

**WORKERS' COMPENSATION BOARD OF DIRECTORS
INVESTMENT COMMITTEE**

**TUESDAY, NOVEMBER 20, 2007, 12:00 PM
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS OH 43215**

Members Present: Robert Smith, Chair
Alison Falls, Vice Chair
David Caldwell
James Harris
Larry Price

CALL TO ORDER

Mr. Smith called the meeting to order at 12:00 PM and the roll call was taken.

MINUTES OF OCTOBER 25, 2007

Alison Falls requested that the minutes be amended to reflect that all members of the Investment Committee agreed to participate on the evaluation committee for the RFP for the investment consultant. Therefore, the minutes should reflect that the evaluation committee consists of all investment committee members (Robert Smith, Alison Falls, Larry Price, James Harris, and David Caldwell) plus Bruce Dunn and Lee Damsel of BWC's Investment Division. It was further noted that on page three, line two, of the CIO report section, the reference to the sale of equity should have the word "private" inserted before the word "equity" to read "sale of private equity."

Upon a motion made by Mr. Harris and seconded by Mr. Price, the minutes as amended were approved by unanimous vote.

NEW BUSINESS / ACTION ITEMS

Investment Committee Revised Charter

A revised version of the committee charter was handed out to members on November 20, 2007. Ms. Falls indicated that the current version did not have material changes to the version provided in the written material sent to the Board members before the meeting. Membership of the Investment Committee would include five individuals, plus the Board Chair serving as an ex-officio voting member. A quorum shall be four members.

Mr. Price expressed concern with the charter to the extent it contained reference to the responsibilities of the Governance Committee and its interactions with the

Investment Committee. Because the Governance Committee charter has not been adopted by the Board, Mr. Price questioned whether it is appropriate to approve a charter that the Governance Committee has recommended or one that contains reference to the Governance Committee's duties.

Ms. Falls indicated that the purpose of the Governance Committee is to provide leadership on issues and only make recommendations, not decisions. She indicated that because the Governance Committee is only making recommendations, she felt it was appropriate for the Investment Committee to move forward with its charter prior to the full Board's vote on the Governance Committee charter. James Barnes, BWC General Counsel, indicated that the Investment Committee may vote on its charter prior to the full Board's vote on the Governance Committee charter. A recommendation was made to strike the two references to the Governance Committee contained within the Investment Committee's charter. Further recommendation was made that language be added to indicate that the Board Chair, as an ex-officio voting member of the Investment Committee, will not vote in those instances where his/her vote will create a tie vote. Upon a motion by Ms. Falls, seconded by Mr. Price, the Investment Committee charter with these amendments was approved by unanimous roll call vote.

Passive Fixed Income Management

Bruce Dunn, BWC Chief Investment Officer, presented on this issue, along with Mark Brubaker and Mike Patalsky of Wilshire Consulting. Mr. Dunn emphasized ensuring sufficient diversification of credit issuers in the BWC fixed income portfolios is an important requirement. Mr. Dunn indicated that a number of credit issuer ownership positions were close to their respective ownership limits for the two passive indexed Long Duration Fixed Income managers imposed by the BWC Investment Policy Statement (IPS). In order for these respective portfolio managers to stay in compliance, additional transaction costs are being incurred in the BWC portfolios that would be avoided if these credit issuer ownership limits were eliminated. Recommendation was made that the individual security credit quality restrictions identified in the IPS apply to all actively managed fixed income mandates, but not apply to passive indexed managed fixed income mandates. By making this change to the IPS, passive style fixed income fund managers can achieve better performance. In addition, Mr. Dunn reported that the column header of the IPS titled "Individual Security Max %" in Section IV.C.ii needs to be replaced with the column header "Credit Name Max %" for clarification purposes. Credit Names are defined by unique ticker symbols. Referencing the column in the IPS as "Credit Name Max %" should eliminate vagueness. The representatives from Wilshire indicated that they were in agreement with these recommendations. Ms. Falls clarified that the Investment Committee is not being asked to waive a portion of the IPS, but rather is considering a change to the IPS. Mr. Dunn confirmed this clarification and stated that the proposed change would only apply to passive style managed investments.

Motion was made by Robert Smith, and seconded by Mr. Price that the Investment Committee recommend to the Board that the individual security credit quality restrictions identified in section IV.C.ii of the Investment Policy Statement apply to all actively managed fixed income mandates, but not apply to passive indexed fixed income mandates for the reasons outline in the memorandum of BWC's Chief Investment Officer dated November 8, 2007. A roll call vote was taken and the motion passed 5-0.

Motion was made by Mr. Smith, and seconded by Ms. Falls that the Investment Committee recommend to the Board that the column header "Individual Security Max %" of the Investment Policy Statement be replaced with the column header "Credit Name Max %", for reasons outlined in the memorandum of BWC's Chief Investment Officer dated November 8, 2007. A roll call vote was taken and the motion passed 5-0.

Small Ancillary Funds Investment Strategy Proposal

Mr. Dunn indicated that he is recommending that the assets of the Public Work-Relief Employees' Fund and the Marine Industry Fund be invested in a low cost, passively indexed commingled common trust fund having a target benchmark index duration closely matching the average duration of liabilities of these two funds. Mr. Dunn explained that he is recommending that BWC obtain from a select group of targeted potential investment managers quotes for their management fees associated with the above-referenced investment strategy. A motion was made by Mr. Smith, and seconded by Mr. Harris that the Investment Committee recommend to the Board that it approve BWC issuing a Request for Quotes for the selection of an investment manager of the Public Work Relief Employees' Fund and Marine Industry Fund, which investment manager will use the Lehman Intermediate US Government/Credit (LIGC) Index to serve as the intermediate duration fixed income benchmark for BWC, for the reasons outlined in the memorandum of BWC's Chief Investment Officer dated November 8, 2007. A roll call vote was taken and the motion passed 5-0.

DISCUSSION ITEMS

Wilshire Consulting Quarterly Report – Third Quarter 2007

A presentation was made by Mark Brubaker and Mike Patalsky, of Wilshire Consulting, with regard to the performance of investments for the third quarter. The presentation advocated exposure to all segments of the United States investment market. Fixed income markets comprise eighty percent of the BWC portfolio. Mr. Harris asked for additional explanation as to why historical data in Wilshire's report was from 2005 and 2006. Mr. Brubaker and Mr. Patalsky explained that Wilshire was of the opinion that data available prior to the date Wilshire began working with BWC (November of 2005), was unreliable. Mr. Bryan asked about the Disabled Workers' Relief Fund balance. Mr. Brubaker and Mr. Patalsky replied that the issue was a transitional management account.

JP Morgan Manager Monthly

Mr. Dunn discussed the summary of performance net of fees. Performance summaries include comparisons to both interim benchmarks (based on actual asset allocation benchmarks) and target benchmarks (based on IPS target asset allocation benchmarks). Mr. Dunn mentioned the reasons why recent performance of the State Street Long Duration Fixed Income manager exceeded the benchmark index. Due to the very large asset size of this portfolio, the portfolio manager was forced to underweight corporate bonds and overweight government bonds in the initial building of the BWC portfolio. Mr. Dunn indicated these specific weighting variances versus the benchmark index were steadily narrowing in recent months. Mr. Matesich inquired as whether or not BWC will continue to shift from treasury bonds to corporate bonds over the long term. Mr. Dunn replied that there will be a continuing shift toward corporate bonds in BWC's portfolio to eliminate the current underweighting of corporate bonds for the State Street managed Long Duration Fixed Income portfolio. The issue of recent good overall portfolio performance since July 1, 2007 was discussed by Mr. Dunn, but Ms. Falls also cautioned that there exists high volatility of performance of the specific asset sectors of the BWC investment portfolio.

Asset Allocation Review of BWC Trust Funds

Mr. Dunn discussed target asset allocation of the three largest trust funds (State Insurance Fund, Disabled Workers Relief Fund and Coal Workers Pneumoconiosis Fund). Fixed income assets comprise seventy nine percent, equity investments comprise twenty percent and cash-equivalents one percent of target asset allocation for each of these three trust funds. With regard to the Coal Workers Pneumoconiosis Fund, the heavy emphasis is on the passive management strategy style. The more modest size of invested assets in this fund does not justify the higher fees associated with active management.

Annual Calendar of Events/Reports

Some key items with regard to the calendar and future discussion in upcoming months include a review of the Investment Policy Statement, the request for proposal on an investment consultant, and a discussion of investment risk tolerance.

Securities lending

Mr. Dunn indicated that BWC had previously been involved in securities lending, most recently over a 4-1/2 year period ending December, 2006. Securities lending activity was suspended to accommodate the major \$16 billion transition of invested assets occurring over the first nine months of 2007. Before beginning her securities lending presentation, Lee Damsel, BWC Director of Investments, defined a "closet indexer" as an investment manager that charges the fee of an active manager, yet only renders services equivalent to that of a passive manager. It is important that the Board be wary of closet indexers in its search for active managers. In her presentation, Ms. Damsel mentioned securities lending is a prudent person practice utilized by many similar institutional investors. Securities lending provides revenue

enhancement with manageable risk. BWC would initially emphasize securities lending of bonds.

Ms. Damsel indicated that BWC will be capable of overseeing the operations and management of a securities lender by the second quarter of 2008. BWC will closely monitor any securities lenders that may be selected. Ms. Damsel indicated that it is not the intention of the Investment Division to internally manage securities lending. Securities lending will provide a monthly flow of income, with a manageable level of risk.

RFP update / CIO Report – September 2007

Mr. Dunn indicated that BWC has received questions from five prospective respondents to the RFP. Additional progress has been made in the sale of private equities. BWC has received 277 million dollars from the sale of thirty-three private equities funds through the end of October, 2007. In total, 346 million dollars has been received from the sale of forty-four funds to date, with twenty-four funds remaining to be sold.

ADJOURNMENT

It was noted that the next meeting of the Investment Committee is scheduled for December 19, 2007, 12:00 PM. A motion was made by Mr. Smith and seconded by Mr. Price, to adjourn the meeting at 2:08 PM.

Prepared by Tom Woodruff, BWC Staff Counsel