. Conversely, Core PPI painted a more benign inflationary picture with an annual change of 0.9%, down from 1.9% in June. The bond market's long-term breakeven inflation forecast mirrored this sentiment. The spread between the 10-year TIPS and the 10-year nominal bond narrowed 27 basis points from 2.70% on August 8th, the day of the Fed's first rate pause, to 2.43% at quarter's end.

Job growth remained moderate with a monthly average of 128,000 jobs created from June through August. The unemployment rate stood at 4.7% in August. Finally, the housing market showed more signs of a significant slowdown, with housing starts off 6% in August, the 5th decline in 6 months.

US Stock Market

After a nearly 2% sell-off in the second quarter, the U.S. equity market rebounded strongly during the 3rd quarter (DJW 5000 4.47%). Despite geopolitical uncertainty, some signs of rising core inflation, and a rapidly slowing housing market, equities rallied on the Fed's decision to halt its 2-year rate tightening campaign. The previously mentioned pullback in oil prices also helped lift stock prices. As would be expected, interest sensitive stocks benefited from the Fed's decision to hold rates steady, with the DJW REIT index up 9.1%, while lower oil prices triggered investors to take profits in energy stocks, bringing the Oil & Gas industry group down -2.8% in the quarter.

Large capitalization stocks outpaced smaller stocks during the quarter with the DJW Large Cap index up 5.26% versus sell-offs of -0.16% and -1.67% for the DJW Small and Micro Cap indexes, respectively. The relative strength of large caps drove their returns for the year above those of small caps (8.11% vs. 7.64%). Value stocks dominated growth stocks across the capitalization spectrum. The DJW Large Value index was up 7.19% compared to a 3.18% advance for the Large Growth index, while the Small Value index increased by 1.17% versus a decline of -1.59% for the DJW Small Growth index.

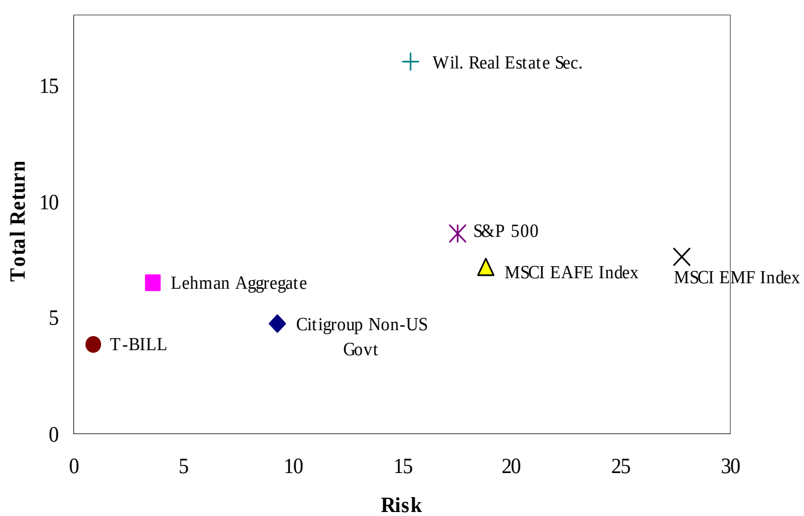
Telecom, Health Care, and Information Technology were the best performing sectors during the 3rd quarter. Materials, Industrials, and Energy were the only sectors to post negative returns; down -1.0%, -1.5%, and -3.6% respectively.

Capital Markets Review (Periods Ending September 30, 2006)

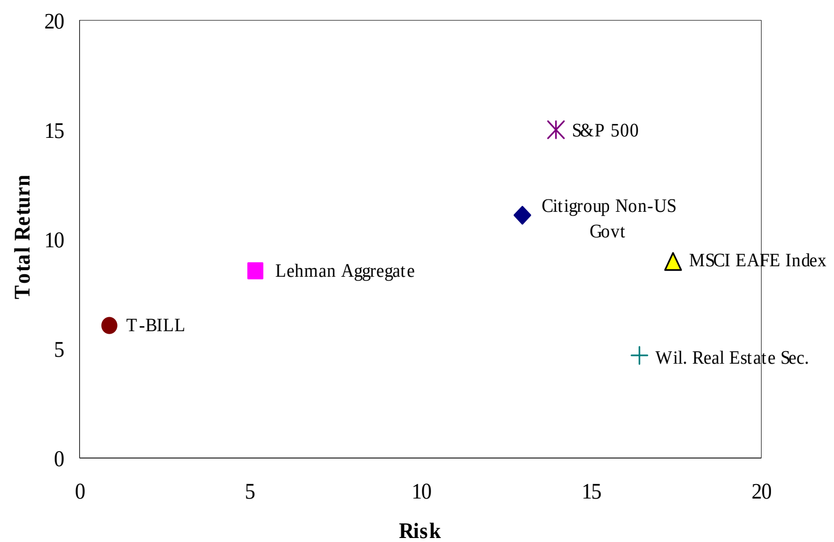
Major Asset Class Returns (%)

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Equity						
Dow Jones - Wilshire 5000	4.5	8.0	10.4	13.3	8.6	8.6
Standard and Poor's 500	5.7	8.5	10.8	12.3	7.0	8.6
International Stock (MSCI EAFE)(USD)	3.9	14.5	19.2	22.3	14.3	6.8
Emerging Markets (MSCI EMF)(USD)	5.0	12.7	20.8	31.0	28.9	7.6
Dow Jones - Wilshire Real Estate Securities	9.1	24.6	28.3	27.8	23.2	16.0
Fixed Income						
Lehman Aggregate Bond	3.8	3.1	3.7	3.4	4.8	6.4
First Boston High Yield	3.5	7.2	7.8	9.1	11.3	7.1
International Bonds (Citigroup Non-US)	0.9	4.8	2.0	4.4	8.2	4.7
Treasury Bills (91 Day)	1.3	3.5	4.5	2.7	2.3	3.8
Consumer Price Index	0.0	3.1	2.1	3.1	2.6	2.5

Risk versus Return (9/30/96 - 9/30/06)



Risk versus Return (9/30/86 – 9/30/96)

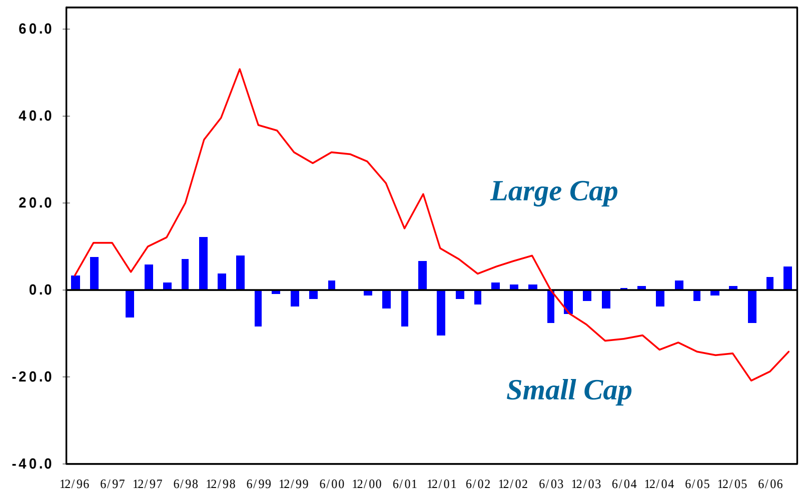


Domestic Equity Markets (Periods Ending September 30, 2006)

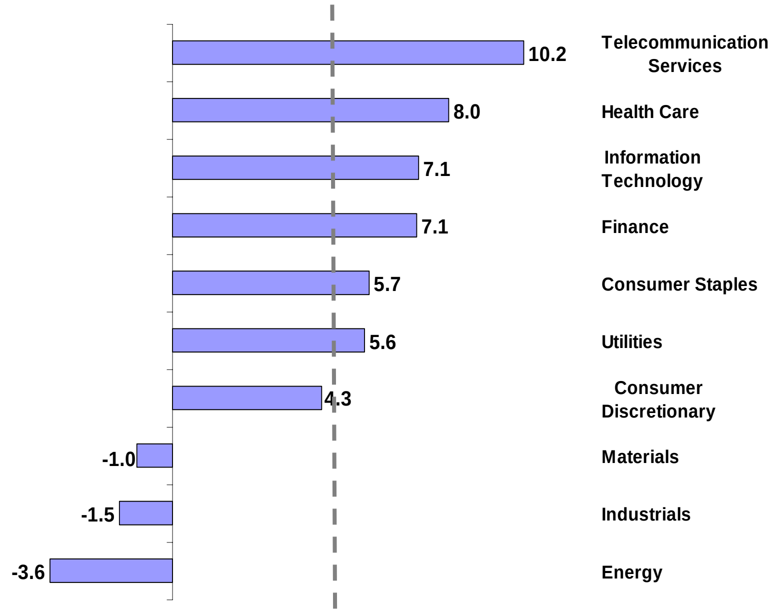
US Equity Returns (%)

	QTR	YTD	1 yr	3 yr	5 yr	10yr
DJ Wilshire 4500	0.2	5.7	8.6	16.0	14.2	9.1
DJ Wilshire 5000	4.5	8.0	10.4	13.3	8.6	8.6
DJ Wilshire Real Est. Secs	9.1	24.6	28.3	27.8	23.2	16.0
DJ Wilshire Large Cap	5.3	8.1	10.6	12.9	7.7	8.6
DJ Wilshire Mid Cap	0.1	4.6	7.1	16.1	13.6	10.8
DJ Wilshire Small Cap	-0.2	7.6	9.4	16.6	15.6	10.3
DJ Wilshire Micro Cap	-1.7	4.8	5.5	13.2	21.1	13.3
DJ Wilshire Large Growth	3.2	2.8	6.0	9.9	5.5	6.3
DJ Wilshire Large Value	7.2	13.2	15.0	15.7	10.0	10.5
DJ Wilshire Mid Growth	-0.9	2.7	6.9	17.0	14.0	7.1
DJ Wilshire Mid Value	1.3	6.7	7.7	15.1	13.0	13.0
DJ Wilshire Small Growth	-1.6	4.8	7.4	15.6	14.1	6.4
DJ Wilshire Small Value	1.2	10.4	11.3	17.5	16.9	13.4

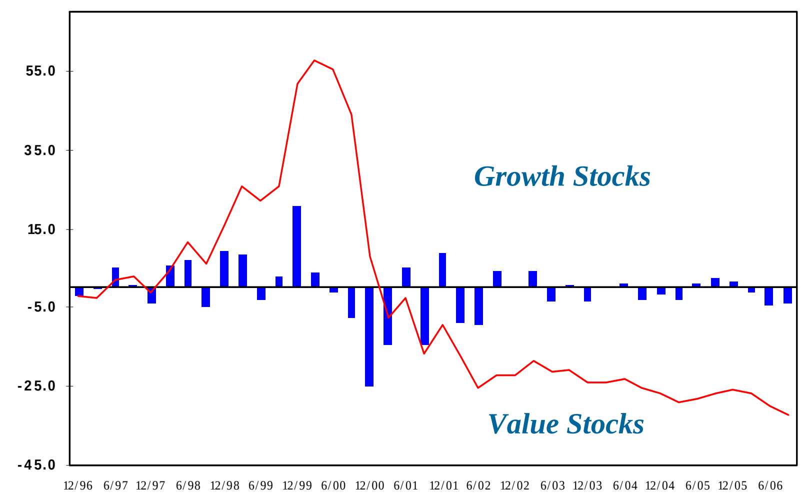
Large Cap Vs. Small Cap



DJ Wilshire 5000 Sector Returns (%)



Growth Stocks Vs. Value Stocks



- - - Represents DJ Wilshire 5000 Quarterly Return

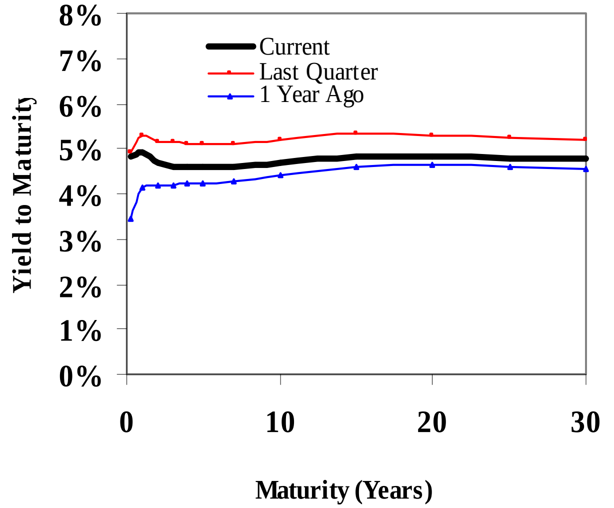
WILSHIRE CONSULTING

Domestic Fixed Income Markets (Periods Ending September 30, 2006)

US Fixed Income Returns (%)

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Lehman Aggregate	3.8	3.1	3.7	3.4	4.8	6.4
Lehman ABS	2.9	3.6	4.2	3.0	4.2	6.1
Lehman Credit	4.5	2.9	3.4	3.5	5.8	6.8
Lehman Gov't	3.5	2.6	3.3	2.8	4.3	6.2
Lehman Gov / Credit	3.9	2.7	3.3	3.1	5.0	6.5
Lehman Long Treasury	6.4	1.4	2.4	4.7	6.4	8.1
Lehman Mortgage	3.6	3.6	4.2	3.9	4.5	6.3
Lehman Agency	3.2	3.2	3.8	2.9	4.4	6.3
First Boston High Yield	3.5	7.2	7.8	9.1	11.3	7.1
Salomon Bros World Gov't Bond	1.4	4.2	2.2	4.1	7.3	5.3
Salomon Bros Non-US Bond	0.9	4.8	2.0	4.4	8.2	4.7
Lehman US TIPS	3.6	1.8	1.9	4.9	7.3	

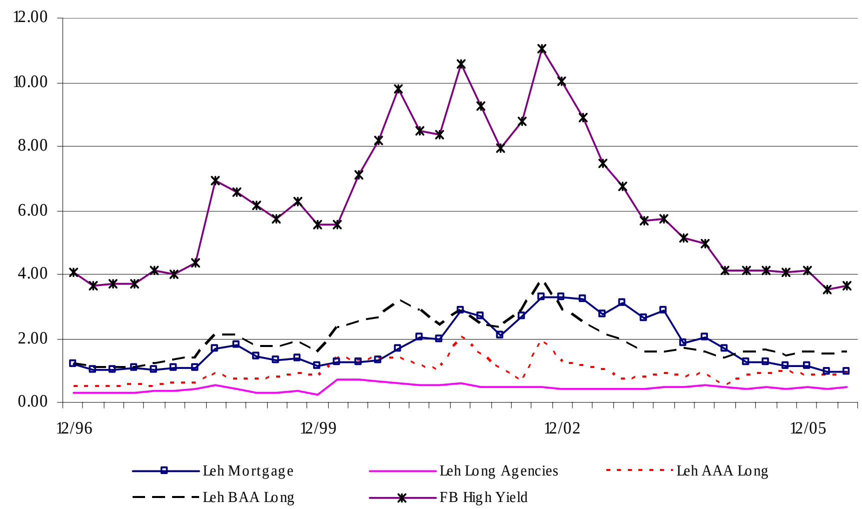
Treasury Yield Curve



Market Commentary

Following the Fed decision to pause its Federal Funds rate tightening cycle during the 3rd quarter, trading on the 10-year Note has surprised many investors as its yield decreased by 52 basis points from 5.14% to 4.62%. Over the same time period the yield curve's inversion has become more pronounced as the spread between the 10-year Note and the 91-day T-Bill closed the quarter at -0.12%. There is some debate about whether the Fed will be successful in managing a "soft landing" for the U.S. economy, as there is historical precedence for sustained periods of yield inversion leading to recession.

Historical Yield Spread Comparison to Treasuries



WILSHIRE CONSULTING

International Equity Markets (Periods Ending September 30, 2006)

International Index Returns (%)

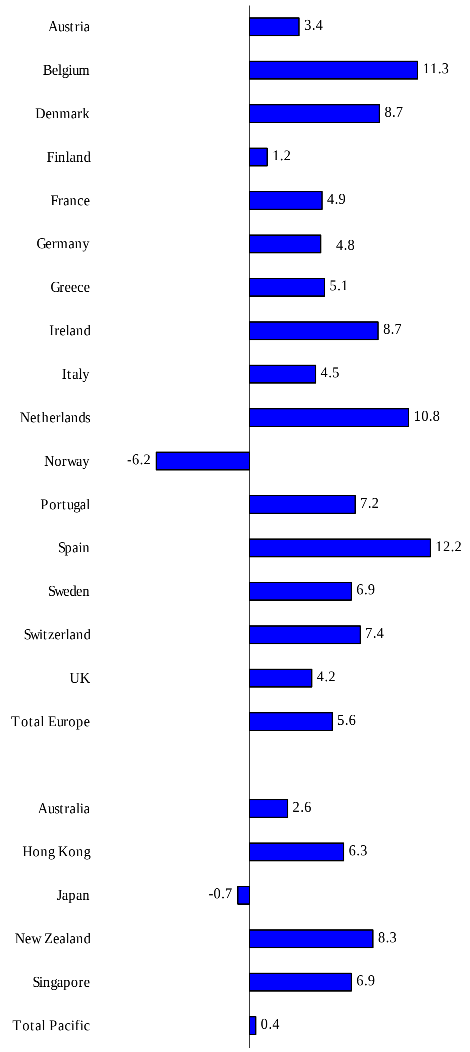
Equity (in U.S. $)	QTR	YTD	1 yr	3 yr	5 yr	10yr
Non U.S. (ACWI X U.S)	4.0	14.3	19.4	23.9	16.4	7.6
Developed (EAFE)	3.9	14.5	19.2	22.3	14.3	6.8
Emerging (EMF)	5.0	12.7	20.8	31.0	28.9	7.6
Europe	5.6	20.0	22.3	24.1	14.6	10.3
Pacific	0.4	4.0	12.9	18.5	13.6	1.7
France	4.9	21.7	22.5	24.7	14.3	11.2
Germany	4.8	18.9	24.2	25.9	14.2	8.0
Japan	-0.7	1.2	13.2	16.8	11.0	0.4
United Kingdom	4.2	18.4	18.7	21.6	12.7	9.2
Currencies (% change)						
Euro vs Dollar	-0.9	7.4	5.1	2.8	6.8	--
Yen vs Dollar	-3.2	0.0	-4.0	-1.8	0.2	-0.6
Pound vs Dollar	1.0	8.8	5.6	4.0	4.9	1.8

Market Commentary

The U.S. equity market was not alone during its summer rally as most of the non-U.S. equity market also charged ahead. Non-U.S. equities were led by Europe and the emerging markets which posted third quarter gains of 5.63% and 5.01%, respectively, in USD. The strengthening U.S. dollar had a hampering effect on the markets, particularly on Japanese equities where 3.18% was lost due to currency movement. Two main events slightly rattled some parts of the emerging markets: the military coup d’etat that took place in Thailand and the continued protests in Hungary which called for the resignation of Prime Minister Gyurcsany. The Thai baht declined by more than 1.3% against the dollar the day news broke of the coup while its local equity markets sustained a minor sell-off. But after the events settled, local markets gained some traction and the slippage in equity prices and the local currency were minimal.

MSCI EAFE Index

Quarterly Returns in USD



Country	Weight
Austria	0.6
Belgium	1.2
Denmark	0.8
Finland	1.4
France	10.0
Germany	7.1
Greece	0.6
Ireland	0.8
Italy	3.9
Netherlands	3.5
Norway	0.8
Portugal	0.3
Spain	4.0
Sweden	2.4
Switzerland	7.1
UK	23.9
Total Europe	**68.4**
Australia	5.2
Hong Kong	1.7
Japan	23.6
New Zealand	0.2
Singapore	0.8
Total Pacific	**31.6**
Other Countries	**0.0**

WILSHIRE CONSULTING

Total Fund Results Summary

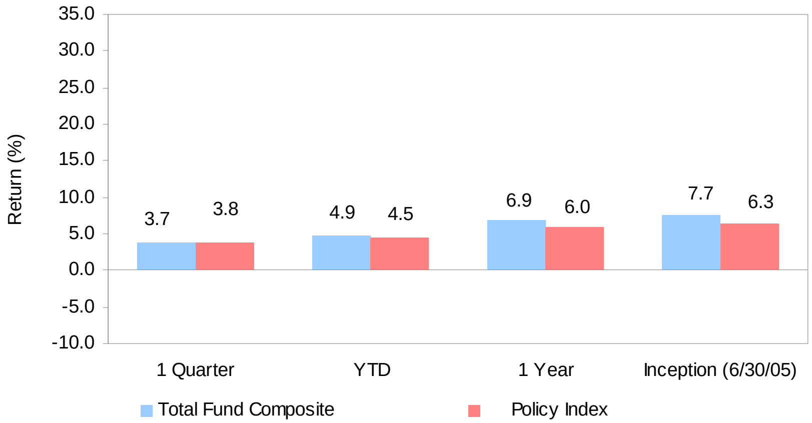
	$'000	Qtr %	YTD %	1 Year %	3 Years %	5 Years %	Inception %
Ohio BWC Total Fund (6/30/05)	**17,021,585**	**3.7**	**4.9**	**6.9**	**--**	**--**	**7.7**
Total Fund Custom Policy		***3.8***	**4.5**	**6.0**	--	--	***6.3***
State Insurance Fund (6/30/05)	**15,619,479**	**3.8**	**5.0**	**7.1**	**--**	**--**	**8.0**
SIF Custom Policy		*3.8*	*4.5*	**6.0**	--	--	*6.3*
Fixed Income Composite (3/31/06)	**14,828,466**	**3.8**	**--**	**--**	**--**	**--**	**3.8**
Lehman Aggregate		*3.8*	--	--	--	--	*3.7*
SSgA Passive Aggregate Bond SI CTF (3/31/06)	14,828,466	3.8	--	--	--	--	3.8
Lehman Aggregate		*3.8*	--	--	--	--	*3.7*
Cash Composite (6/30/05)	**324,987**	**2.4**	**4.7**	**5.8**	**--**	**--**	**5.3**
91 Day T-Bill		*1.3*	*3.5*	***4.5***	--	--	*4.3*
Cash Account (3/31/06)	324,987		--	--	--	--	
Alternative Investments Composite (12/31/05)	**451,827**	**2.7**	**8.5**	**--**	**--**	**--**	**8.5**
Other Composite	**14,199**	**--**	**--**	**--**	**--**	**--**	**--**
Restricted Stock - Liquidation (3/31/06)	1,614	28.3	--	--	--	--	-2.7
Tranche #3 (12/31/05)	12,570	--	--	--	--	--	--
Tranche #4 (12/31/05)	15	--	--	--	--	--	--
Ancillary Composite (6/30/05)	**1,402,106**	**3.7**	**3.6**	**4.3**	**--**	**--**	**3.8**
Lehman Aggregate		*3.8*	*3.1*	**3.7**	--	--	*2.4*
Black Lung 2000 (6/30/05)	229,935	3.8	3.5	4.7	--	--	4.4
Disabled Workers Retirement (6/30/05)	1,094,545	3.8	3.7	4.2	--	--	3.7
Marine 2005 (6/30/05)	15,300	3.7	3.5	6.1	--	--	4.7
Public Workers Relief Fund (6/30/05)	21,130	3.8	3.4	4.2	--	--	3.9
Self Insured Bond Fund 200 (6/30/05)	41,196	1.3	3.6	4.6	--	--	4.4

Composite Results

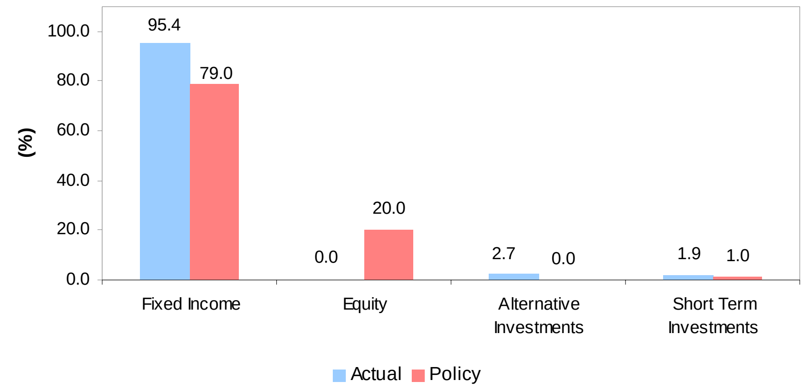
- Ohio BWC Total Fund
- State Insurance Fund
- Ancillary Total Fund

Total Fund Results

Investment Performance



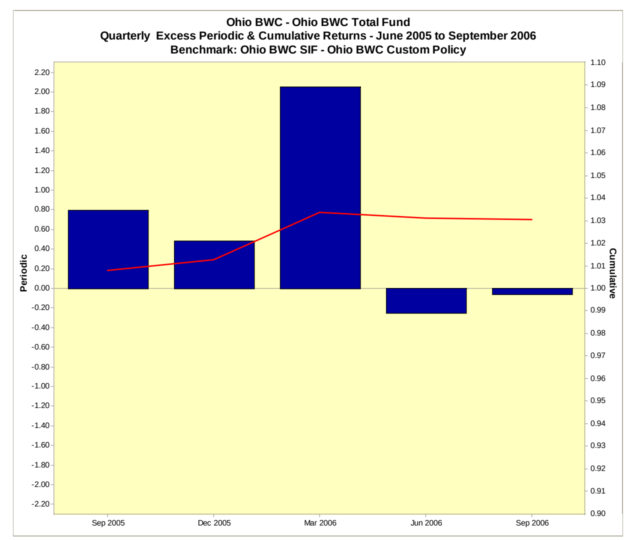
Asset Allocation vs. Policy



Quarter Results ($'000)

Quarter Results (Composites)	Ancillary Composite	State Insurance Fund	Total Composite
Beginning Value	$1,346,091	$14,874,568	$16,220,659
Cash Flow	$5,708	$182,716	$188,423
Gains/Losses	$50,308	$562,195	$612,502
Ending Value	$1,402,106	$15,619,479	$17,021,585

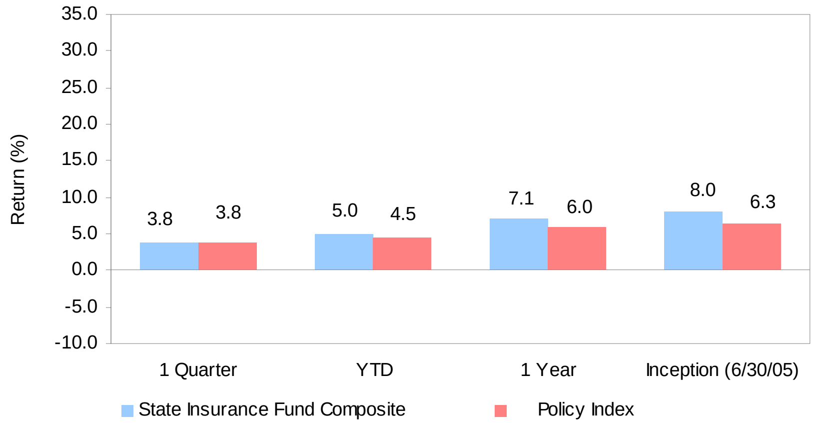
Value Added Analysis



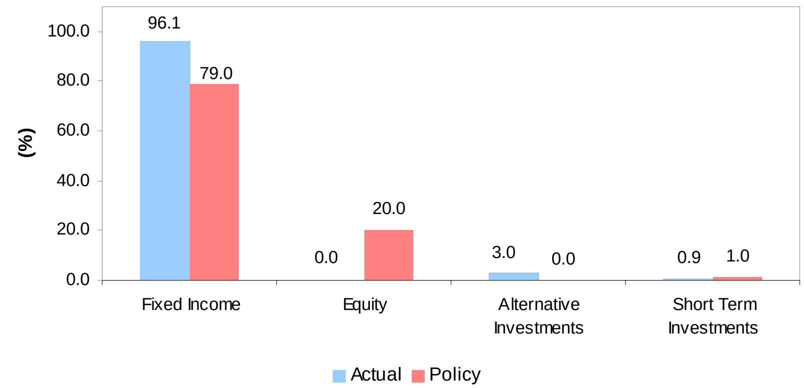
WILSHIRE CONSULTING

State Insurance Fund Results

Investment Performance



Asset Allocation vs. Policy

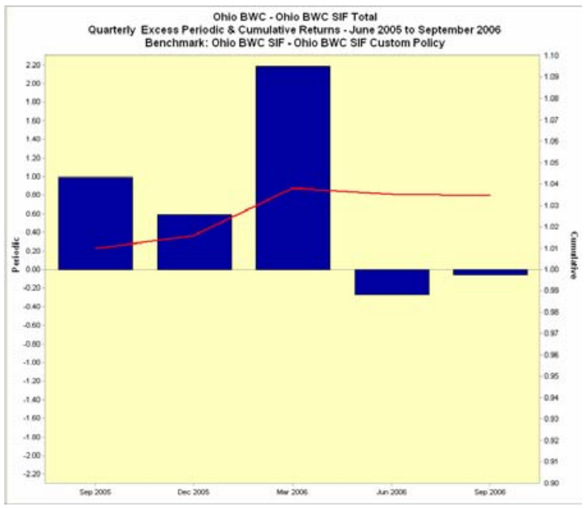


Quarter Results ($'000)

Quarter Results (Composites)	Fixed Income Composite	Alternative Investments	Cash Composite	Other Composite*	State Insurance Fund
Beginning Value	$14,284,905	$440,651	$136,348	$12,664	$14,874,568
Cash Flow	($16)	($549)	$183,600	($318)	$182,716
Gains/Losses	$543,577	$11,726	$5,038	$1,853	$562,195
Ending Value	$14,828,466	$451,827	$324,987	$14,199	$15,619,479

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

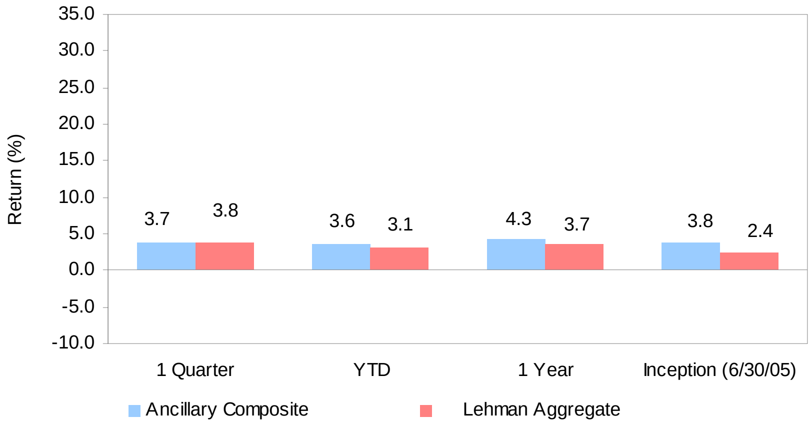
Value Added Analysis



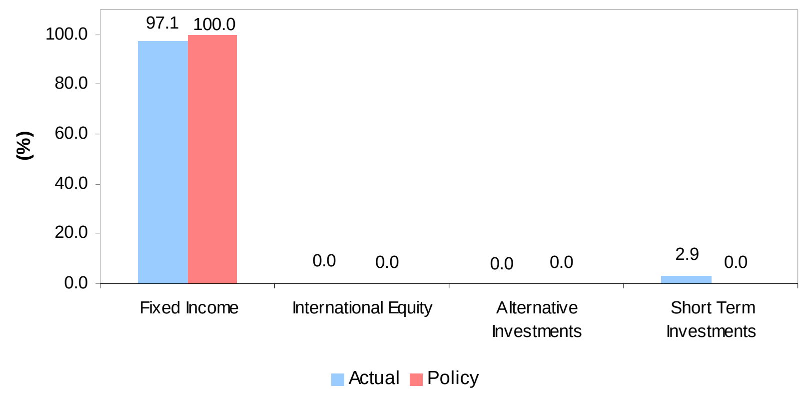
WILSHIRE CONSULTING

Ancillary Composite

Investment Performance



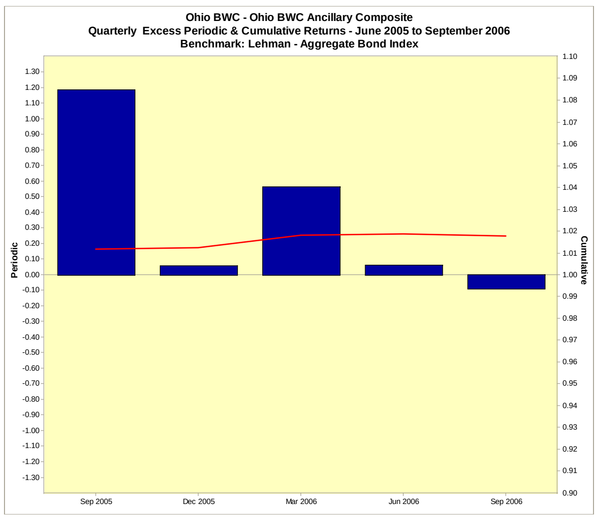
Asset Allocation vs. Policy



Quarter Results ($'000)

Quarter Results (Composites)	Black Lung 2000	Disabled Workers Retirement	Marine 2005	Public Workers Relief Fund	Self Insured Bond Fund 200	Ancillary Composite
Beginning Value	$221,889	$1,056,545	$14,515	$20,195	$32,947	$1,346,091
Cash Flow	($353)	($2,170)	$237	$158	$7,835	$5,708
Gains/Losses	$8,398	$40,169	$548	$777	$414	$50,308
Ending Value	$229,935	$1,094,545	$15,300	$21,130	$41,196	$1,402,106

Value Added Analysis

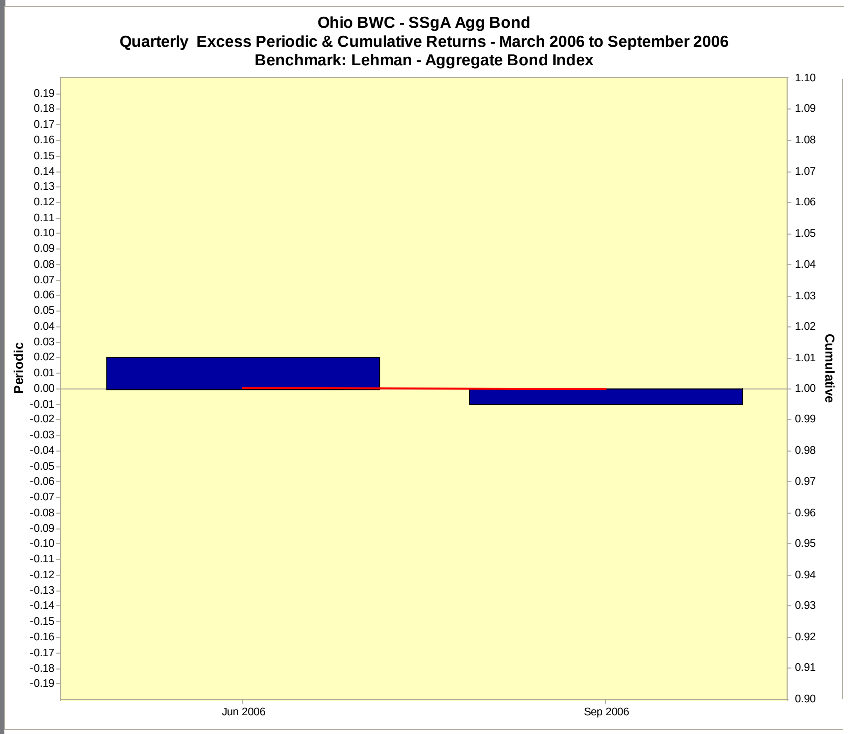


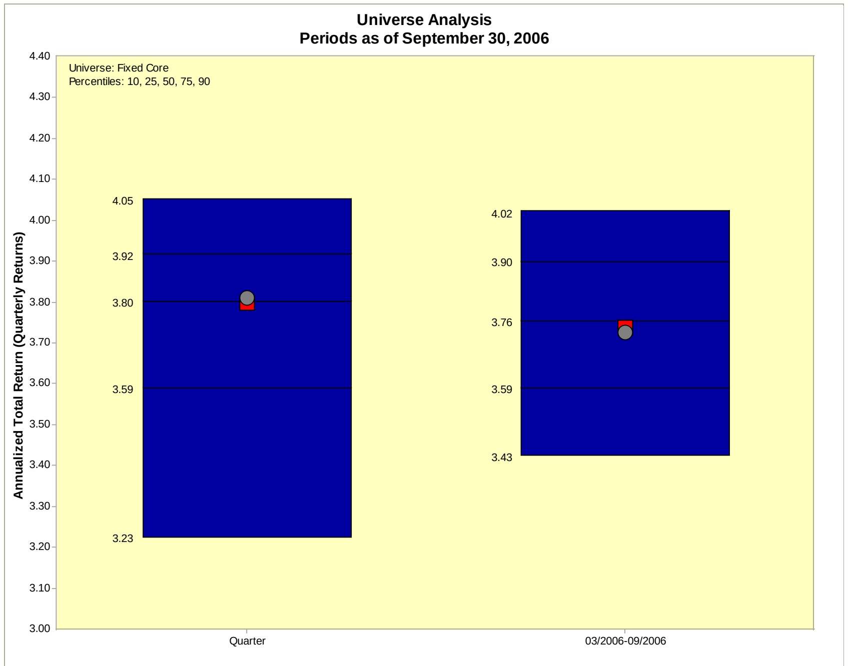
WILSHIRE CONSULTING

Manager Results

- SSgA Passive Bond Fund

SSgA Passive Aggregate Bond SI CTF





	Quarter	03/06-09/06
Ssga Agg Bond	3.80 (50)	3.74 (53)
Lb Aggregate	3.81 (49)	3.73 (55)
# of Products	277	277

SSgA Passive Aggregate Bond SI CTF Characteristics

Characteristics

Manager	Number of Issues	Avg Life	Avg Yield to Worst	YTM	Current Yield	Average Convexity	Modified Adjusted Duration	Avg Price	Avg Coupon	Avg Quality	Beta
SSgA Passive Bond Mkt SL CTF	2405	6.86	5.29	5.32	5.21	-0.27	4.57	101.13	5.33	AA2	1.0
Lehman Aggregate Index	7018	6.97	5.32	5.34	5.28	-0.19	4.61	101.00	5.33	AA2	--

Quality Breakdown

Manager	AAA	AA	A	BAA	>BAA	NR
SSgA Passive Bond Mkt SL CTF	79.81	5.33	7.78	7.07	0.00	0.00
Lehman Aggregate Index	78.83	5.27	8.31	7.59	0.00	0.00

Maturity Distribution

Manager	0-1 Year	1-2 Years	2-3 Years	3-5 Years	5-7 Years	7-10 Years	10-15 Years	15-20 Years	20-30 Years	30+ Years
SSgA Passive Bond Mkt SL CTF	1.26	10.92	10.99	18.15	17.59	29.47	2.74	2.70	6.04	0.13
Lehman Aggregate Index	0.03	12.01	9.58	21.25	15.89	29.23	3.21	2.43	6.10	0.27

Economic Sectors

Manager	Treasury	Agency	Finance	Industrial	Utility	Non-US Credit	MBS	ABS	CMBS	Cash
SSgA Passive Bond Mkt SL CTF	25.91	11.18	8.21	8.90	1.77	3.18	34.81	0.86	4.09	1.10
Lehman Aggregate Index	24.91	11.15	8.37	9.16	1.86	3.72	34.93	1.18	4.71	0.00

Private Equity
June 30, 2006

Fund Summary

- As of June 30, 2006, the Ohio Bureau of Worker's Compensation total private equity portfolio has an estimated internal rate of return (IRR) of 5.0%. This return is above the median IRR of -1.3%[1] reported by VentureXpert (formerly Venture Economics) for all private equity funds with vintage years of 1999 to 2006.
- Ohio BWC's buyout fund composite IRR as of June 30 is 10.7%, which outperforms the 3.6%[1] median IRR for buyout funds with similar vintage years.
- Ohio BWC's fund-of-fund composite IRR as of June 30 is 3.7%, which is above the -2.1%[1] median IRR for fund-of-funds with similar vintage years.
- BWC's mezzanine fund composite IRR as of June 30 is 15.4%, which outperforms the 6.7%[1] median IRR for mezzanine funds with similar vintage years.
- BWC's venture capital partnerships have an overall composite level IRR of -4.6%, which is slightly better than the -6.0%[1] median IRR for venture capital funds with similar vintage years.

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

Composite Level Totals

Fund Type	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 6/30/06 [2]	Net Annualized IRR	Upper Quartile [3]	Median	Lower Quartile
Buyout Fund Total	**$285,000,000**	**$184,678,032**	**$78,927,710**	**$152,814,436**	**10.73%**	13.10%	3.60%	-5.00%
Fund-of Funds Total	**$100,000,000**	**$71,545,709**	**$22,795,984**	**$54,909,809**	**3.66%**	8.30%	-2.10%	-8.80%
Mezzanine Total	**$60,000,000**	**$59,055,440**	**$34,707,042**	**$52,190,983**	**15.44%**	12.30%	6.70%	0.20%
Venture Capital Total	**$368,450,000**	**$231,503,038**	**$40,873,369**	**$167,544,323**	**-4.55%**	0.40%	-6.00%	-10.90%
Total	**$813,450,000**	**$546,782,219**	**$177,304,105**	**$427,459,551**	**5.04%**	**8.70%**	**-1.30%**	**-9.60%**

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

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

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

-Buyout Funds: 1999-2006

-Fund-of-Funds: 2000-2006

-Mezzanine Funds: 1998-2006

-Venture Capital: 2000-2006

-Total Private Equity: 1999-2006

WILSHIRE CONSULTING

Buyout Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 6/30/06 [2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Buyout Fund Total				**$285,000,000**	**$184,678,032**	**$78,927,710**	**$152,814,436**	**10.73%**	
Brantley Partners	Brantley Partners IV, LP	Buyout	1999	$15,000,000	$15,684,411	$6,260,069	$13,169,182	5.95%	Mar-06
ABS Capital Partners	ABS Capital Partners IV, LP	Buyout	2000	$15,000,000	$13,258,024	$5,664,437	$13,441,274	16.19%	Jun-06
Behrman Capital	Behrman Capital III, LP	Buyout	2000	$20,000,000	$14,881,163	$5,704,934	$10,086,667	2.04%	Dec-05
Blue Point Capital Partners	Blue Point Capital Partners, LP	Buyout	2000	$10,000,000	$7,787,253	$7,600,531	$4,254,833	13.72%	Jun-06
Carlyle Group	Carlyle Partners III, LP	Buyout	2000	$15,000,000	$15,810,990	$11,007,865	$13,678,621	17.95%	Sep-05
Fremont Partners	Fremont Partners III, LP	Buyout	2000	$15,000,000	$7,938,319	$6,695,156	$2,121,332	7.17%	Jun-06
Halpern, Denney & Co.	Halpern Denny Fund III, LP	Buyout	2000	$20,000,000	$18,300,000	$9,654,289	$12,261,557	5.59%	Jun-06
Rosemont Investment Partners	Rosemont Partners I, LP	Buyout	2000	$5,000,000	$4,522,709	$1,643,699	$2,793,582	-0.58%	Mar-05
Quad C Advisors	Quad-C Partners VI, LP	Buyout	2001	$15,000,000	$11,064,871	$7,843,984	$13,579,660	35.15%	Jun-06
Castle Harlan Inc.	Castle Harlan Partners IV, LP	Buyout	2002	$15,000,000	$10,768,241	$6,521,455	$6,002,692	13.26%	Jun-06
Wind Point Partners	Wind Point Partners V, LP	Buyout	2002	$10,000,000	$8,677,693	$2,250,200	$7,632,416	7.66%	Jun-06
Freeman Spogli & Co.	FS Equity Partners V, LP	Buyout	2003	$15,000,000	$5,710,951	$1,432,938	$4,288,458	0.15%	Jun-06
Kirtland Capital Corporation	Kirtland Capital Partners IV, LP	Buyout	2003	$5,000,000	$2,499,448	$218,180	$2,297,930	0.53%	Jun-06
Levine Leichtman Capital Partners	Levine Leichtman Capital Partners III, LP	Buyout	2003	$15,000,000	$8,097,352	$1,886,504	$7,470,383	13.24%	Jun-06
Sterling Partners	Sterling Capital Partners, LP	Buyout	2003	$15,000,000	$10,331,360	$2,877,580	$9,409,724	10.59%	Jun-06
Thayer Capital Partners	Thayer Equity Investors V, L.P.	Buyout	2003	$15,000,000	$11,331,756	$911,328	$13,153,150	14.44%	Jun-06
Carlyle Group	Carlyle Partners IV, LP	Buyout	2004	$20,000,000	$8,552,946	$0	$8,550,461	-0.07%	Sep-05
MCM Capital Partners	MCM Capital Partners II, LP	Buyout	2004	$5,000,000	$977,170	$0	$778,532	-27.84%	Jun-06
Rosemont Investment Partners	Rosemont Partners II, LP	Buyout	2004	$10,000,000	$2,559,986	$299,161	$1,863,823	-21.81%	Dec-05
ABS Capital Partners	ABS Capital Partners V, LP	Buyout	2005	$20,000,000	$2,823,389	$0	$2,570,570	-23.76%	Jun-06
Harbourvest Partners	HarbourVest Partners VII - Buyout Partnersh	Buyout	2003-2005	$10,000,000	$3,100,000	$455,400	$3,409,590	20.01%	Jun-06

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

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

WILSHIRE CONSULTING

Fund-of-Funds and Mezzanine Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date [1]	Distributions	Market Value as of 6/30/06 [2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Fund-of Funds Total				**$100,000,000**	**$71,545,709**	**$22,795,984**	**$54,909,809**	**3.66%**	
INVESCO Private Capital	Chancellor V, LP	Fund of Funds	2000	$20,000,000	$17,514,424	$3,801,711	$8,007,421	4.41%	Jun-06
Lexington Partners	Lexington Capital Partners V, LP	Fund of Funds	2002	$20,000,000	$17,145,796	$10,378,255	$14,028,842	25.75%	Jun-06
Peppertree Partners	The Peppertree Fund, LP	Fund of Funds	2000-2001	$10,000,000	$7,913,674	$3,013,000	$6,575,045	8.36%	Jun-06
Fort Washington Capital Partners	Fort Washington Private Equity Investors III	Fund of Funds	2000-2003	$15,000,000	$12,023,858	$2,594,126	$10,079,532	1.70%	Mar-06
INVESCO Private Capital	INVESCO Venture Partnership Fund III, LP	Fund of Funds	2000-2004	$12,000,000	$7,899,252	$914,169	$6,426,580	-2.81%	Mar-06
INVESCO Private Capital	INVESCO US Buyout & Expansion Capital	Fund of Funds	2001-2003	$8,000,000	$3,498,190	$1,528,278	$4,526,019	21.13%	Mar-06
Fort Washington Capital Partners	Fort Washington Private Equity Investors IV	Fund of Funds	2003-2005	$15,000,000	$5,550,515	$566,445	$5,266,370	7.61%	Dec-05
Mezzanine Total				**$60,000,000**	**$59,055,440**	**$34,707,042**	**$52,190,983**	**15.44%**	
Smith Whiley & Company	SW Pelham Fund II, L.P.	Mezzanine	1998	$10,000,000	$7,623,221	$3,336,206	$6,301,044	15.20%	Jun-06
ABRY Partners	ABRY Mezzanine Partners, LP	Mezzanine	2001	$5,000,000	$6,660,417	$3,196,708	$4,497,804	12.20%	Jun-06
TCW/Crescent Mezzanine	TCW/Crescent Mezzanine Partners III, LP	Mezzanine	2001	$15,000,000	$14,192,188	$17,153,539	$9,218,790	37.97%	Jun-06
Babson Capital Management, LLC	Tower Square Capital Partners, LP	Mezzanine	2002	$10,000,000	$9,545,957	$4,590,764	$6,779,914	12.09%	Jun-06
Smith Whiley & Company	SW Pelham Fund, L.P.	Mezzanine	2003	$20,000,000	$21,033,657	$6,429,824	$25,393,431	10.04%	Jun-06

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

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

WILSHIRE CONSULTING

Venture Capital Funds

Fund Type	Fund Name	Type	Vintage Year	BWC Commitment	BWC Contributions to Date[1]	Distributions	Market Value as of 6/30/06[2]	Net Annualized IRR	Last Reported Market Value Received from General Partner
Venture Capital Total				**$368,450,000**	**$231,503,038**	**$40,873,369**	**$167,544,323**	**-4.55%**	
Athenian Venture Partners	Athenian Venture Partners II, LP	Venture	2000	$17,500,000	$16,290,732	$6,280,197	$6,214,631	-11.34%	Mar-06
Blue Chip Venture Company	Blue Chip IV, LP	Venture	2000	$20,000,000	$17,400,000	$2,218,257	$9,626,835	-16.04%	Jun-06
Meritech Capital Partners	Meritech Capital Partners II, LP	Venture	2000	$11,250,000	$9,318,750	$1,541,495	$7,329,998	-1.91%	Dec-06
Perseus-Soros Management Company	Perseus-Soros Biopharmaceutical Fund, LP	Venture	2000	$5,000,000	$3,901,321	$2,660,534	$3,816,287	22.01%	Jun-06
Pharos Capital Group	Pharos Capital Partners, LP	Venture	2000	$5,000,000	$4,700,000	$653,204	$4,149,986	0.54%	Jun-06
Primus Venture Partners	Primus Capital Fund V, LP	Venture	2000	$20,000,000	$15,270,000	$5,510,000	$9,916,574	0.37%	Jun-06
Technology Venture Partners	Technology Venture Partners, L.P.	Venture	2000	$16,000,000	$7,975,000	$578,885	$4,741,517	-34.15%	Jun-06
Ascend Venture Group	Ascend Ventures, LP	Venture	2001	$5,000,000	$4,994,291	$1,174,992	$1,402,533	-23.52%	Jun-06
Axxon Capital Advisors	Axxon Capital, LP	Venture	2001	$3,000,000	$2,501,350	$719,422	$1	-29.65%	Dec-05
Carlyle Group	Carlyle Venture Partners II, LP	Venture	2001	$25,000,000	$28,248,540	$11,187,654	$17,646,052	1.17%	Sep-05
Edgewater Funds	Edgewater Growth Capital Partners, LP	Venture	2001	$10,000,000	$10,500,000	$2,628,856	$10,392,824	13.96%	Mar-06
Meritage Private Equity Funds	Meritage Private Equity II, LP	Venture	2001	$15,000,000	$ 9,755,322	$1,734,159	$6,650,577	-6.46%	Jun-06
Adena Ventures	Adena Ventures, LP	Venture	2002	$500,000	$400,000	$38,606	$209,901	-57.09%	Dec-05
Apex Venture Partners	Apex Investment Fund V, LP	Venture	2002	$10,000,000	$8,344,158	$364,923	$8,589,279	3.69%	Dec-05
Early Stage Partners	Early Stage Partners, LP	Venture	2002	$9,000,000	$7,670,122	$0	$5,783,480	-15.01%	Jun-06
Edison Venture Fund	Edison Venture Fund V, LP	Venture	2002	$15,000,000	$10,200,000	$0	$12,769,406	10.04%	Jun-06
Buerk, Dale & Victor	Northwest Opportunity Fund, LP	Venture	2002	$20,000,000	$14,000,000	$35,386	$11,947,107	-9.16%	Jun-06
Prospector Equity Capital	Prospector Equity Capital, LP	Venture	2002	$15,000,000	$9,049,980	$0	$6,742,540	-15.05%	Jun-06
River Cities Capital Funds	River Cities Capital Fund III, LP	Venture	2002	$5,000,000	$3,681,526	$699,683	$3,468,407	6.45%	Jun-06
Adams Street Partners	Adams Street V, LP	Venture	2003	$8,000,000	$5,440,000	$783,964	$4,551,866	-1.41%	Jun-06
Athenian Venture Partners	AVP Ohio Technology I, LP	Venture	2003	$10,000,000	$4,455,581	$0	$3,712,179	-11.53%	Dec-05
Athenian Venture Partners	AVP Technology II, LP	Venture	2003	$2,200,000	$2,200,000	$0	$357,437	-46.39%	Dec-05
MK Capital Management	MK Capital, LP	Venture	2003	$10,000,000	$3,000,000	$866,103	$1,568,778	-11.99%	Dec-05
MWV Pinnacle Management Co.	MWV Pinnacle Capital Fund, LP	Venture	2003	$2,000,000	$809,025	$0	$6,111	NA	Jun-06
Reservoir Venture Partners	Reservoir Venture Partners, LP	Venture	2003	$5,000,000	$2,234,413	$252,833	$1,582,110	-11.17%	Jun-06
Ascend Venture Group	Ascend Ventures II, LP	Venture	2004	$7,500,000	$2,356,551	$0	$1,814,758	-24.57%	Jun-06
Athenian Venture Partners	Athenian Venture Partners III, LP	Venture	2004	$25,000,000	$5,447,224	$0	$4,601,994	-16.99%	Mar-06
Charter Life Sciences	Charter Life Sciences, LP	Venture	2004	$5,000,000	$1,266,218	$0	$980,961	-24.69%	Jun-06
Draper Triangle Ventures	Draper Triangle Ventures II, LP	Venture	2004	$5,000,000	$939,093	$157,831	$586,200	-25.80%	Jun-06
EDF Ventures	EDF Ventures III, LP	Venture	2004	$10,000,000	$2,674,897	$0	$2,408,216	-10.01%	Jun-06
Seneca Partners	Seneca Health Partners, LP I	Venture	2004	$1,500,000	$555,000	$0	$417,706	-19.79%	Jun-06
Triathlon Medical Ventures	Triathlon Medical Ventures Fund, LP	Venture	2004	$5,000,000	$1,461,188	$0	$833,201	-30.78%	Jun-06
Edgewater Funds	Edgewater Growth Capital Partners II, LP	Venture	2005	$25,000,000	$4,000,000	$0	$3,668,738	-31.62%	Jun-06
Harbourvest Partners	HarbourVest Partners VII - Venture	Venture	2003-2005	$15,000,000	$4,875,000	$222,750	$4,782,215	2.39%	Jun-06
Sema4 Inc.	Midwest Economic Opportunity Fund, LP	Venture	N/A	$5,000,000	$5,587,758	$563,637	$4,273,918	-3.60%	NA

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

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

WILSHIRE CONSULTING

Notes to Performance Report

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

WILSHIRE CONSULTING

Glossary

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

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

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

Market review

Overall, the economic reports released in the third quarter pointed to further slowing in economic growth. Payrolls were up an average of 125,000 in July and August, compared to a 3-month average of over 160,000 at the start of the year, while the unemployment rate slipped to 4.7% from 4.8% in July. Initial jobless claims remained stable throughout the quarter, suggesting that the slowdown in economic activity has not yet translated into an increase in the number of layoffs but rather simply a more cautious view in the pace of hiring. The recent fall in gas prices resulted in an improvement in consumer confidence with both the Conference Board Consumer Confidence and the University of Michigan Consumer Sentiment surveys reporting rebounds in September, following declines in the previous month caused by higher energy prices. Despite the September plunge in the Philly Fed manufacturing report, most regional surveys released since the beginning of the quarter, along with the national ISM survey, suggested the manufacturing sector seems to be holding up well.

Housing data reported in the same period pointed to further deterioration in that sector. Existing home sales, which make up roughly 85% of the overall housing market, continued to slip, falling for the fifth consecutive month in August. Housing starts and building permits also declined. Although August new homes sales rebounded for the first time since March, monthly new home sales figures reported for May - July were all revised downward. In addition, despite the fact that 30-year fixed mortgage rates fell to their lowest level since January, the weekly MBA index of purchase applications dropped further.

Core CPI rose by 0.2% in both July and August, pushing its year-on-year increase to 2.8%, from 2.7% previously. The core PCE deflator increased in July and August, edging up by 0.1% and 0.2% respectively, translating into a year-on-year increase of 2.5%, from a downward revised 2.3%. On balance, however, price pressures have begun to ease as a result of the moderation in economic growth.

The U.S. Treasury yield curve was slightly more inverted on the quarter, as the spread between two- and five-year Treasury notes ended September at -10 basis points (bps), down from -6 bps at the end of June.

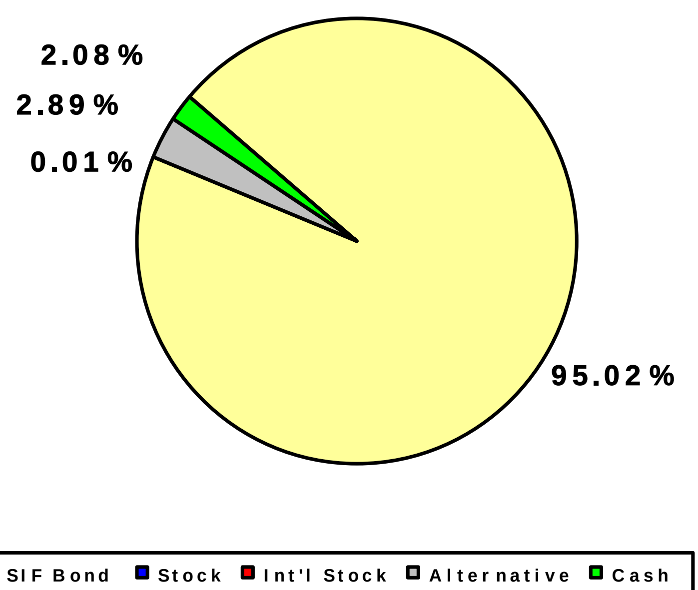
Outlook

We look for the Fed to stay on the sidelines for the balance of the year. Q3 GDP is expected to grow at an annualized rate of 2.6% with residential construction subtracting 1.0% from overall growth. Meanwhile, we believe that the correction in housing is half way over and that it should begin to dissipate by Q1 of next year. Lastly, capital spending is expected to remain solid throughout the rest of the year.

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

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	$14,839,557,051	95.02%
International Stock Total*	$1,493,961	0.01%
Alternative Asset Total	$451,531,286	2.89%
Cash Reserve Total	$324,986,787	2.08%
GRAND TOTAL	**$15,617,569,085**	



*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 September, 2006

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total SIF Investments	0.86%	0.88%	-0.02%	3.71%	3.81%	-0.10%	7.62%
Total SIF ex Alternatives	0.87%	0.88%	-0.01%	3.76%	3.81%	-0.05%	7.41%
SIF Bonds	0.88%	0.88%	0.00%	3.80%	3.81%	-0.01%	4.76%
International Stocks	-1.49%	N/A	N/A	5.59%	N/A	N/A	15.29%
Alternative	0.50%	N/A	N/A	1.43%	N/A	N/A	9.79%
Cash	0.57%	0.46%	0.11%	2.25%	1.33%	0.92%	5.54%
Tranche #3 - TM	-9.99%	0.88%	-10.87%	14.24%	3.81%	10.43%	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

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

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total SIF Investments	0.86%	0.88%	-0.02%	3.72%	3.81%	-0.09%	7.77%
Total SIF ex Alternative	0.87%	0.88%	-0.01%	3.75%	3.81%	-0.06%	7.55%
SIF Bonds	0.88%	0.88%	0.00%	3.80%	3.81%	-0.01%	4.76%
International Stocks	-1.49%	N/A	N/A	5.59%	N/A	N/A	15.43%
Alternative	0.50%	N/A	N/A	1.42%	N/A	N/A	9.79%
Cash	0.65%	0.46%	0.19%	2.79%	1.33%	1.46%	6.31%
Tranche #3 - TM	-9.99%	0.88%	-10.87%	14.24%	3.81%	10.43%	N/A

BENCHMARK INFORMATION:

•Lehman Brothers Aggregate Index

•M.L. 3 Month US T-Bill

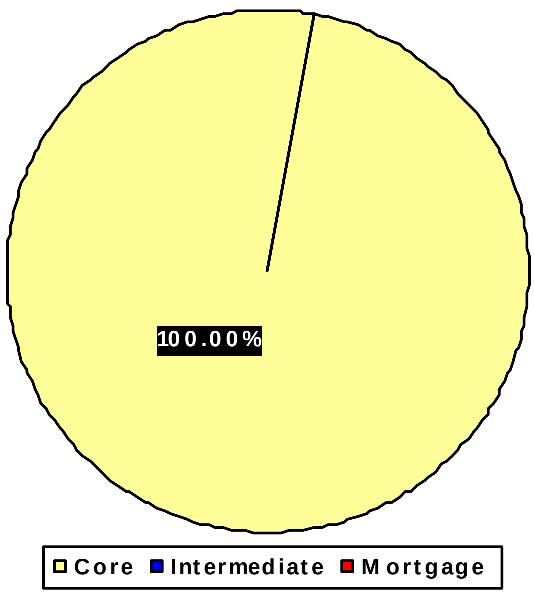
Summary of Monthly Performance Attribution:

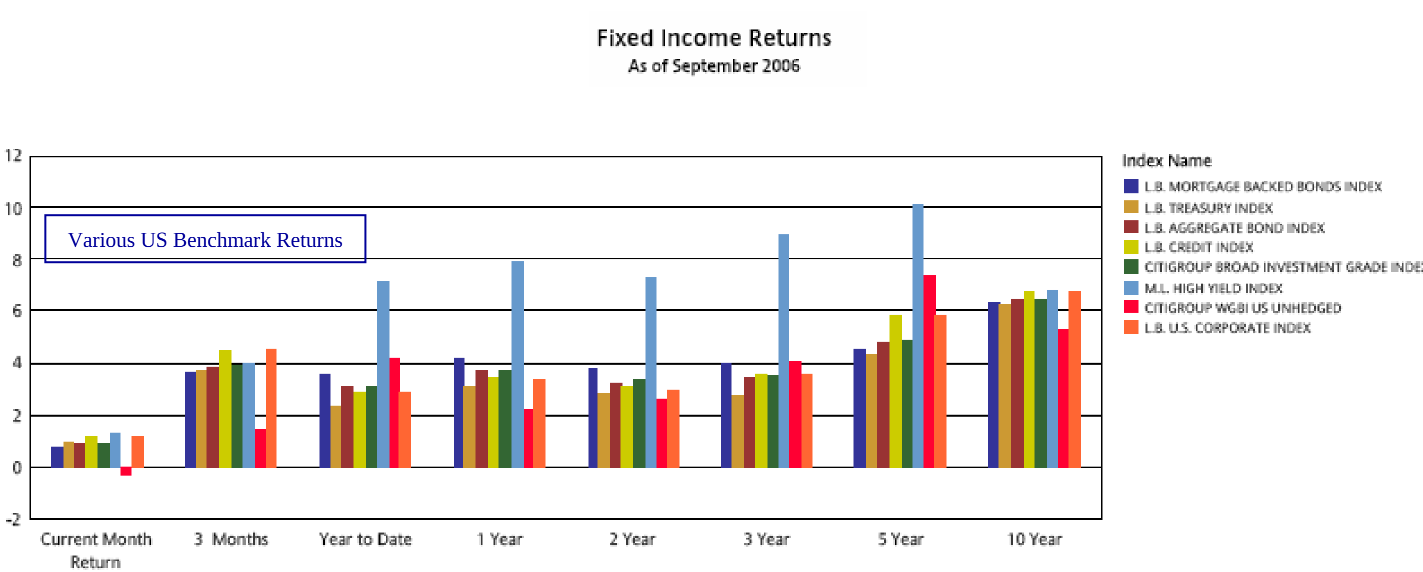
•BWC's Total SIF performed underperformed its' Benchmark by 0.02% for the period.

•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
September, 2006





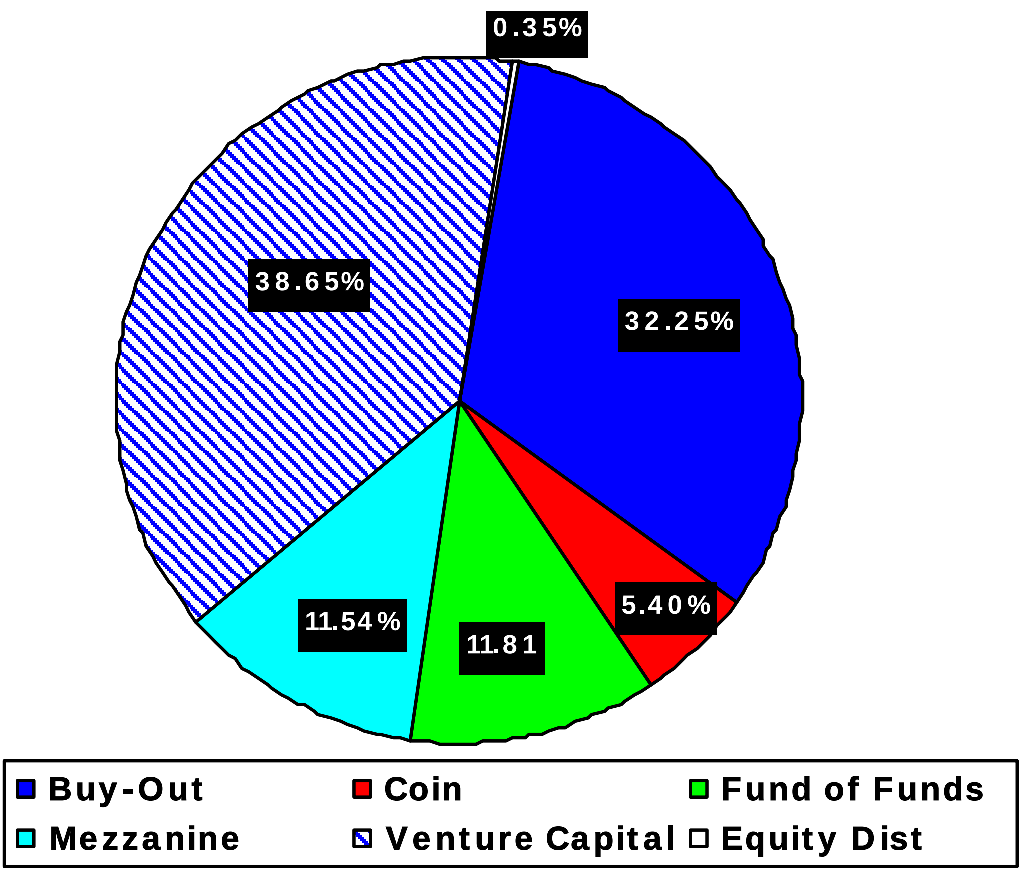
*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

Ohio Bureau of Workers' Compensation
State Insurance Fund

Alternative Asset Allocation

September, 2006



JPMorgan

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

Manager	Type	Fees Paid	Period Paid for
James Investment Research	Equity	$81,882.25	4th Qtr 2005
Buckhead Capital	Equity	$26,293.01	4th Qtr 2005
Blaylock Abacus Financial Group, Inc.	Bond	$3,676.82	1st Qtr 2006
Capital Guardian Trust Company	Int'l Equity	$312,833.95	4th Qtr 2005
Total Fees Paid		**$424,686.03**	

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

Market review

Overall, the economic reports released in the third quarter pointed to further slowing in economic growth. Payrolls were up an average of 125,000 in July and August, compared to a 3-month average of over 160,000 at the start of the year, while the unemployment rate slipped to 4.7% from 4.8% in July. Initial jobless claims remained stable throughout the quarter, suggesting that the slowdown in economic activity has not yet translated into an increase in the number of layoffs but rather simply a more cautious view in the pace of hiring. The recent fall in gas prices resulted in an improvement in consumer confidence with both the Conference Board Consumer Confidence and the University of Michigan Consumer Sentiment surveys reporting rebounds in September, following declines in the previous month caused by higher energy prices. Despite the September plunge in the Philly Fed manufacturing report, most regional surveys released since the beginning of the quarter, along with the national ISM survey, suggested the manufacturing sector seems to be holding up well.

Housing data reported in the same period pointed to further deterioration in that sector. Existing home sales, which make up roughly 85% of the overall housing market, continued to slip, falling for the fifth consecutive month in August. Housing starts and building permits also declined. Although August new homes sales rebounded for the first time since March, monthly new home sales figures reported for May - July were all revised downward. In addition, despite the fact that 30-year fixed mortgage rates fell to their lowest level since January, the weekly MBA index of purchase applications dropped further.

Core CPI rose by 0.2% in both July and August, pushing its year-on-year increase to 2.8%, from 2.7% previously. The core PCE deflator increased in July and August, edging up by 0.1% and 0.2% respectively, translating into a year-on-year increase of 2.5%, from a downward revised 2.3%. On balance, however, price pressures have begun to ease as a result of the moderation in economic growth.

The U.S. Treasury yield curve was slightly more inverted on the quarter, as the spread between two- and five-year Treasury notes ended September at -10 basis points (bps), down from -6 bps at the end of June.

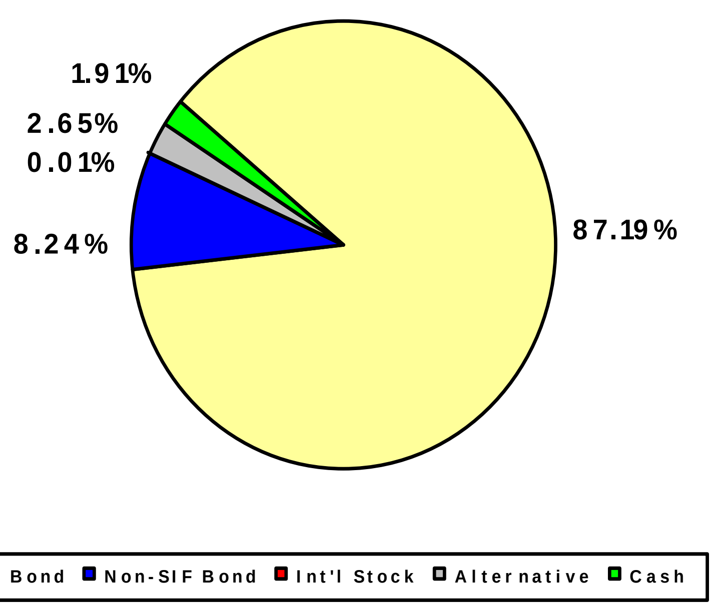
Outlook

We look for the Fed to stay on the sidelines for the balance of the year. Q3 GDP is expected to grow at an annualized rate of 2.6% with residential construction subtracting 1.0% from overall growth. Meanwhile, we believe that the correction in housing is half way over and that it should begin to dissipate by Q1 of next year. Lastly, capital spending is expected to remain solid throughout the rest of the year.

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

Portfolio Balances

Portfolio	Market Value	Percent of Total Assets
SIF Bond Total	$14,839,557,051	87.19%
Non-SIF Bond Total	$1,402,105,749	8.24%
International Stock Total*	$1,493,961	0.01%
Alternative Asset Total	$451,531,286	2.65%
Cash Reserve Total	$324,986,787	1.91%
GRAND TOTAL	**$17,019,674,834**	



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

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

	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Net of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Net of Fees)
BWC Total Fund Investments	0.86%	0.88%	-0.02%	3.71%	3.81%	-0.10%	7.78%
Total Fund ex Alternatives	0.87%	0.88%	-0.01%	3.74%	3.81%	-0.07%	7.58%
Non-SIF Bonds	0.88%	0.88%	0.00%	3.71%	3.81%	-0.10%	4.46%
SIF Bonds	0.88%	0.88%	0.00%	3.80%	3.81%	-0.01%	4.76%
International Stocks	-1.49%	N/A	N/A	5.59%	N/A	N/A	15.29%
Alternative	0.50%	N/A	N/A	1.43%	N/A	N/A	9.79%
Cash	0.57%	0.46%	0.11%	2.25%	1.33%	0.92%	5.54%
Tranche #3 - TM	-9.99%	0.88%	-10.87%	14.24%	3.81%	10.43%	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 September, 2006

	BWC Investment Returns Monthly (Gross of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Months Trailing (Gross of Fees)	Benchmark Returns 3 Months Trailing	Benchmark Variance	BWC Investment Returns 12 Months Trailing (Gross of Fees)
BWC Total Fund Investments	0.86%	0.88%	-0.02%	3.72%	3.81%	-0.09%	7.91%
Total Fund ex Alternatives	0.87%	0.88%	-0.01%	3.78%	3.81%	-0.03%	7.74%
Non-SIF Bonds	0.88%	0.88%	0.00%	3.74%	3.81%	-0.07%	4.46%
SIF Bonds	0.88%	0.88%	0.00%	3.80%	3.81%	-0.01%	4.76%
International Stocks	-1.49%	N/A	N/A	5.59%	N/A	N/A	15.43%
Alternative	0.50%	N/A	N/A	1.42%	N/A	N/A	9.79%
Cash	0.65%	0.46%	0.19%	2.79%	1.33%	1.46%	6.31%
Tranche #3 - TM	-9.99%	0.88%	-10.87%	14.24%	3.81%	10.43%	N/A

BENCHMARK INFORMATION:

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

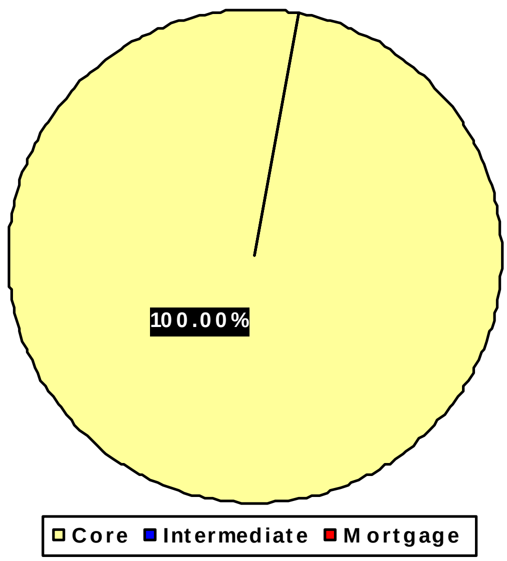
Summary of Monthly Performance Attribution:

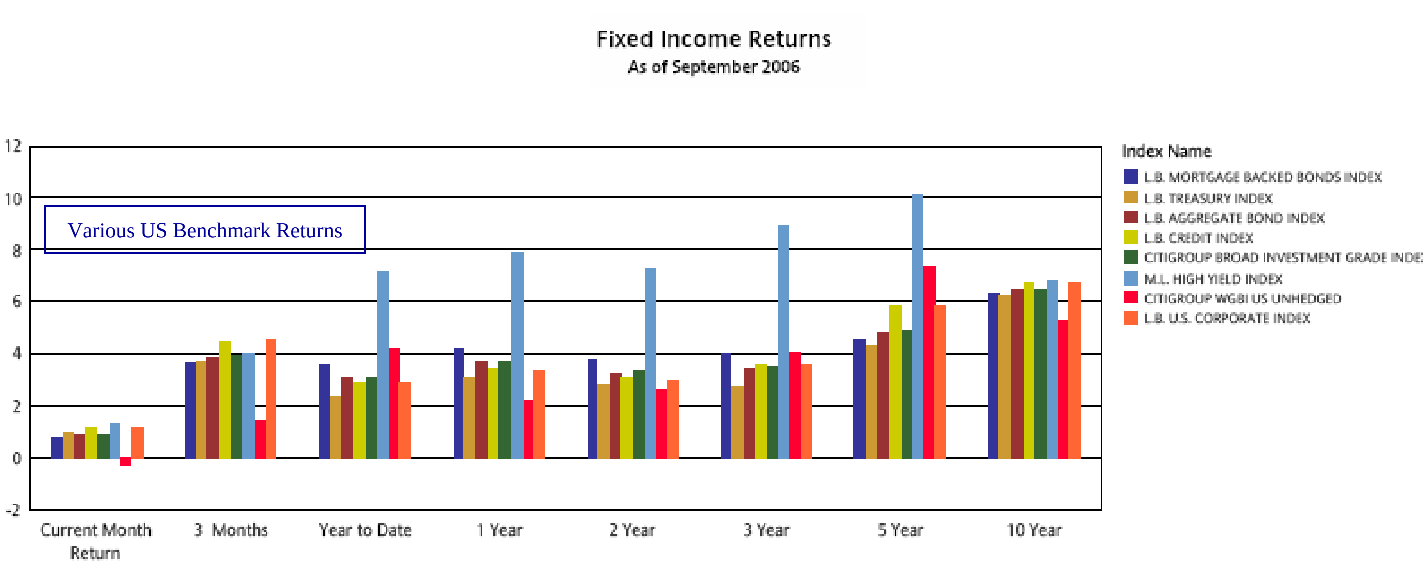
- **BWC's Total Fund underperformed its' Benchmark by 0.02% for the period.**
- **Performance Relative to Benchmark:**

  (+) BWC's Non-SIF Bond Portfolio performed comparably to 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
September, 2006

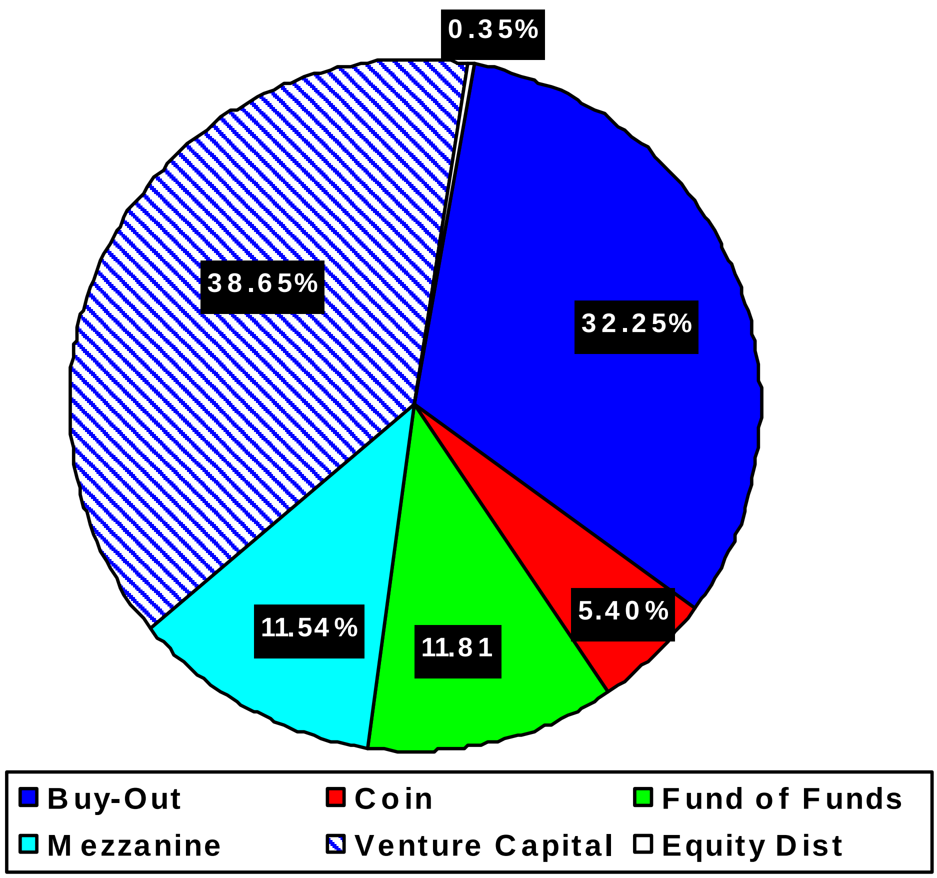




*Style classification does not consider fixed income assets contained in the Transition Management Accounts

JPMorgan

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



JPMorgan

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

Manager	Type	Fees Paid	Period Paid for
James Investment Research	Equity	$81,882.25	4th Qtr 2005
Buckhead Capital	Equity	$26,293.01	4th Qtr 2005
Blaylock Abacus Financial Group, Inc.	Bond	$3,676.82	1st Qtr 2006
Capital Guardian Trust Company	Int'l Equity	$312,833.95	4th Qtr 2005
Total Fees Paid		**$424,686.03**	

TO: Workers' Compensation Oversight Commission
Investment Committee
Audit Committee

FROM: Tracy L. Valentino, Interim Chief Financial Officer

SUBJECT: State Street Global Advisors

DATE: November 1, 2006

At the request of members of BWC's WCOC/IC/AC, BWC's Investment, Legal, Internal Audit and Finance Divisions undertook a review of State Street Bank & Trust's structure and controls in an effort to gain an understanding of their processes. In addition, Finance was asked to render an opinion as to the appropriateness of those controls relative to BWC's financial statements.

In April 2006, approximately 95% of BWC's investment portfolio was invested in a passive bond index fund managed by State Street Global Advisors (SSGA). During the August WCOC/IC/AC meetings, committee members expressed concerns regarding State Street's dual role of asset manager and custodian of the underlying securities in SSGA.

Based on information obtained, State Street Bank & Trust is one of the largest custodians in the world. The firm has a strong corporate governance structure with a strict ethical culture. State Street is staffed with high experienced professionals. In addition, State Street utilizes Price Waterhouse Coopers (PWC) as an outside auditor for financial statement auditing and preparation of a SAS 70 review on control activities and processes. PWC also performs Sarbanes-Oxley reviews on a regular basis.

In an effort to gain an understanding of State Street's processes and controls, BWC's Internal Audit and Finance Divisions staff obtained a copy of the SAS 70 completed for the period ended June 30, 2005. The SAS 70 delineates the processes in which transactions and values are reconciled, compliance monitoring functions are performed, and segregation of duties between departments within the asset management line (SSGA) and assets services line (custodial bank) exist. In addition, BWC Finance Division staff reviewed internal controls such as reconciliations between SSGA and State Street Bank & Trust information, calculation of monthly income, and market value calculations. In addition, BWC's Finance Division reviewed the controls in place within BWC for recording investment activity in the financial statements.

In summary, BWC's Interim Chief Financial Officer is satisfied that the proper controls, processes and segregation of duties are in place to properly record the value of this investment for financial statement purposes. BWC's Finance Division will continue to work closely with the Internal Audit and Investment Divisions as ongoing control testing occurs to ensure the proper processes and controls continue to function as designed.

DATE: November 6, 2006

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **BWC Invested Assets Custody Recommendation**

The Ohio Bureau of Workers' Compensation (BWC) will be undertaking substantial movements of its invested securities assets in the upcoming months as it executes its new investment asset allocation policy, as evidenced in the two attachments. The specific sector asset mandates and anticipated timelines for transitioning these investment assets totals over $16 billion in assets at current market value.

All of the assets invested in the custom commingled Ohio Passive Bond Index Fund (Ohio Fund) managed by State Street Global Advisors for the State Insurance Fund ($14.9b), Disabled Workers Fund ($1.1b) and Coal Workers Fund ($0.2b) will be transitioned out of the Trust to fulfill the new investment mandates. A total of 8 separate asset allocation mandates are involved in this large transition divided evenly between passive management and active management (see attachments). It is my anticipation that two managers will be selected for three of the four passive management mandates , the exception being the Passive Non-U.S. Equity mandate where one manager will be recommended due to the relatively small funds (under $200 million) being invested. With respect to the four active management mandates, it is my preliminary thoughts that an average of between two and four active managers may be selected per mandate. As a result, it is estimated a total of approximately 20 or slightly more separate outside investment managers will ultimately be managing assets for BWC in many different styles (passive/active, fixed income/equity).

It is the opinion of the BWC Chief Investment Officer that the custodianship of all assets involved in these many new managed accounts be centralized with one custodian, namely JP Morgan Chase Bank (JP Morgan), in a separate account custody structure for each new account, at least through the completion of this major asset transition. This large asset allocation transition involving many new managers will be occurring at the same time that an anticipated new and improved investment accounting system will be selected, implemented and learned. There is the concern that if several new custodian banks beyond State Street Bank and Trust Company (State Street) and JP Morgan become involved, the risk of initial integration of record-keeping systems and maintenance of daily investment activity information flow may be compromised. It is critical that the Investment Division not compromise its internal monitoring and overall compliance duties of the BWC invested assets during this asset transition implementation phase. Once a new investment accounting system (with full compliance capabilities) is effectively operational at BWC, the Investment Division may in the future reconsider a commingled trust structure for certain easy to monitor passively managed portfolios (such as Large Cap S&P 500 and TIPS) to effect a lower fee structure.

The BWC Administrator, CIO, Director of Investments and several other members of senior management recently had direct discussions with Ohio Treasurer of State Bradley on the subject of custody of assets. The Treasurer of State is the legal custodian of the BWC invested assets. Treasurer Bradley was understanding of the current custom commingled custodian structure of the Ohio Fund assets both custodied and managed at State Street. The Treasurer was informed of the BWC new asset transition strategy and estimated timeframe for implementation, whereby the assets in the Ohio Fund will be sold systematically to fund the transition to the new asset allocation target. The Treasurer of State Office (TOS) has a preference for JP Morgan to serve as the bank custodian of BWC.

JP Morgan currently serves as the appointed custodian of the State of Ohio for both BWC and the Ohio Public Employee Retirement System. JP Morgan is being renewed by TOS for an additional two years at a more favorable fee structure to the BWC. The BWC Investment Division has a very good working relationship with JP Morgan and that organization continues to provide excellent service to satisfy our needs.

RECOMMENDATION: It is the recommendation of the BWC Chief Investment Officer that each new portfolio account created from the implementation of the new BWC asset allocation policy be custodied in a separate account structure with JP Morgan Chase (the appointed custodian of the State of Ohio for the BWC).

BWC INVESTED ASSET SECTOR TRANSITION FUNDS
October 31, 2006

Above excludes Cash Assets targeted at 1% of Total Assets or $162 million on October 31, 2006
Above reflects Transition Funds for State Insurance Fund, Disabled Workers Fund and Coal Workers Fund combined

BWC Transition Funds
RFP Timelines
November 2006

BWC ASSETS

Passive Management	September-06	October-06	November-06	December-06	January-07	February-07	March-07	April-07
$4.5 Billion	Passive Long Duration Fixed Income							
$3.3 Billion	Passive U.S. TIPS							
$2.0 Billion	Passive U.S. Large Cap Equity							
$0.2 Billion	Passive Non-U.S. Equity							
$9.9 Billion (Passive Total) (rounding)								
Active Management								
$4.4 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		
$6.3 Billion (Active Total)								
$16.2 Billion (Grand Total)								

RFP Timelines are estimated time periods from RFP issuance to RFP completion with respective recommendation for approval to the BWC Investment Committee and WCOC.
Transition Funds include State Insurance Fund, Disabled Workers Fund, and Coal Workers Fund Combined.
Asset sized based on Oct. 31, 2006 valuation of transition funds.

DATE: November 6, 2006

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Securities Lending Termination Recommendation**

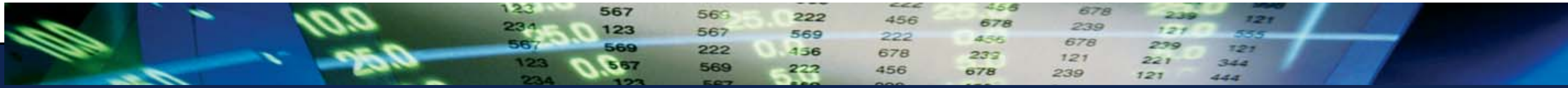
The Ohio Bureau of Workers' Compensation (BWC) will be involved in a large transition of its invested assets from the Ohio Passive Bond Index Fund (Ohio Fund) managed by State Street Global Advisors. All of the securities owned in the Ohio Fund (currently numbering around 2,400) will be sold in stages to fund the purchase of each new asset allocation mandate consistent with the new BWC investment policy.

In order to dispose of each bond issue in the Ohio Fund, it is necessary for each issue to not be out on loan. Each security must be free of loan so as to allow each transition manager assigned by BWC the flexibility to select the issues deemed most appropriate to sell in order to fund the purchase of new assets. Each BWC approved transition manager will carefully choose assets to sell from the Ohio Fund with the objective of the remaining assets maintaining the overall characteristics of its benchmark index. State Street has the fiduciary obligation to manage the Ohio Fund to track the Lehman Aggregate Index until such time as the Ohio Fund is closed.

Provided as an attachment in this tab is a Securities Lending Summary report prepared by State Street showing the results of the Ohio Fund from April 2006 inception through September 2006. BWC has earned $3,418,175 during this six-month period or an average of $569,696 per month at an average return to lendable assets of 6.96 basis points. State Street has managed the securities lending activity of the Ohio Fund in an effective manner. A high percentage of near 90% of U.S. treasury securities balances have consistently been on loan during the management of the program.

The BWC CIO, Director of Investments, Senior Investment Manager (Doug Walouke) and Mark Brubaker of Wilshire Associates visited State Street recently to specifically review its Securities Lending program. This group came to the conclusion that State Street has a very impressive team of professionals devoted specifically to this activity. State Street has a deep team of professionals specializing in global collateral management, operations, credit research and compliance that are fully integrated to make the State Street securities lending activity arguably "best in class" among all custodian securities lenders in the world.

RECOMMENDATION: It is the recommendation of the BWC Chief Investment Officer that the Securities Lending activity managed by State Street be terminated at this time for the purpose of accommodating the BWC asset allocation transition strategy. State Street has represented that a very high percentage of current BWC owned securities on loan can be recalled with several days, with only a few corporate bond issues on loan possibly taking up to 30 days to be off loan.



Ohio Bureau of Workers' Compensation

Securities Lending Reports April – September 2006

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

Year-to-Date Through September 2006

	Avg. Lendable Assets	Avg. Collateral Balance	Avg. On-Loan Balance	Avg. Collateral Margin	% On Loan	Client Earnings (80%)	Bank Earnings (20%)	Net Earnings (100%)	Return to Lendable Assets (bps)
Program									
U.S. Corporate Bond & Equity									
Corporate Bond	$2,882,346,556	$182,453,077	$178,818,809	102.0%	6.2%	$111,187	$27,797	$138,984	0.81
Total	2,882,346,556	182,453,077	178,818,809	102.0	6.2	111,187	27,797	138,984	0.81
U.S. Government									
Agency	3,550,319,486	876,054,742	858,191,277	102.1	24.2	289,861	71,965	359,827	1.70
Treasury	3,899,850,299	3,603,936,963	3,499,915,095	103.0	89.8	3,019,127	754,782	3,773,908	16.28
Total	7,450,169,785	4,479,991,706	4,358,106,372	102.8	58.5	3,306,988	826,747	4,133,735	9.33
Grand Total	$10,332,516,341	$4,662,444,782	$4,536,925,182	102.8%	43.9%	$3,418,175	$854,544	$4,272,719	6.96

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting
April 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
US Corporate Bond & Equity							
Corporate Bond	$2,975,867,370	$143,206,390	$140,253,883	4.70%	$15,303.83	$19,129.79	0.77
Total	2,975,867,370	143,206,390	140,253,883	4.7	15,303.83	19,129.79	0.77
US Government							
Agency	3,417,489,397	390,667,821	382,237,229	11.2	29,347.46	36,684.33	1.29
Treasury	4,318,645,373	3,708,536,032	3,588,405,739	83.1	410,997.78	513,747.22	14.28
Total	7,736,134,770	4,099,203,853	3,970,642,968	51.3	440,345.24	550,431.55	8.54
Grand Total	$10,712,002,139	$4,242,410,243	$4,110,896,851	38.40%	$455,649.07	$569,561.34	6.38

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

May 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
US Corporate Bond & Equity							
Corporate Bond	$3,093,488,258	$365,660,464	$358,145,743	11.60%	$32,117.16	$40,146.45	1.51
Total	3,093,488,258	365,660,464	358,145,743	11.6	32,117.16	40,146.45	1.51
US Government							
Agency	3,944,942,246	780,508,972	764,156,512	19.4	66,382.26	82,977.83	2.44
Treasury	4,182,793,114	3,989,051,713	3,869,690,932	92.5	619,850.49	774,813.11	21.51
Total	8,127,735,360	4,769,560,686	4,633,847,444	57	686,232.75	857,790.94	12.26
Grand Total	$11,221,223,617	$5,135,221,149	$4,991,993,187	44.50%	$718,349.91	$897,937.39	9.29

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting
June 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
U.S. Corporate Bond & Equity							
Corporate Bond	$3,115,093,023	$216,419,705	$212,007,053	6.80%	$18,762.85	$23,453.56	0.90
Total	3,115,093,023	216,419,705	212,007,053	6.80	18,762.85	23,453.56	0.90
U.S. Government							
Agency	3,987,034,970	970,980,195	951,497,281	23.90	55,375.86	69,213.82	2.08
Treasury	4,104,676,338	3,949,040,116	3,803,051,087	92.70	590,052.22	737,565.28	21.56
Total	8,091,711,308	4,920,020,311	4,754,548,368	58.80	645,428.08	806,779.10	11.96
Grand Total	$11,206,804,331	$5,136,440,016	$4,966,555,421	44.30%	$664,190.93	$830,232.66	8.89

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

July 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
U.S. Corporate Bond & Equity							
Corporate Bond	$3,186,296,811	$165,156,437	$161,953,055	5.10%	$7,484	$9,355	0.34
Total	3,186,296,811	165,156,437	161,953,055	5.10	7,484	9,355	0.34
U.S. Government							
Agency	4,115,623,029	1,178,852,140	1,154,003,143	28.00	8,764	10,955	0.31
Treasury	4,192,935,363	4,084,714,871	3,987,669,155	95.10	399,414	499,267	13.83
Total	8,308,558,392	5,263,567,011	5,141,672,298	61.90	408,178	510,223	7.13
Grand Total	$11,494,855,203	$5,428,723,448	$5,303,625,353	46.10%	$415,662	$519,577	5.25

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

August 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
U.S. Corporate Bond & Equity							
Corporate Bond	$3,218,204,154	$175,597,210	$172,513,279	5.40%	$17,449	$21,812	0.79
Total	3,218,204,154	175,597,210	172,513,279	5.40	17,449	21,812	0.79
U.S. Government							
Agency	4,180,547,891	1,311,661,353	1,286,412,996	30.80	63,063	78,829	2.19
Treasury	4,368,321,377	4,242,883,866	4,127,489,158	94.50	372,801	466,001	12.39
Total	8,548,869,268	5,554,545,219	5,413,902,154	63.30	435,864	544,830	7.40
Grand Total	$11,767,073,422	$5,730,142,429	$5,586,415,433	47.50%	$453,314	$566,642	5.59

Note: Returns and Spreads are annualized

Ohio BWC Securities Lending Summary

Ohio BWC Securities Lending Basis Point Return Reporting

September 2006

	Average Lendable Assets	Average Collateral Balance	Average On-Loan Balance	% On Loan	Client Earnings	Net Earnings	Return To Lendable Assets (bps)
Program							
U.S. Corporate Bond & Equity							
Corporate Bond	$3,367,265,270	$211,911,270	$207,614,091	6.20%	$20,070	$25,088	0.89
Total	3,367,265,270	211,911,270	207,614,091	6.20	20,070	25,088	0.89
U.S. Government							
Agency	4,289,383,061	1,469,029,553	1,438,962,881	33.50	60,781	75,976	2.13
Treasury	4,198,239,848	4,085,113,422	3,991,281,939	95.10	425,559	531,949	15.20
Total	8,487,622,909	5,554,142,975	5,430,244,820	64.00	486,340	607,925	8.59
Grand Total	$11,854,888,179	$5,766,054,245	$5,637,858,911	47.60%	$506,410	$633,012	6.41

Note: Returns and Spreads are annualized

DATE: November 6, 2006

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **State Street S&P 500 Index Common Trust Fund Investment Recommendation**

After further analysis and consideration, the Chief Investment Officer has concluded that it would not be prudent for the Ohio Bureau of Workers' Compensation (BWC) to enter into an interim asset management overlay strategy. This conclusion has been endorsed by the BWC Administrator/CEO of the BWC.

The purpose of an interim overlay strategy would be to provide BWC the ability to achieve its desired target asset allocation, as per its new investment policy approved in July 2006, in advance of the selection of new investment managers and the specific implementation of transition of assets from legacy portfolio (Ohio Passive Bond Market Index Fund or "Ohio Bond Fund") to the new target portfolios. An interim overlay strategy would involve the purchase of appropriate futures index contracts consistent with the target portfolio to achieve the desired exposure in the new asset class. These futures contracts would be held until such time as the actual transition to targeted assets occur, at which time the futures contracts would be unwound and sold systematically as targeted assets are purchased.

The major concerns with an interim overlay strategy for the BWC are (a) investment income sacrifice during the interim holding period, and (b) futures contracts accounting treatment.

The actual cost of a highly liquid futures index contract is quite low. For example, the purchase of $3 billion in notional value of S&P 500 futures contracts may cost less than $2 million. In order to avoid leverage with the purchase of the futures contract, however, BWC (through its overlay transition manager) would be required to sell $3 billion of bonds from the Ohio Bond Fund managed at State Street and invest all of these proceeds (less cash pledged towards required margin accounts) in overnight cash equivalent accounts that will typically earn less investment income than income earned from the Ohio Bond Fund.

The accounting treatment of futures contracts requires that the daily change in market value of such contracts be recognized and recorded as a realized gain or loss at the close of market each day. If the S&P 500 Index, for example, declines significantly over the holding period of such futures contracts, BWC would report a significant net loss on the futures contracts. This loss is realized despite the fact that the cheaper purchase price of the underlying S&P 500 stocks at transition implementation may fully offset the economic loss impact.

After concluding that an interim asset management overlay strategy is not an appropriate strategy for BWC to pursue to achieve target asset allocation in advance of transition management implementation, the CIO approached State Street Global Advisors (SSGA). The outstanding Trust Agreement that BWC entered into with State Street Bank and Trust in September 2005 currently allows BWC to invest in three custom commingled accounts: (1) State Street S&P 500 Index Common Trust Fund, (2) MSCI EAFE Index Common Trust Fund and (3) the Ohio Bond Fund.

A significant asset allocation strategy of the current BWC investment policy involves a 20% overall equity allocation, divided between the equity benchmarks of (i) S&P 500 index (12%) for Large Cap, (ii) Wilshire 4500/Russell 2500 (3%) for Small/Mid Cap and (iii) MSCI ex-U.S. for Non-U.S. Equity (5%). The entire Large Cap mandate (12%) has a passive management style whereas the two other mandates have mostly an active management style mandate (7% active, 1% passive).

The three BWC portfolio accounts that have a 20% equity allocation mandate are State Insurance Fund (SIF), Disabled Workers Relief Fund (DWRF) and Coal Workers Pneumoconious Fund (CWPF). Based on October 31, 2006 Ohio Bond Fund balances, a 20% asset allocation for these three portfolios are SIF ($2,935 million), DWRF ($219 million) and CWPF ($46 million) for a total of $3.19 billion.

RECOMMENDATION: It is the recommendation of the BWC Chief Investment Officer that BWC achieve its 20% asset allocation target for equities for its three appropriate portfolio accounts (State Insurance Fund, Disabled Workers Fund, Coal Miners Fund) by initially investing the necessary funds in the State Street S&P 500 Index Fund ("Ohio Equity Fund") currently available to BWC. Given other recommendations also being made by the CIO at this time, the current structure of the Ohio Equity Fund would be modified so as to (1) be managed as a separate account by SSGA with custody at JP Morgan Chase and (2) not permit securities lending. All of the proceeds to fund these respective three BWC portfolio accounts would be raised from the sale of outstanding units of the Ohio Bond Fund. This recommended action is permitted under Section C.i of the BWC Investment Policy and Guidelines which remains applicable with respect to SSGA.

SSGA is receptive to this recommendation as proposed. The transition management services of SSGA would be employed by BWC to execute this interim transition assignment of funds from the Ohio Bond Fund to the Ohio Equity Fund. If otherwise permitted by the BWC Investment Committee and WCOC, the CIO would recommend that the application of futures contracts be permitted for SSGA to address and offset opportunity risk costs. In preliminary discussions with the Ohio Treasurer of State Office, the TOS could likely approve a derivatives use contract within a 30 day period.

Based on the projected current RFP timelines, it is anticipated that recommendations for "permanent" S&P 500 Index passive managers will be presented for approval to the BWC Investment Committee and WCOC by no later than the January 2007 meetings. SSGA is a respondent to the Large Cap S&P 500 passive manager RFP issued by BWC. If SSGA is not recommended by the Index Manager RFP Evaluation Committee to be a permanent Large Cap Equity manager, all funds from the Ohio Stock Fund can be transferred in-kind (at virtually no cost to BWC) to any new passive Large Cap S&P 500 index manager(s) approved.

The $1.1 billion (7% target allocation) active equity manager recommendations are not anticipated to be presented until March-April 2007 with actual implementation likely one month later. That projected time frame remains 5-6 months into the future to achieve the targeted active equity manager allocation goals.

It would be the goal of the BWC Investment Division to execute this recommended interim investment into the Ohio Equity Fund by January 2007.

Ohio Bureau of Workers' Compensation

Private Equity Sale Update

November 16, 2006

Private Equity Sale Update

- WCOC approval for RFP to sell BWC's private equity interests
  March, 2006

- WCOC approval of the RFP Finalist - UBS Investment Bank
  August, 2006

- BWC interviews and selects legal counsel - Benesch Friedlander
  September/October, 2006

- UBS/Benesch Friedlander initiates due diligence
  September/October, 2006

- Project includes four phases:

  - Pre-Marketing - Current stage
  - Marketing
  - Execution
  - Final Closing

Ohio Bureau of Workers' Compensation

Index Manager RFP

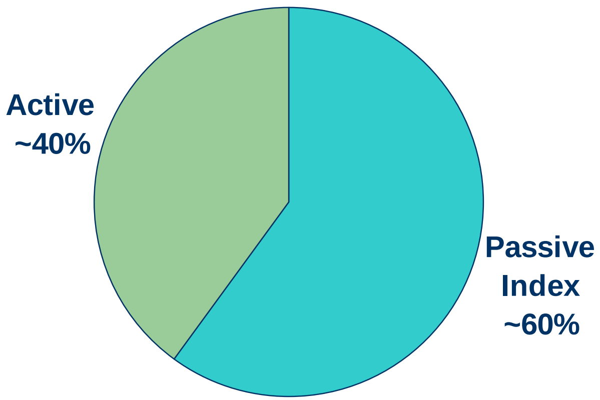
November 16, 2006

Index Manager RFP Mandates

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

• Passive Long Duration U.S. Fixed Income	$4.5 Billion
• Passive Treasury Inflation Protection Securities (TIPS)	$3.3 Billion
• Passive Large Cap U.S. Equity	$2.0 Billion
• Passive Non-U.S. Equity	$0.2 Billion

BWC TRANSITION ASSETS
$16.2 billion



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

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

Index Manager RFP Timeline

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

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

<u>November</u>

- Wilshire quarterly performance reports

<u>December</u>

- Administrator's Investment Agenda Goals
- Semi-annual economic and interest rate outlook (begin 2007)

<u>January</u>

- Annual review of securities lending program

<u>February</u>

- Wilshire quarterly performance reports

<u>March</u>

- Annual Custodial Review

<u>April</u>

- Investment Policy Update
- Investment Committee Charter Update

<u>May</u>

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

<u>June</u>

- Semi-annual economic and interest rate outlook

Bruce Dunn, CIO
November 6, 2006

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:	November 2, 2006
SUBJECT:	CIO Report for September, 2006

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

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

Strategic Initiative One- TRANSITION COMPLETED

The transition of BWC's actively managed portfolios to the State Street Lehman Aggregate passive fixed income index commenced on January 9, 2006, with State Street Global Markets (SSGM) managing the process on behalf of BWC. This transition has been completed with only a few clean-up assets still being retained. The final report detailing the $15.5 billion transition was included in the material for the April 27, 2006 WCOC/IC meeting. BWC's transition was completed on time with actual costs well below the anticipated estimates. Progress continued in September 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 September 30 was $177.4 million higher for 2006 versus 2005, thus achieving in the first nine months of calendar year 2006 a level significantly higher than the comparable period target for this entire calendar year.

Strategic Initiative Two

Training continues for the two newest senior and assistant investment managers of the Investment Division. Two other investment managers, with six and five years of tenure within the Investment Division, were reassigned to other Divisions within BWC effective May 30, 2006. These reassigned investment managers have now been replaced with the hiring of two new investment managers, Doug Walouke (Senior Investment Manager) and Greg Stought (Assistant Investment Manager), who both joined the Investment Division team on August 7, 2006. Further additions to staff are anticipated to occur by early 2007, as the Investment Division executes the new Investment Policy approved last month.

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 2006 CIO report)

Strategic Initiative Four

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

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

Strategic Initiative Five

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 in November, 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 resolution before the IC/WCOC members at the September 28, 2006 respective meetings was approved to amend section IV.C.vii of the BWC Investment Policy and Guidelines. Such resolution changed the action date from June 2006 to January 2007 for the WCOC to review the appropriateness of securities lending activities of the Ohio Passive Bond Market Index Fund (Ohio Fund) managed by State Street. State Street was in compliance with the Lehman Aggregate benchmark guidelines for the Ohio Fund, as per the Fund Declaration investment guidelines outlined, on September 30, 2006 but there was one exception to the BWC Investment Policy. The exception was a $5 million par purchase made in September, 2006 of MBNA credit card receivables asset-backed securities (ABS) rated BBB at a cost of $5,314,844. The BWC policy requires a minimum rating of AA for ABS assets. Upon the CIO learning of this holding in late October after performing a detailed review of the Ohio Fund bond holdings, the request was made to State Street by the CIO to sell this issue. This issue was sold on November 1, 2006 for principal proceeds of $5,356,836 or $41,922 in excess of cost.

Private Equity Sale Update

At the IC/WCOC meetings of August 24, 2006, UBS Securities LLC was approved to represent BWC as agent in the potential sale of some or all of its private equity funds. The contract of engagement was executed the day of approval. This contract had a commencement date of September 11, 2006. UBS has completed the transfer of BWC electronic files on all 68 private equity funds files to the UBS Electronic Data Room and is reviewing this information. BWC has selected the Ohio-based law firm of Benesch, Friedlander, Coplan & Aronoff (BCFA) to serve as its outside counsel to represent the BWC in the potential sale of its private equity investments. BCFA has offices in Columbus and Cleveland.

Transition Manager Update

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

Index Manager RFP Update

The Index Manager RFP was completed and issued on September 18, 2006. This Index Manager RFP encompasses all four mandates involving passive index managers for Long Duration Fixed Income, U.S. TIPS, Large Cap U.S. Equity, and Non-U.S. Equity as per the new BWC Investment Policy. A total of seven qualified firms responded to the BWC Index Manager RFP and the BWC Index Manager Evaluation Committee is completing the evaluation of these respondents. It is anticipated that interviews of finalists for each of the four passive index mandates will occur in mid-November with the expectation that one or more finalists for several of the four mandates will be recommended by the Evaluation Committee at the December 14, 2006 IC/WCOC meetings.

Declaratory Judgement Private Equity Action Update

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

Legislative Updates/HB66 Compliance

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.

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

This resolution has not been assigned to a committee

<u>SB 151 (Dann)</u>
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

<u>SB 282 (Fingerhut)</u>
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

<u>HB 354 (Patton)</u>
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.

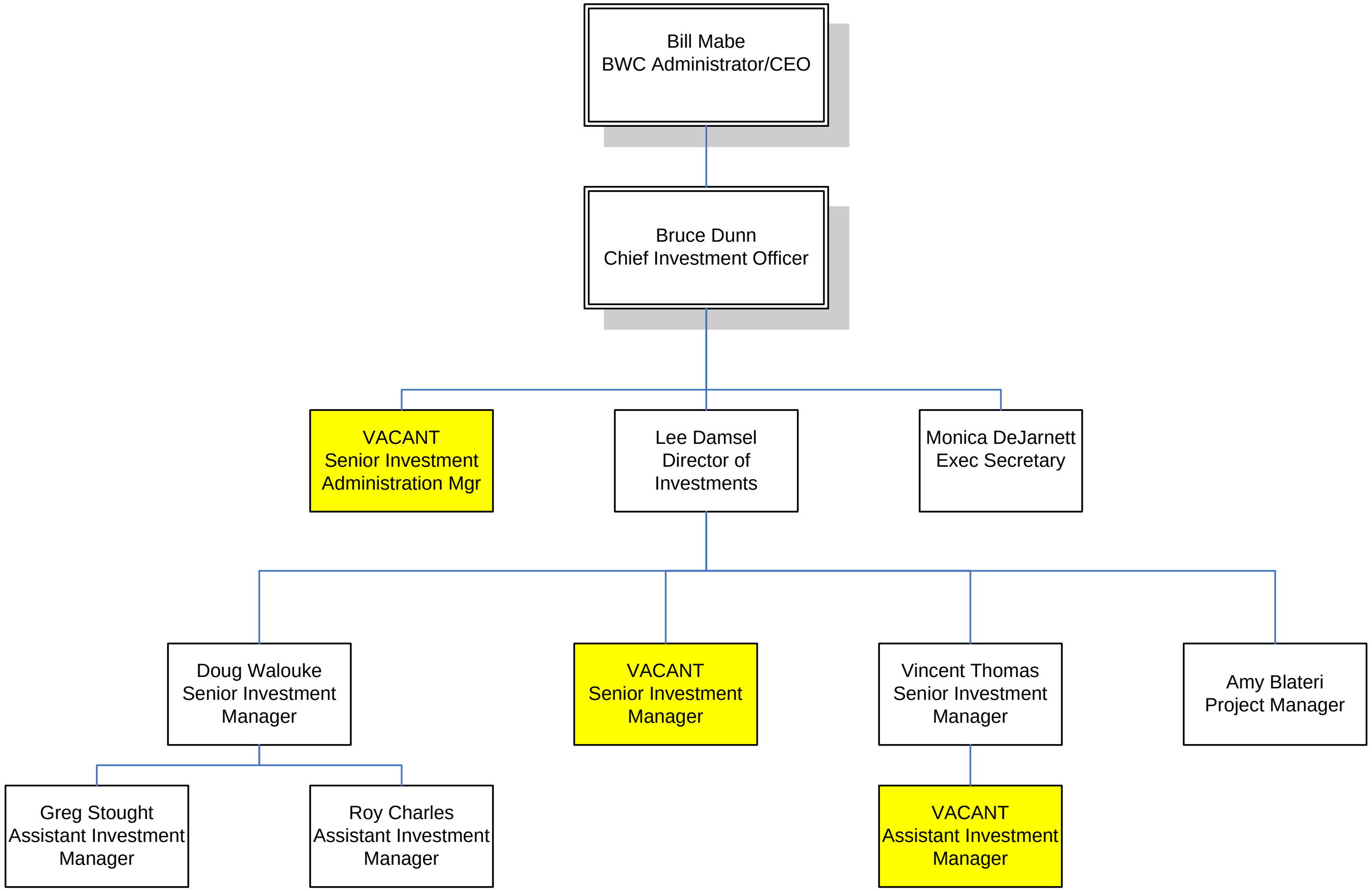
SB 7 (Cates)

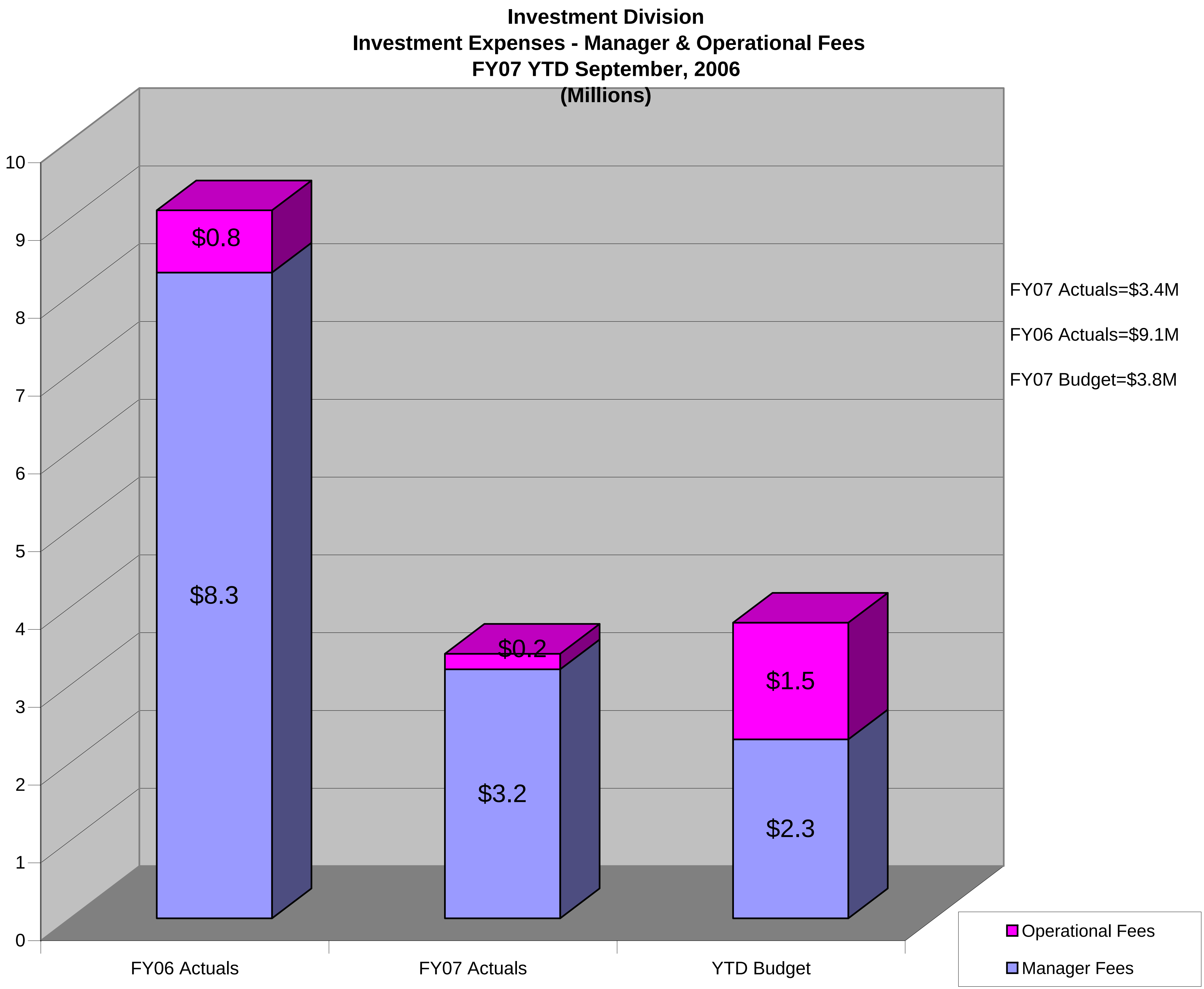
SB 7 took effect June 30, 2006; however, half of the provisions are subject to the referendum effort spearheaded by the Committee to Protect Injured Workers, Widows and Orphans. On June 29, 2006, the Committee to Protect Injured Workers, Widows and Orphans filed signatures with the Secretary of State (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 10th District Court of Appeals ruled that the petitioners did not have sufficient valid signatures for the referendum to be placed on the ballot. The petitioners appealed the decision to the Ohio Supreme Court. On October 20, The Ohio Supreme Court declined to hear the case and denied petitioner's request to appeal the Court of Appeals decision. Many ballots around the state have already been printed with Issue 1 but votes cast on Issue 1 will not be counted due to the Supreme Court's decision. BWC will work to expeditiously implement the other half of the provisions of SB 7 not subject to the rejected referendum.

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 INVESTMENT DIVISION
Table of Organization
11/7/06




Investment Division
Investment Expenses - Manager & Operational Fees
FY07 YTD September, 2006
(Millions)
10
9
8
7
6
5
4
3
2
1
0
$0.8
$8.3
$0.2
$3.2
$1.5
$2.3
FY06 Actuals
FY07 Actuals
YTD Budget
FY07 Actuals=$3.4M
FY06 Actuals=$9.1M
FY07 Budget=$3.8M
Operational Fees
Manager Fees

Investments Division
Staffing Activity
September, 2006

8	***Total Employee Count***
0	***Active Positions to be Filled***
8	***Total Projected Employee Count***
0.0%	***Projected Percentage Increase of Headcount***
0.0%	***Employee Turnover***

Employee Activity Detail

Full-time employees

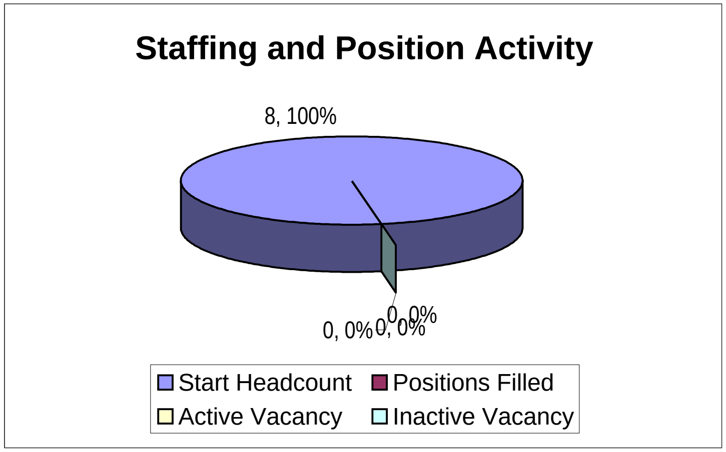
Starting number of full-time employees (no activity)	**8**
Employees acquired by department (promotion from other division, new hire)	**0**
Employees departed from department or BWC (changed to part-time status, promoted out of dept.)	**0**
Employees moving within department (includes position changes, does not include employees changing supervisors)	**0**

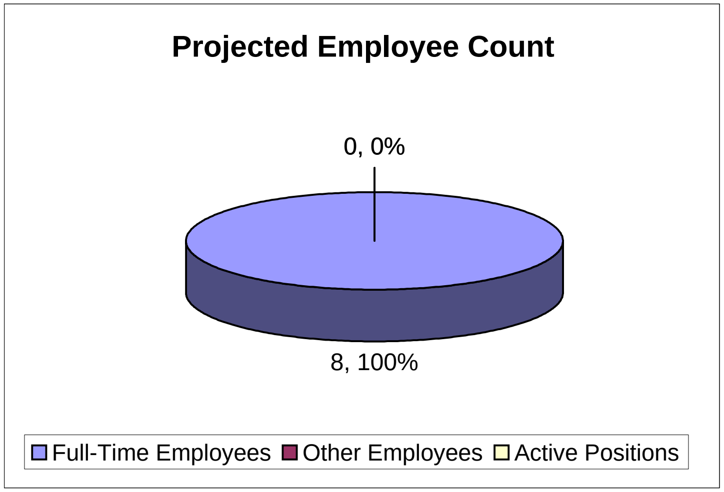
Other employees

Starting number of other employees	**0**
Employees acquired by department (employee changed to part-time status, hired intern)	**0**
Employees departed department (promoted to full-time position, internship completed)	**0**

Vacant Position Detail

Active / Posted	**0**
Active / Unposted	**0**
Inactive / Unposted	**0**





Glossary:

Starting number of Employees = employees working in department, includes employees on approved leave (e.g., military, disability)

Full-time Employee = permanent employee on BWC payroll working 40 hours per week

Other Employee = permanent or non-permanent employee on BWC payroll not working 40 hours per week.

Includes : part-time employees, interns, intermittents

Does not include : consultants, temps or others not on BWC payroll

Acquired = employee has started in the department

Departed = employee has left the department

Changed position = employee of department filled another position within department

Includes : employee promoted within department, lateral position change within department

Does not include : moving employee to report to a different supervisor

Active / Posted = posted, interviewing, employee has not started in department

Active / Unposted = approved to fill, not yet posted

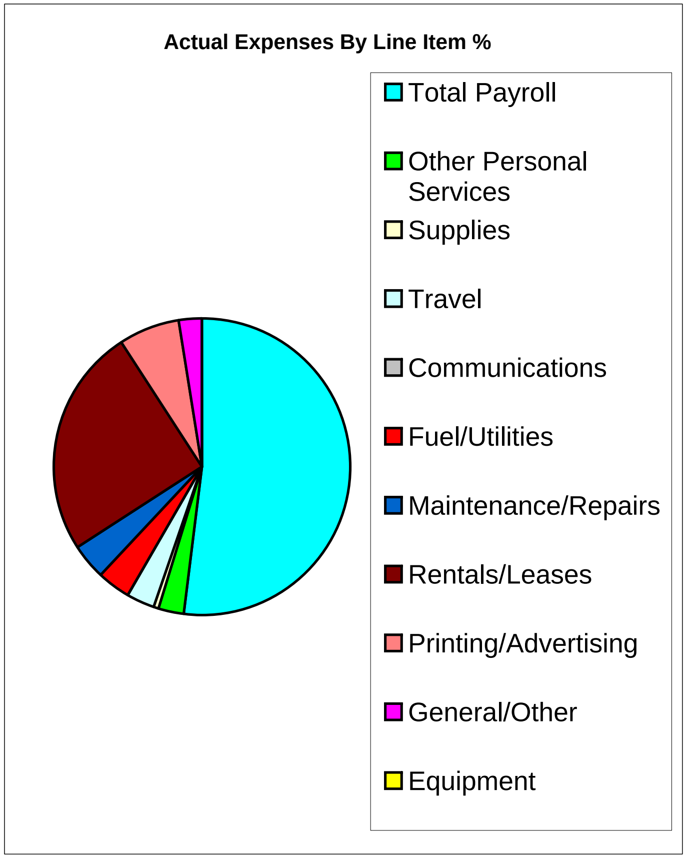
Inactive / Unposted = unfunded, to be deleted

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

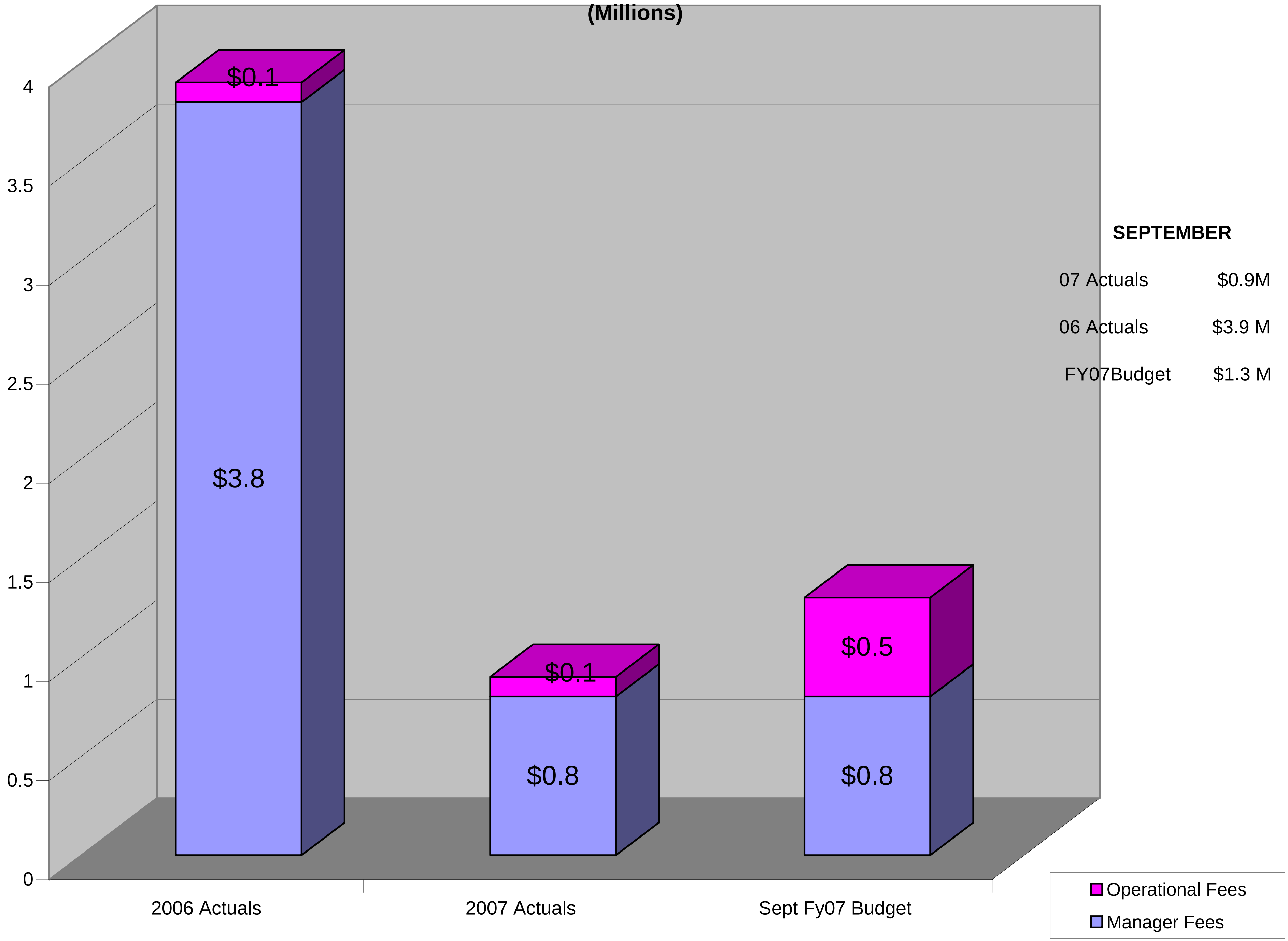
	Year-to-Date			Total 2006		
	[2]	[3]	[4]	[6]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	80,210	258,211	178,001	278,030	1,127,438	849,408
Maintenance (200)	66,042	116,965	50,923	105,709	322,154	216,445
Equipment (300)	-	-	-	10,958	300,000	289,042
Total	146,252	375,176	228,924	394,697	1,749,592	1,354,895

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	76,087	225,508	149,421
Purchased Services (13)	4,123	29,904	25,781
Other Personal Services (15)	-	2,799	2,799
Total Personal Services	80,210	258,211	178,001
Supplies (21 +21I)	757	3,105	2,348
Travel (23)	4,574	11,565	6,991
Communications (24 + 24I)	(228)	1,668	1,896
Fuel/Utilities (25)	4,974	4,974	-
Maintenance/Repairs (26)	5,694	8,715	3,021
Rentals/Leases (27)	36,933	46,794	9,861
Printing/Advertising (28 +28I)	9,864	23,238	13,374
General/Other (22 +22i +29 + 29I)	3,474	16,906	13,432
Total Maintenance	66,042	116,965	50,923
			-
Office Equipment (31)	-	-	-
Communic. Equipment (34)	-	-	-
Data Process Equipment (37 + 37i)	-	-	-
Other Equipment (30+32+35+36+38+39)	-	-	-
Total Equipment	-	-	-
Grand Total	146,252	375,176	228,924



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

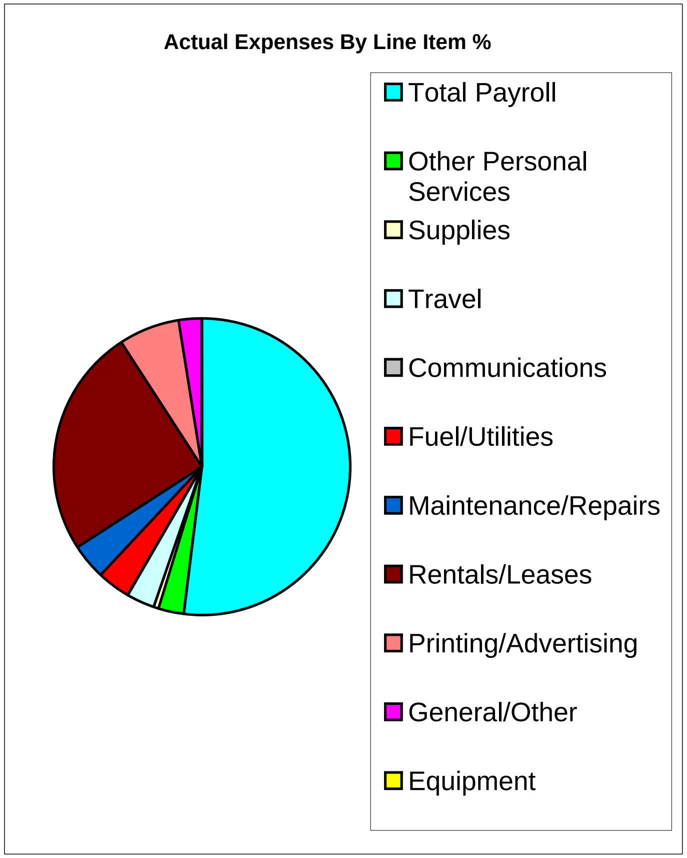


Investment Division - Departmental Budget
Budget and Expenses Summary for Fiscal Year 2007
As of September, 2006

	Year-to-Date			Total 2006		
	[2]	[3]	[4]	[6]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	80,210	258,211	178,001	278,030	1,127,438	849,408
Maintenance (200)	66,042	116,965	50,923	105,709	322,154	216,445
Equipment (300)	-	-	-	10,958	300,000	289,042
Total	146,252	375,176	228,924	394,697	1,749,592	1,354,895

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	76,087	225,508	149,421
Purchased Services (13)	4,123	29,904	25,781
Other Personal Services (15)	-	2,799	2,799
Total Personal Services	80,210	258,211	178,001
Supplies (21 +21I)	757	3,105	2,348
Travel (23)	4,574	11,565	6,991
Communications (24 + 24I)	(228)	1,668	1,896
Fuel/Utilities (25)	4,974	4,974	-
Maintenance/Repairs (26)	5,694	8,715	3,021
Rentals/Leases (27)	36,933	46,794	9,861
Printing/Advertising (28 +28I)	9,864	23,238	13,374
General/Other (22 +22i +29 + 29I)	3,474	16,906	13,432
Total Maintenance	66,042	116,965	50,923
			-
Office Equipment (31)	-	-	-
Communic. Equipment (34)	-	-	-
Data Process Equipment (37 + 37i)	-	-	-
Other Equipment (30+32+35+36+38+39)	-	-	-
Total Equipment	-	-	-
Grand Total	146,252	375,176	228,924



The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

Table of Contents

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

I. INVESTMENT OBJECTIVES

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

II. BACKGROUND

A. Purpose

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

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

B. Fiduciary Standard

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

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

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

III. ROLES AND RESPONSIBILITIES

A. WCOC Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. OBWC Staff Responsibilities

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

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

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

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

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

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

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

vii. Implement the directives of the WCOC.

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

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

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

xi. Monitor manager trade execution.

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

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

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

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

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

C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. General Partners' Responsibilities

Each General Partner shall:

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

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

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

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

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

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

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

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

E. Investment Consultants' Responsibilities

The Investment Consultant shall:

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

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

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

iv. Assist in the development of performance measurement standards.

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

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

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

viii. Establish a procedural due diligence search process.

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

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

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

IV. INVESTMENT POLICY GUIDELINES

A. Asset Allocation Guidelines

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

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

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

B. Rebalancing Policy

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

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

C. General Guidelines

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

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

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

ii. Fixed Income Investments

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

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

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

Diversification

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

By Sector:

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

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

By Credit Quality:

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

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

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

iii. **U.S. Equity**

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

Diversification

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

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

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

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

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

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

- Investments will be diversified by geographic region and sector, so as to optimize the relationship of expected return to expected risk after taking into consideration the asset allocation of each Fund.

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

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

v. **Alternative Investments**

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

Future investments in Alternative Investments are not presently anticipated.

vi. **Cash Equivalents**

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

vii. **Securities Lending**

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

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

viii. **Derivatives**

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

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

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

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

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

ix. **Commission Recapture / Directed Brokerage**

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

x. **General Prohibitions**

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

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

V. PERFORMANCE OBJECTIVES

A. Total Fund

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

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

B. Asset Class Composites

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

C. Investment Managers

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

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

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

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

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

VI. COMMUNICATIONS

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

VII. REVIEW PROCEDURES

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

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

VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

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

Qualified Ohio Managers - Criteria

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

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

Minority Managers – Criteria

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

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

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

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

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: September 28, 2006

Table of Contents

Appendix IX: Asset Allocation Criteria

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

Appendix X.A: State Insurance Fund (SIF)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix X.C: Marine Industry Fund (MIF)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix XI

OBWC State Insurance Fund Asset-Liability Valuation – Final

WCOC Presentation

July 20, 2006

Mark E. Brubaker, CFA
Managing Director

Julia Bonafede, CFA
Senior Managing Director

Agenda

I. Recommended Asset Mix

Recommendation

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

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

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

II. Legislative Background and Purpose

Legislative Background: OBWC Purpose and WCOC Duties

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

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

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

Definitions

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

What is Ohio Bureau of Workers' Compensation?

Insurance Company

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

Other?

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

III. Asset-Liability Valuation Background

What is Asset Allocation?

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

A Multitude of Risks

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

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

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

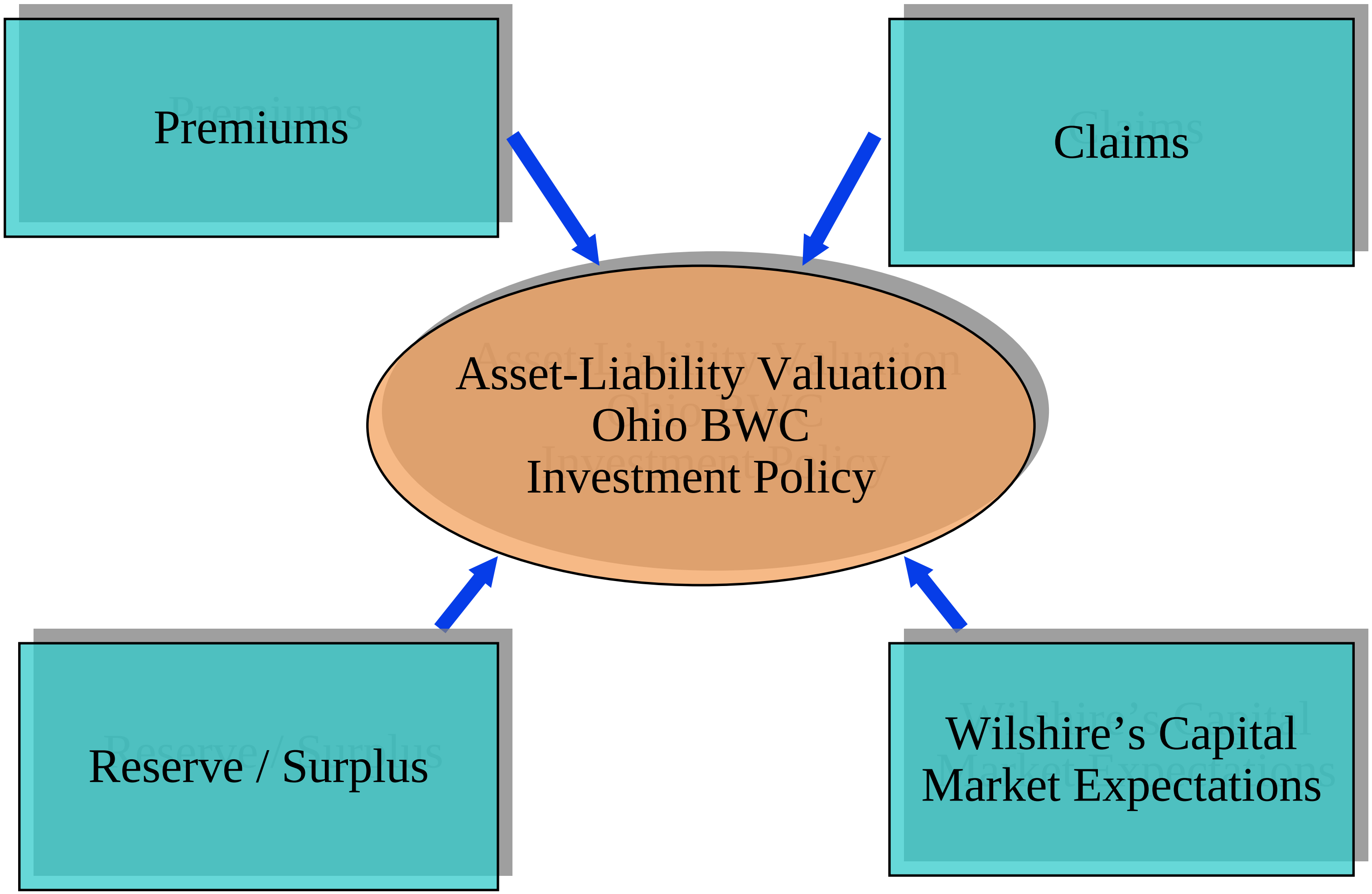
- It is undesirable to have a negative surplus as defined by GASB accounting standards.

Example 3 - Insufficient Asset Risk

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

Asset-Liability Valuation Methodology

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



Current BWC Accounting Status

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

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

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

Net Assets ($ mm)	870.00

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

Source: BWC Financial and Operational Report – March 2006

IV. Capital Markets Expectations and Efficient Frontier

A Long Term Capital Market Perspective

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

Wilshire's 10-Year Capital Market Assumptions

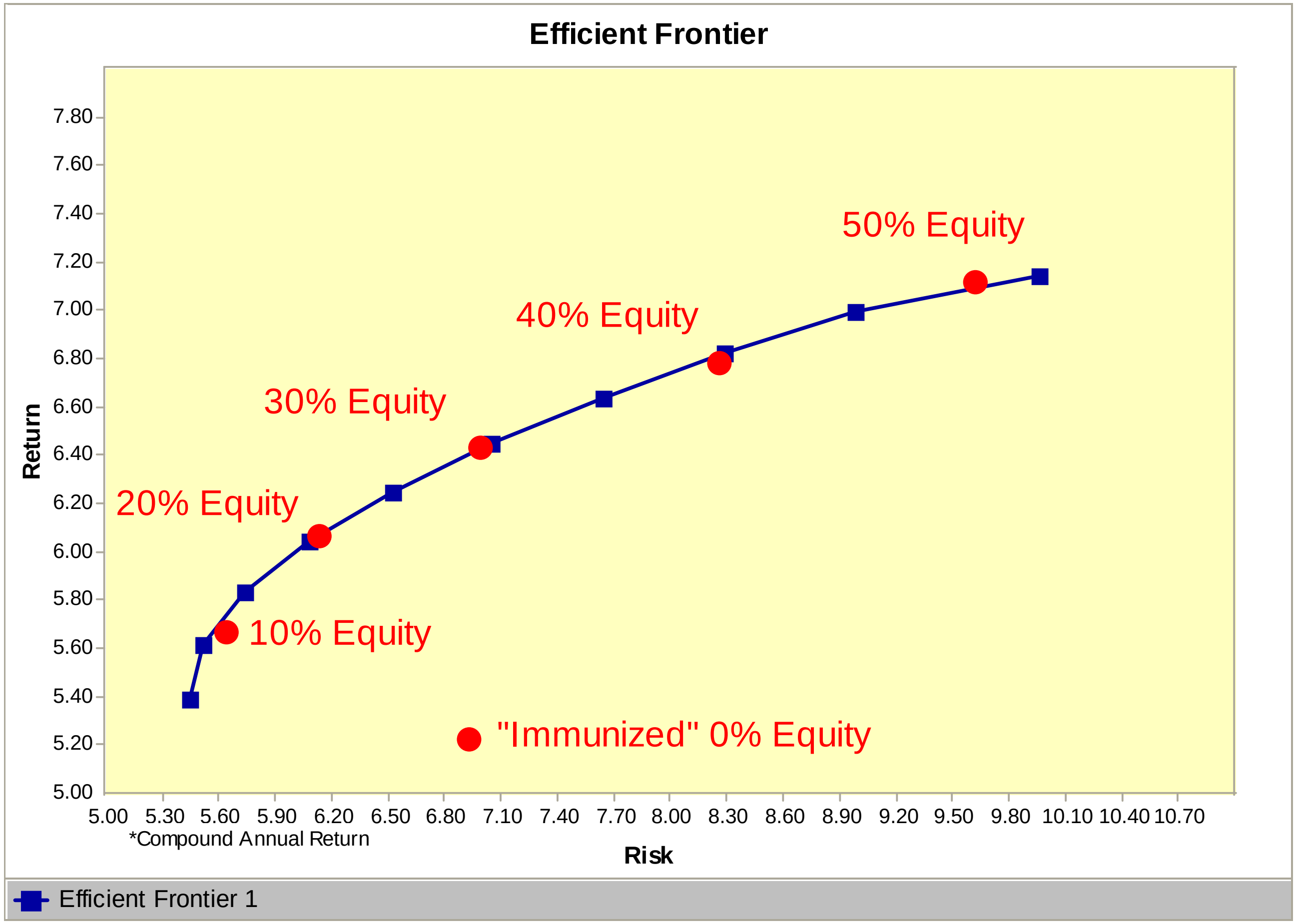
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00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

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

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

Efficient Frontier

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



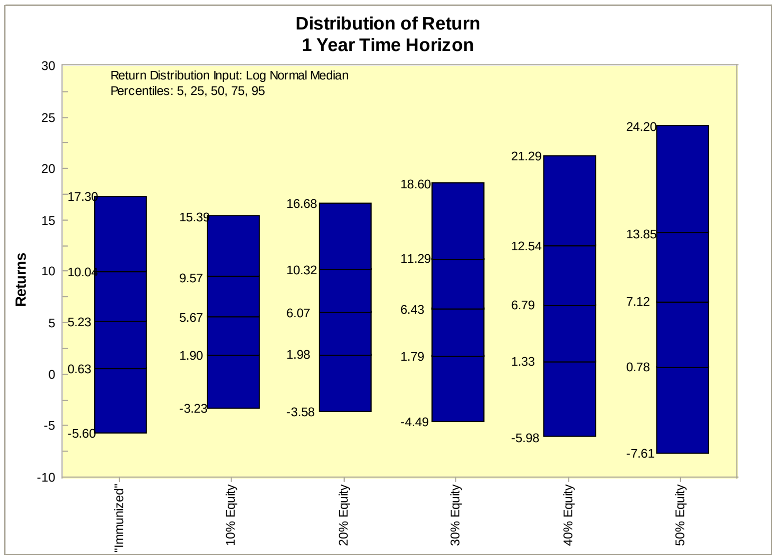
Efficient Portfolios

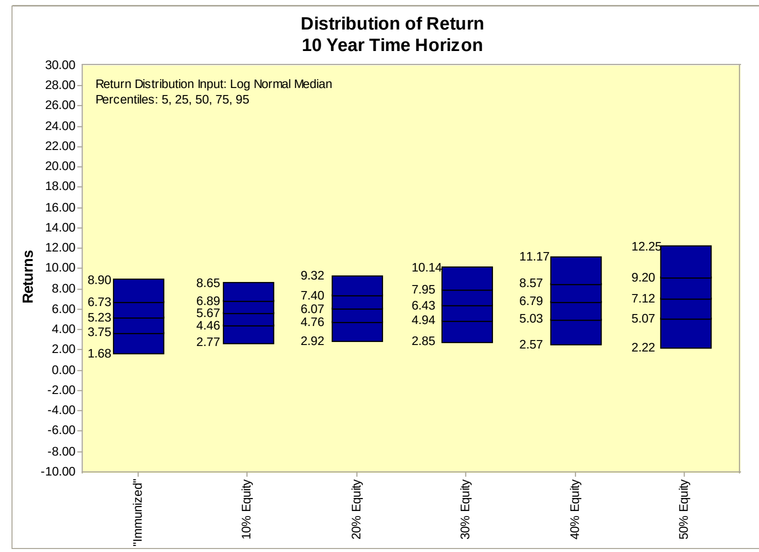
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income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

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

1 and 10-Year Distribution of Expected Returns

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





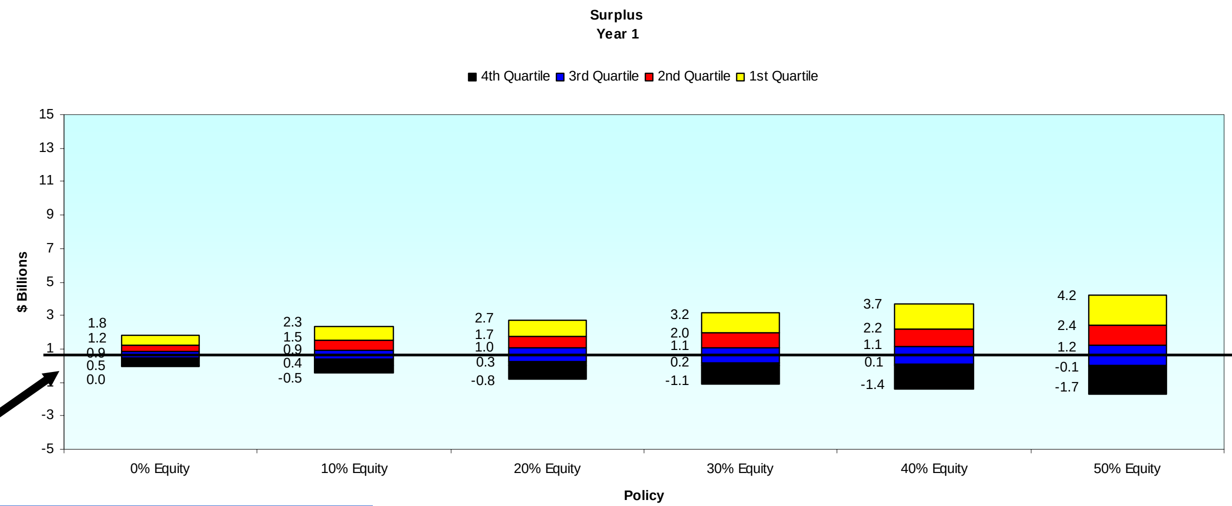
	"Market Enviornment"	**0% Equity**	**10% Equity**	**20% Equity**	**30% Equity**	**40% Equity**	**50% Equity**
1 Year	Top 5%	17.3	15.4	16.7	18.6	21.3	24.2
	Top Quartile	10.0	9.6	10.3	11.3	12.5	13.9
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	0.6	1.9	2.0	1.8	1.3	0.8
	Bottom 5%	-5.6	-3.2	-3.6	-4.5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

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

V. Asset-Liability Modeling

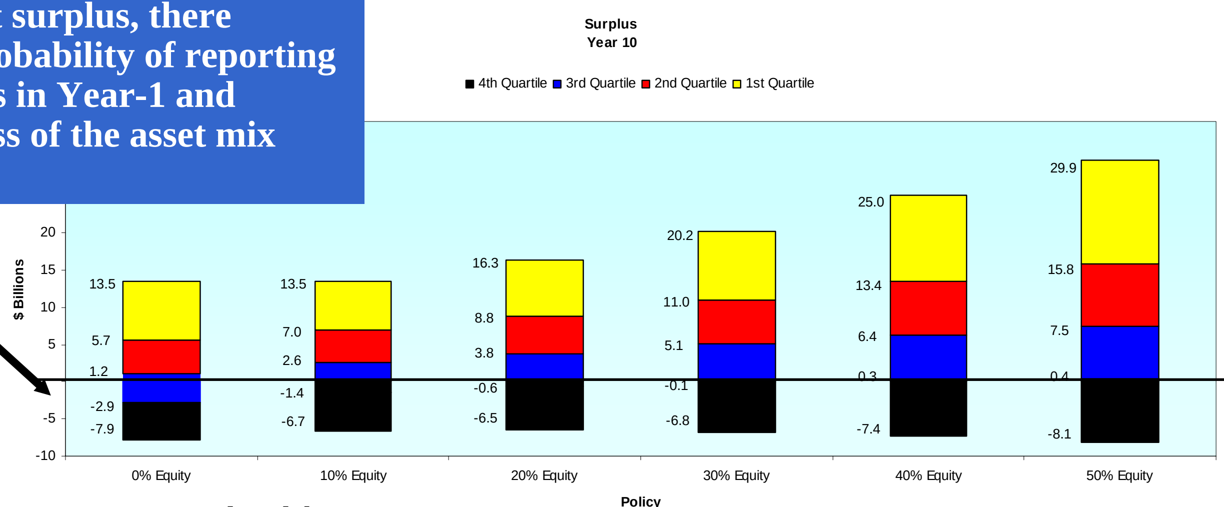
Stochastic Simulation of Surplus: Year 1 and Year 10

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



Current Surplus

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



Current Surplus

Source: Mercer and Wilshire

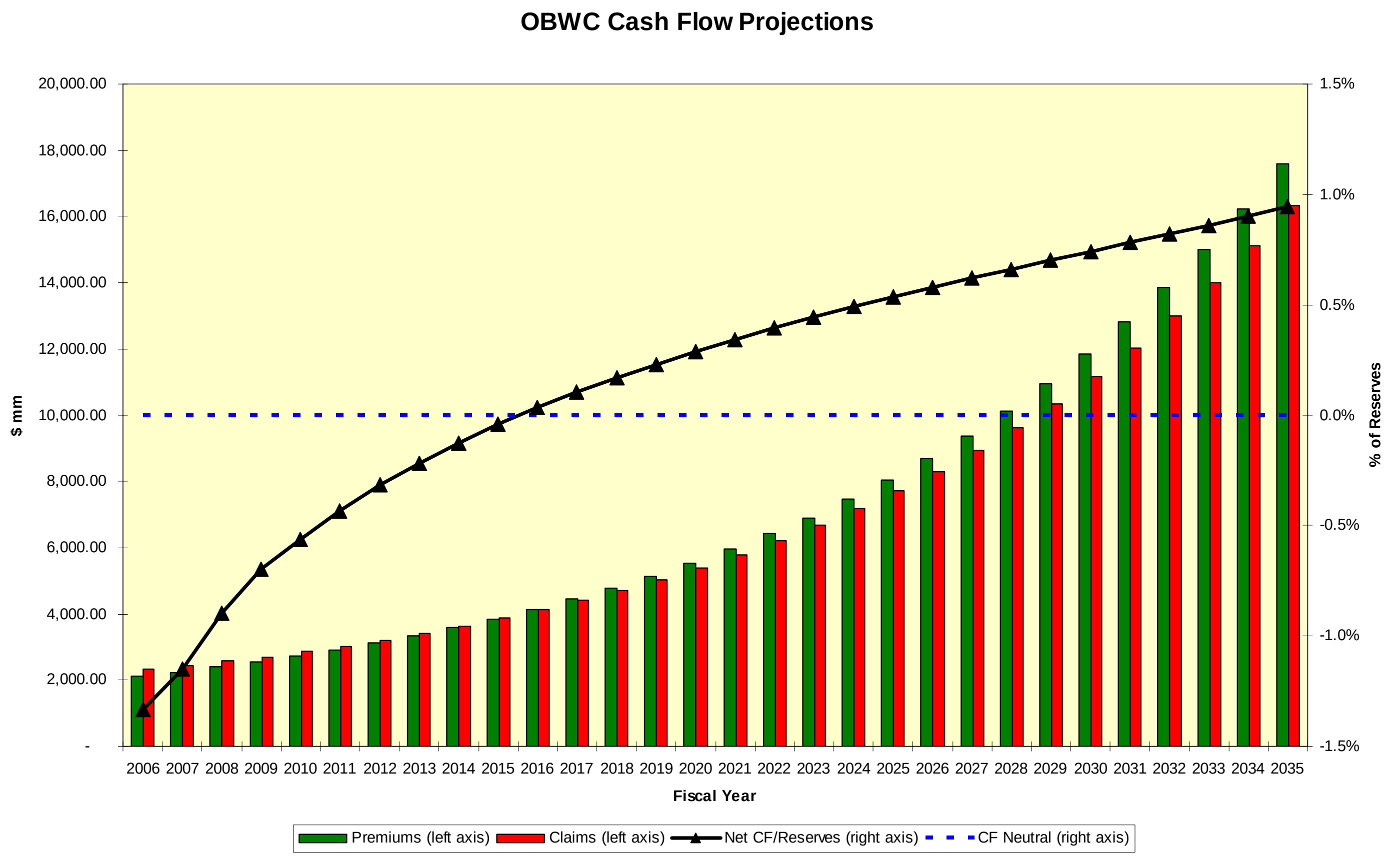
Potential Outcomes: Surplus

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

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

OBWC Cash Flow Projections

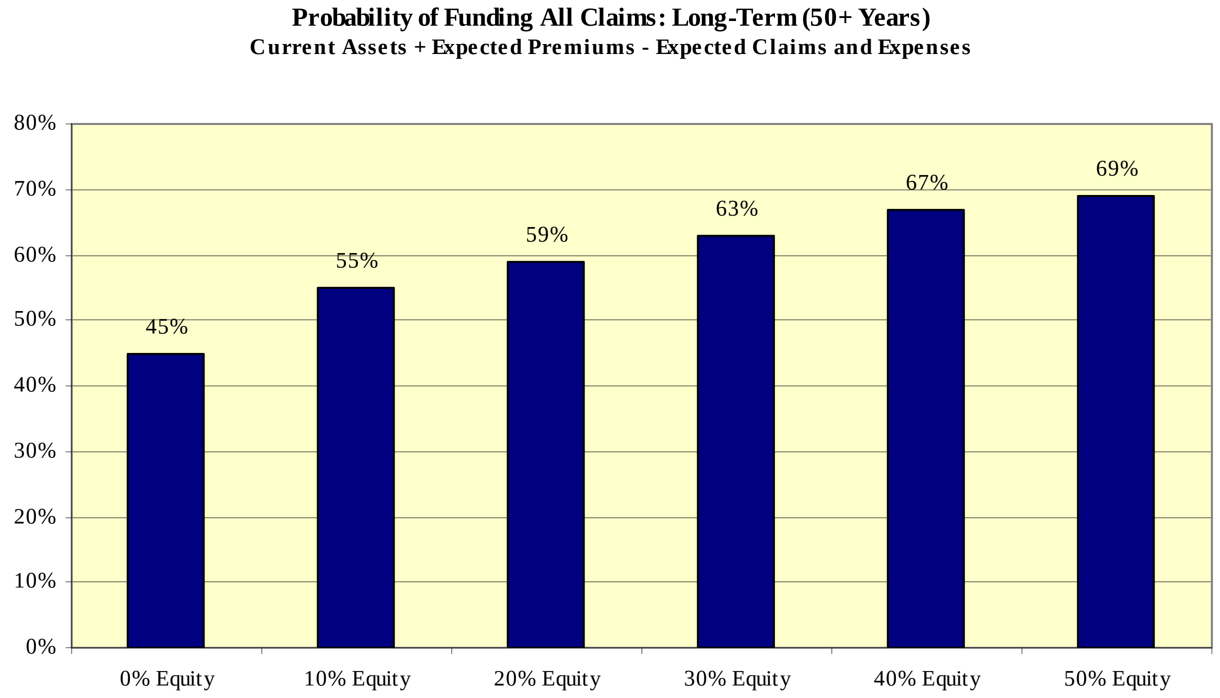
- **Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows**
- **This illustration excludes expected investment income**



Source: Mercer Oliver Wyman Projections

Probability of Success

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



Observations

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

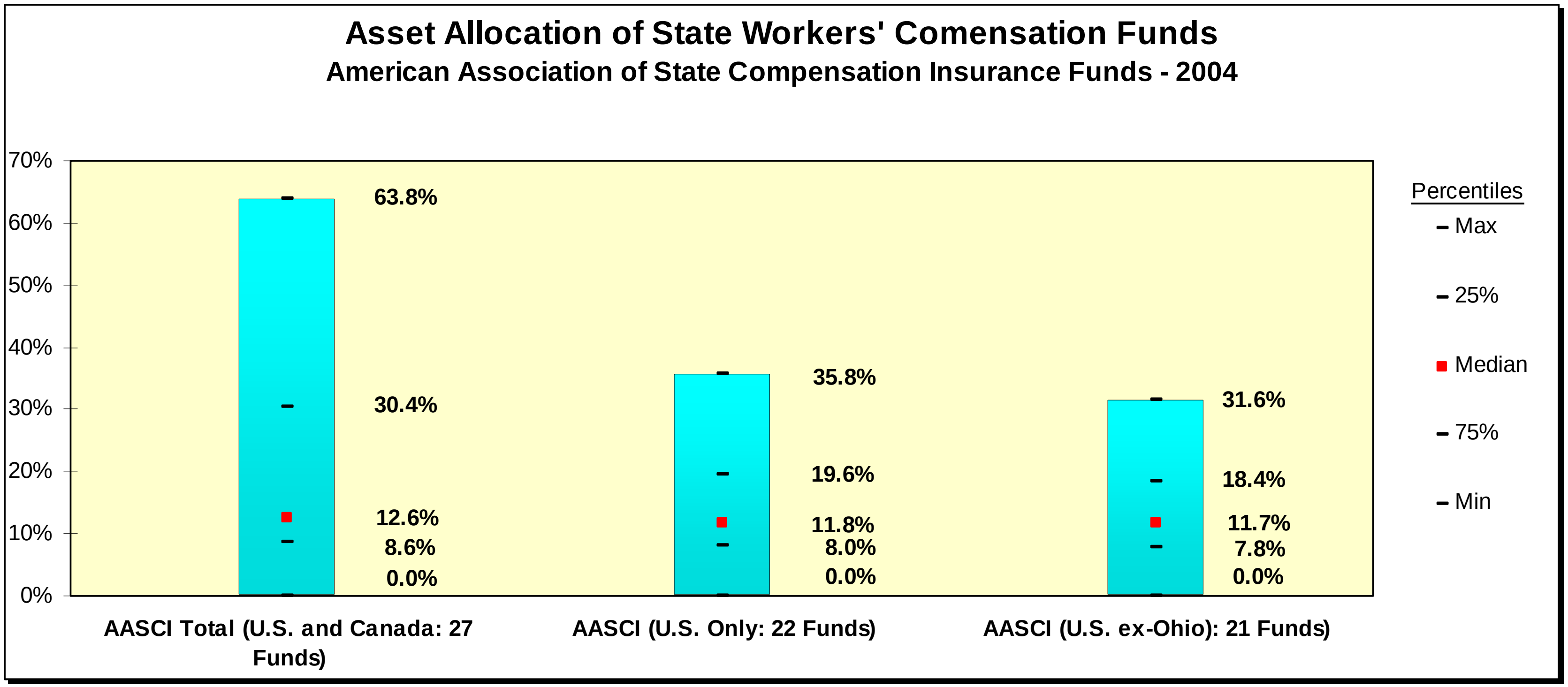
VI. Industry Peer Comparisons

Legislative Background: Industry Standards

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

Industry Comparison

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

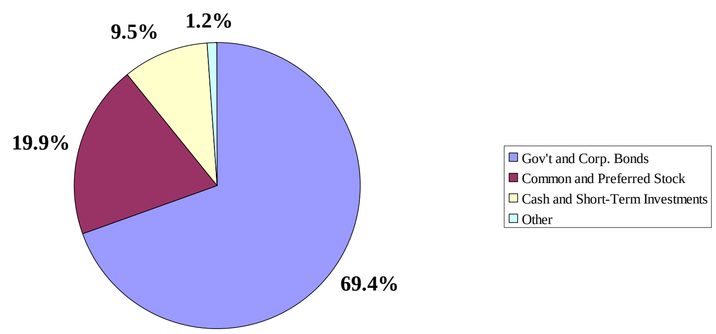


- **The median equity allocation of all funds was 12.6% at year end 2004**
- **The equal-weighted average equity allocation for this group was 22%.**

Industry Comparison

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

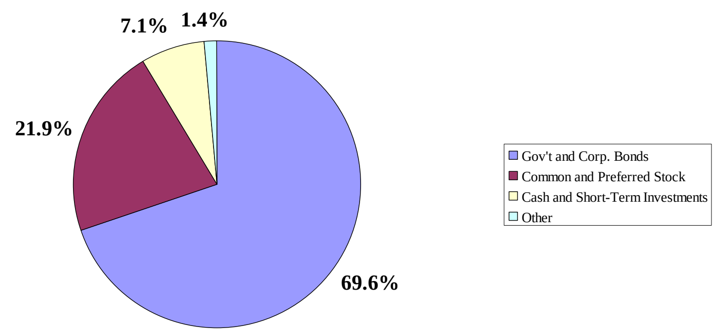
2005 National Council on Compensation Insurance, Inc.
Property & Casualty Industry Survey
Source: A.M. Best Aggregates and Averages, 2004 Edition



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

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

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



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

Peer Comparison: State Monopoly Funds

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

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

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

VII. Proposed Dividend / Adequate Surplus Policy

Ohio Revised Code: Dividends

- **Ohio Revised Code § 4123.32**

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

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

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

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

VIII. Asset Class Structure and Implementation

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

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

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

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

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

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

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

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

Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HISTORICAL AND STATUTORY NOTES

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

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

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

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

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

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

CROSS REFERENCES

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

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

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

RESEARCH REFERENCES

Encyclopedias

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

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

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

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

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

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

1. Constitutional issues

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

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

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

2. In general

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

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

3. Disbursements; investments

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

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

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

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

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

4. Fiduciary obligations

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

5. Effective date

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

R.C. § 4123.44, OH ST § 4123.44

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

Appendix XIII: Legal Requirements Summary

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

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

I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

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

III. Administrator's Investment Duties

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

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

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

IV. Chief Investment Officer Duties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. Fiduciary Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix XIV: Campaign Contribution Policy

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

APPENDIX XIV: CAMPAIGN CONTRIBUTION POLICY

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

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

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

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

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

Appendix XV: Investment Committee – Financial and Operational Requirements

Model of infrastructure data to be provided to the IC

To: The Commissioners of the Investment Committee

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

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

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

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

Respectfully submitted,

Michael C. Koetters

Monthly Report to IC - 12 reports annually

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

Quarterly Report to IC – 4 reports annually

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

1st Quarter Reporting - July, August and September

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

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

2nd Quarter Reporting - October, November and December

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

3rd Quarter Reporting - January, February and March

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

4th Quarter Reporting - April, May and June

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