Agenda
Investment Committee
December 19, 2007
Level 2, Room 2
12:00 pm – 2:00 pm

**Call to Order**
Bob Smith, Committee Chair

**Roll Call**
Tom Woodruff, Scribe

**Approve Minutes of the November 20, 2007 Meeting**
Bob Smith

**Charter Review**
Bob Smith

**<u>New Business/Action Items</u>**

1. Securities Lending
   - Overview Presentation
     Lee Damsel
     *first consideration* for approval
     *possible vote* to recommend approval to the Board of Directors

2. Commingled Index Managers RFP Proposal
   - Recommendation for RFP issuance
     Bob Smith and Bruce Dunn
     *first consideration* for issuance
     *possible vote* to recommend approval to the Board of Directors

3. Investment Policy Statement Review
   - Sample Content Template discussion
     Bob Smith and Mark Brubaker
   - Appendices relevance discussion – Sections IX through XV
     Bob Smith, Mark Brubaker and Bruce Dunn
     *first consideration* for action
     *possible vote* to recommend approval to the Board of Directors
   - Proposed Administrative Revisions – Sections I through VIII, Appendix X
     Bruce Dunn and James Barnes
     *first consideration* for action
     *possible vote* to recommend approval to the Board of Directors
   - Non-Administrative Revisions discussion
     Bob Smith and Bruce Dunn
     *first consideration* for action
     *possible vote* to recommend approval to the Board of Directors

Agenda
Investment Committee
December 19, 2007
Level 2, Room 2
12:00 pm – 2:00 pm

**<u>Discussion Items</u>**

1. Portfolio Performance
   - JPMorgan Manager Monthly – October 2007
     Bruce Dunn

2. Annual Calendar of Events/Reports
   Bob Smith and Bruce Dunn

3. Investment Consultant RFP Update
   Bruce Dunn

4. CIO Report – November 2007
   Bruce Dunn

Adjourn

**<u>Next Meeting: January 24, 2008, 12:00 pm</u>**

**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 by 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

# OBWC Board of Directors
# Investment Committee Charter
# November 21, 2007

**Purpose**

The purpose of the Investment Committee is to ensure that the assets of the Ohio Bureau of Workers' Compensation (OBWC) are effectively managed in accordance with the laws of the State of Ohio, and the Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines. The Investment Committee:

- provides assistance to the Board of Directors in the review and oversight of the State Insurance Fund and each Ancillary Fund (collectively the Funds) assets; and is
- responsible for developing and monitoring the implementation of the BWC's investment policy.

**Membership**

The Committee shall be composed of a minimum of five (5) members. Two of the members shall be the members of the Board who serve as the investment and securities experts on the Board. The Board, by majority vote, shall appoint three additional members to serve on the Investment Committee and may appoint additional members, either from the Board or someone not on the Board. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions.

The Chair is designated by the Board, based on the recommendation of the Board Chair. The Board Chair is an ex-officio voting member of the committee, except that the chair shall not vote in the instance that his/her vote would create a tie vote.

Members of the Investment Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the members of the Committee who are the investment and securities expert members of the Board.

**Meetings**

The Investment Committee will meet at least nine (9) times annually; additional meetings may be scheduled as the Committee or its chairperson deem advisable. The Investment Committee is governed by the same rules regarding meetings, notice, quorum and voting requirements as are applicable to the Board. A quorum at any Investment Committee meeting will consist of a majority of the Committee members.

The Chair of the Committee will be responsible for establishing the agendas for the meetings of the Committee. An agenda, together with information/background materials, will be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee will be prepared to document all actions to the Committee's discharge of its responsibilities. The Committee will have a staff liaison designated to help it carry out its duties.

## Duties and Responsibilities

The Investment Committee is charged with overseeing all investment-related matters and activities of the BWC. The Committee evaluates proposals requiring Board action and makes recommendations for consideration by the Board.

1. Develop and recommend the strategic asset allocation and investment policy for the Funds and submit to the Board for approval. The Committee will periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties.
2. Evaluate and recommend an outside investment consultant to assist the Investment Committee in its duties. Submit a contract with the recommended investment consultant to the Board for approval.
3. Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives.
4. Recommend investment counsel to the Board for engagement.
5. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.
6. Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer. Review performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds.
7. Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval.
8. Monitor and review the investment performance of the Funds on a quarterly basis to determine achievement of objectives and compliance with this investment policy.
9. Recommend prohibited investments, on a prospective basis, the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval.
10. Recommend the opening and closing of each investment class and submit to the Board for approval.
11. Report all activities/recommendations to the Board following each meeting of the Investment Committee.
12. The Investment Committee will coordinate with other Board committees on items of common interest.
13. At least annually, this charter must be reviewed by the Investment Committee and any proposed changes submitted to the Governance Committee and to the Board for approval.

InvestmentCommitteeCharter.doc
Draft 092607
Review & Approved 112107, Bob Smith, Chair

BWC

Better Worker's Compensation

Built with *you* in mind.

BWC Securities Lending Presentation

# *Securities Lending*


Lee Damsel, CFA

*Director of Investments*


November 20, 2007

# What is Securities Lending?

- An *investment strategy* in which investors make short-term loans of portfolio securities to generate increased revenues. These loans are secured with collateral assets.
- Securities loaned typically include bonds and stocks
- Lender continues to receive bond and dividend income

# Securities Lending

| Who is Lending? | Who is Borrowing? |
|---|---|
| • Public Pension Funds<br>• Public Funds (State, County, Local)<br>• Corporate Pension/Treasury Funds<br>• Endowments/Foundations<br>• Mutual Funds<br>• Central Banks | • Banks<br>• Brokers/Dealers<br>• Mutual Funds<br>• Hedge Funds |

# What Securities are Loaned?

- U.S. Treasury Bonds
- U.S. Agency Bonds
- U.S. Corporate Bonds
- U.S. Stocks (small and mid caps)

# Securities lending involves:

- Securities loaned to borrower
- Securities income received monthly by BWC
- Collateral balance maintained throughout loan
- Securities returned from borrower
- Collateral released

# Why Lend Securities?

## Maximize Revenue

- Incremental income on portfolio investments
- Offset expenses associated with maintaining portfolio
- Increase overall portfolio performance

## Minimize Risk

- Manageable risk with a risk control process
- Securities lending is a prudent person practice used by similar institutional investors

# Legal Obligations of Borrowers

- Return identical securities to BWC at the time of loan termination
- Collateralize all loan transactions and honor mark to market requests
- Pay a spread /fee for the use of BWC securities
- Return to BWC any distributions/corporate actions (i.e.; dividends, interest etc.) accrued on borrowed security during life of the loan

# What are the risks?

| Risk | Risk Control |
|---|---|

## 1. Borrower Risk

| Risk | Risk Control |
|---|---|
| • Borrower defaults or is insolvent, failing to re-deliver borrowed securities | • Capital and rating requirements, and extensive ongoing credit reviews<br>• Daily collateral mark-to-market<br>• Indemnification insurance provided by third party in the event of borrower default |

## 2. Collateral Risk

| Risk | Risk Control |
|---|---|
| • Investment default, credit risk and liquidity or duration mismatch in the cash reinvestment portfolio | • Monitor and manage<br>• Establish conservative reinvestment guidelines |

# What are the risks? *(cont.)*

| Risk | Risk Control |
|---|---|

## 3. External Securities Lender Risk

- Process mistakes and errors in administering lending programs

- Daily reconciliation
- Controlled process and procedures in a controlled environment
- Compliance monitoring

## 4. BWC Legal/Contractual Risk

- Compliance with program guidelines

- Standardized documentation
- Audit/compliance oversight

# Summary

- Revenue enhancement with manageable risk
- Prudent Person Practice used by similar institutional investors

# Questions

DATE: December 10, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Investment Strategy Background/Proposal**
**Index Managers Request for Proposals Issuance**
**Commingled Account Structure**
**State Insurance Fund/Disabled Workers Fund/Coal Workers Fund**

## Strategy

The three largest trust funds of BWC have all invested assets presently under the management of several passive indexed investment managers, with the exception of certain cash balances as well as private equity and small miscellaneous holdings. The latter two asset categories (including coin funds) are in the process of being totally liquidated. These three trust funds and their respective approximate 10/31/07 investment portfolio values are the State Insurance Fund ($16.4 billion), Disabled Workers Fund ($1.15 billion) and Coal Workers Fund ($244 million). As discussed in the Investment Committee meeting of last month, the current interim investment strategy for each of these three trust funds is to target asset allocation as follows: 59% Long Duration Fixed Income (LDFI), 20% U.S. Treasury Inflation Protected Securities (TIPS) and 20% Large Cap U.S. Equity (LCE). These asset allocation targets for these three portfolios will remain under the passive indexed style of management until BWC is in a position to select active style investment managers for 40% of total assets, as per the current BWC Investment Policy Statement (IPS).

It is the desire of the BWC Chief Investment Officer to issue a new Request for Proposals (RFP) document for Passive Indexed Investment Management Services for each of the three current passive indexed mandates (LDFI,TIPS,LCE). The need to issue this RFP is the result of the approval given by the BWC Board of Directors on October 26, 2007 to convert the BWC custodial account structure for its investment assets from the current separate account structure to a pooled commingled account arrangement.

## Background

BWC issued an RFP for Passive Indexed Investment Management Services on September 18, 2006 (“Prior RFP”). There were four separate asset management mandates reflected in the Prior RFP: LDFI, TIPS, LCE and Non-U.S. Equity. Specific and distinct questions were asked of respondents for each mandate and a respondent could choose to respond to any single or combination of mandates. A decision was subsequently made to not consider the Non-U.S. Equity mandate RFP proposals received. The small 1% of total assets passive allocation targeted to this specific asset sector was deemed uneconomic upon further review. The Non-U.S. Equity mandate at 5% of total assets is now presently targeted for only active style management.

The Prior RFP asked respondents to provide management fee quotes under both a commingled account and a separate account managed custodial structure as well as both with and without securities lending. Due to subsequent actions taken by the former Oversight Commission (WCOC) after this Prior RFP was issued, the only proposals graded were proposals offering a separate account custodial structure without securities lending. Over the period December 2006 through March 2007 as the Prior RFP evaluation process was completed, the current respective BWC passive indexed investment managers were recommended and approved by the WCOC.

**New RFP Overview**

The BWC Chief Investment Officer and investment staff are satisfied with its three current passive indexed investment managers for LDFI (State Street, Barclays), TIPS (State Street) and LCE (Northern Trust). Each of these managers is very experienced and capable of managing BWC funds under a pooled commingled account structure. Each manager provided a fee quote in the Prior RFP for a commingled structure as well as the current non-pooled, separately managed account structure. However, all offers tendered under the Prior RFP remained opened only for a defined period of 180 days from the submission deadline date (October 10, 2006). The expiration of the offer validity period in combination with the desired conversion to a commingled account structure requires the issuance of a new RFP for the three BWC passive indexed manager asset class mandates.

Similar to the Prior RFP, it is the goal of the new Index Manager RFP to select one or a few managers for each of the three defined mandates that have the best combination of experience, qualifications, process, performance and management fee structure to effectively service the large asset size BWC offers for each such mandate. It is recommended by the BWC CIO that minimum qualifications of each eligible respondent include a minimum of $25 billion of assets in passively-managed index portfolios under management over the most recent three-year period and at least five years of experience in managing passive index portfolios for the specific asset class. It is also recommended that minimum assets under passive index management be as follows:

(a) LCE - $15 billion;
(b) LDFI - $5 billion, exclusive of BWC assets under management;
(c) TIPS - $3 billion, exclusive of BWC assets under management

The RFP proposals will initially be evaluated by an Evaluation Committee to consist of the BWC Chief Investment Officer, the BWC Director of Investments, the BWC Senior Investment Manager and the BWC investment consultant. It is recommended that the new RFP be weighted and scored based on the following criteria and weightings which are identical to that of the Prior RFP:

A. Firm’s Organization, Experience and Qualifications……………………………...30%
B. Firm’s Philosophy & Process for Indexed Investment Management Service…… 20%
C. Firm’s Performance, Tracking Errors and Fees……………………………………50%

After the initial scoring for each of the three RFP mandate proposals is completed by the Evaluation Committee, finalist candidate(s) will be selected for each mandate for subsequent scheduled interviews at the William Green Building by the Evaluation Committee. After the completion of all necessary interviewing and final due diligence, recommendations for approval of each finalist selected by the Evaluation Committee will be presented to the BWC Investment Committee and BWC Board of Directors.

It is the intention of the BWC Investment Division to request commingled account management fee proposals both with and without securities lending. The purpose of this arrangement is to maintain flexibility of options for possible securities lending activity and to discern the fee differential under either option.

**Industry Common Practice**

It is the common and expected practice of passive indexed investment managers who pool client funds under the commingled account structure to manage to a defined benchmark that is widely recognized and accepted in the industry. A customized index is not widely accepted and, as a result, can only serve as a benchmark index under either a separate account management structure or a customized commingled account structure unique to the client. A widely utilized benchmark index acceptable to passive indexed asset managers and their clients (both institutions and individuals) allows asset managers to attract larger pools of funds, thereby achieving economies of scale which in turn allows for lower management fees.

The respective BWC benchmark indices for the TIPS mandate (Lehman U.S. TIPS Index) and the LCE mandate (S&P 500 Index) are clearly the most widely used and acceptable benchmarks for these two asset classes. At the present time, BWC has a customized benchmark index for its Long Duration Fixed Income assets under passive indexed management($10.7 billion as of 11/30/07). The most widely accepted U.S. bond market long duration fixed income benchmark index is the Lehman U.S. Long Government/Credit Index (LLGC index). This LLGC index or its government and credit components serve as the long duration fixed income index of choice for substantially all of the commingled account clients of both State Street and Barclays, the two largest passive indexed long duration fixed income managers in the world.

BWC will be unable to convert to a lower cost, more efficient pooled commingled account management structure for its large LDFI assets if the current Customized Lehman U.S. Government/Credit benchmark index is maintained. The BWC customized index prohibits investments in foreign government related debt. It is proposed that the widely accepted LLGC index serve as the BWC long duration fixed income assets benchmark index if the LDFI asset class mandate is to be included in this proposed new Index Managers RFP to be issued.

## Long Duration Fixed Income Index Comparisons

In respective November, 2007 meetings, the BWC Investment Committee and Board of Directors approved the removal of capped credit limits in the Customized LDFI Index. This customized index had served as the BWC benchmark index since 4/01/07 when the passive indexed management of long duration fixed income assets of BWC commenced. For the purposes of this report, the original BWC Customized LDFI Index will be termed "Old Customized index" and the current BWC Customized LDFI Index approved by the Board on 11/21/07 will be termed "New Customized index". Subsequent to the approval of the New Customized index, the BWC CIO worked with Lehman Brothers to construct the New Customized index as represented herein.

Summary comparative characteristics of both BWC customized benchmarks and the widely accepted LLGC index are provided in the first attached table of this report. Both the Old Customized index and the New Customized index are designed to very closely match the LLGC index in terms of important portfolio characteristics such as average maturity, yield, duration and credit quality. The LLGC index currently has a representation of 17 different foreign government related credits totaling 41 different issues that are excluded from both the old and new BWC LDFI customized indices. The combined market value of these 41 issues represents 3.52% of the reference LLGC index on 11/30/07. Among the more prominent non-U.S. governmental credits in the LLGC index excluded from the customized indices are five Canadian provinces, World Bank, Asian Development Bank, Italy and Mexico.

The second attached table to this report provides a total annualized return and annualized risk comparison of both BWC customized benchmark indices to the reference LLGC index. This information was provided courtesy of Lehman Brothers at the request of the BWC CIO as communicated through Barclays Global Investors, a BWC LDFI investment manager.

This performance table shows that the Old Customized Index and the new Customized Index have provided consistently lower annualized rates of returns versus the reference LLGC index while exhibiting similar performance risk (defined as rate of return variance or volatility) to the reference LLGC index for each of the time periods shown. As an example, BWC directed approximately $9.3 billion of State Insurance Fund assets to its two passive indexed LDFI managers effective 4/01/07. For the eight months that the BWC LDFI assets were managed to the Old Customized index, this performance differential theoretically translates to approximately $8.8 million in reduced performance for the $9.3 billion invested over this initial eight-month period compared to if these funds were managed to the reference LLGC index. A similar comparison over the three-year period ended 11/30/07 resulted in the New Customized index underperforming by an annualized 0.11% or approximately $11.7 million per annum on the current $10.7 billion invested in LDFI assets.

**Proposal**

It is recommended that a Request for Proposals for Passive Indexed Investment Management Services be issued by BWC as outlined herein. Such RFP will seek a select group of passive indexed investment managers experienced in successfully managing very large pools of funds under the pooled commingled account structure in one or more of the three large asset class mandates described herein. This RFP will be applicable for each of the three largest trust fund portfolios of BWC. There will be a separate RFP evaluation performed by the designated evaluation committee for each of the three respective asset class mandates (Long Duration Fixed Income, U.S. TIPS, Large Cap U.S. Equity) reflected in the RFP. Separate manager recommendations for each such identified asset class mandate will be made by the evaluation committee for consideration by the BWC Investment Committee and Board of Directors.

It is proposed that the widely accepted and utilized Lehman U.S. Long Government/Credit Index be considered to serve as the Long Duration fixed income benchmark for BWC. Such benchmark would replace the current Customized U.S. Long Government/Credit Index serving as the current benchmark index for BWC. The proposed index is the industry standard benchmark for long duration bonds in the U.S. fixed income markets.

# Lehman Long Government/Credit Index
# vs.
# BWC Lehman Customized U.S. Long Government/Credit Index

As of 11/30/2007

| **Portfolio Characteristics** | **Old/New Customized** | **LLGC** |
|---|---|---|
| Number of Issues | 1,037/1,037 | 1,078 |
| Avg. Maturity (Yrs) | 21.12/21.15 | 21.09 |
| Avg. Yield to Maturity (%) | 5.40/5.40 | 5.40 |
| Avg. Modified Adj Duration (Yrs) | 11.30/11.30 | 11.29 |
| Avg. Convexity | 1.88/1.88 | 1.88 |
| Avg. Quality | AA2/AA3/Same | AA2/AA3 |

| **Ratings** | **Old/New Customized** | **LLGC** |
|---|---|---|
| AAA | 52.99% | 51.74% |
| AA | 7.74% | 8.91% |
| A | 19.15% | 18.81% |
| BBB | 20.10% | 20.54% |

| **Asset Sector (%)** | **Old/New Customized** | | **LLGC** | |
|---|---|---|---|---|
| U.S. Treasury | 42.62/42.62 | | 41.09 | |
| U.S. Agencies | 8.40/8.42 | | 8.10 | |
| U.S. Taxable Municipals | 1.73/1.74 | | 1.67 | |
| U.S. Corporates | 38.49/38.75 | | 37.37 | |
| Non U.S. Credit: | 8.76/8.47 | | 11.77 | |
| Sovereigns | | 0.00/0.00 | | 1.80 |
| Supranationals | | 0.00/0.00 | | 0.55 |
| Local Government | | 0.00/0.00 | | 1.27 |
| Corporate | | 8.76/8.47 | | 8.15 |
| | 100.00/100.00 | | 100.00 | |

# PERFORMANCE COMPARISON

| | *Lehman Capped Long GovCredit ex Sov Sup and Non US Loc Auth* | *Lehman Long Gov/Credit ex Sov Sup and Non Us Loc Auth* | *Lehman US Long Govt Credit* |
|---|---|---|---|
| 1yr Annualized Return | 4.24 | 4.27 | 4.38 |
| 3yr Annualized Return | 5.64 | 5.65 | 5.75 |
| 5yr Annualized Return | 6.57 | 6.57 | 6.67 |
| 7yr Annualized Return | 7.47 | 7.48 | 7.61 |
| 10 yr Annualized Return | 7.04 | 7.04 | 7.13 |
| 10 Year Cumulative Return | 97.45 | 97.52 | 99.04 |
| 1yr Annualized Risk | 5.97 | 5.97 | 5.95 |
| 3yr Annualized Risk | 6.66 | 6.66 | 6.66 |
| 5yr Annualized Risk | 8.54 | 8.54 | 8.55 |
| 7yr Annualized Risk | 8.33 | 8.33 | 8.32 |
| 10yr Annualized Risk | 7.62 | 7.62 | 7.62 |
| **Period 3/30/07 – 11/30/07** | | | |
| 8-Month Cumulative Return | 5.52 | 5.55 | 5.61 |

*Source: Lehman Brothers, as of 11/30/2007*

OBWC-070906

DATE: December 10, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **Investment Policy Statement Review**

It is the intention of Chairman Smith to lead a discussion focusing on the BWC Investment Policy Statement (IPS) from a presentation and content viewpoint at the December 19, 2007 Investment Committee meeting. The current IPS is an 83 page document, including 67 pages serving as Appendices.

The Agenda for this upcoming Investment Committee meeting outlines a suggested approach to focus a discussion of the IPS. Some material for this discussion and your review has been provided in this tab:

(A) Wilshire Associates as BWC investment consultant was asked to provide a sample content template covering important subject matters that are customary to address and reflect in an IPS of a typical institutional client. This template example is provided in this tab. Mark Brubaker of Wilshire Associates will discuss this IPS outline at our meeting.

(B) James Barnes as BWC Chief Counsel was asked to provide proposed administrative revisions to the IPS reflecting the enactment of House Bill 100 and the replacement of the former Workers' Compensation Oversight Commission with the current BWC Board of Directors. The proposed marked changes in this tab presented for Section I through VIII and Appendix X of the IPS largely reflect this intention.

The decision was made to not present similar proposed administrative changes to other sections of the current IPS Appendices because Chairman Smith will lead a discussion on the relevancy of the 67 page appendix section remaining as part of the BWC IPS.

Finally, it is the intention of Chairman Smith and the CIO to raise for discussion several specific parts of Section IV of the IPS (Investment Policy Guidelines) that may warrant discussion and potential revision.

# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: November 21, 2007

# Table of Contents

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

## I. INVESTMENT OBJECTIVES

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

## II. BACKGROUND

### A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and Ancillary Funds ("the Funds"). The Workers' Compensation Board of Review ("Board") 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 as required by Ohio Revised Code Section 4121.12(F).

> *The Board 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(F))*

### B. Fiduciary Standard

Under Ohio Revised Code Section (O.R.C.) 4123.44, the voting members of the Board, 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 O.R.C. 4123.44 and any other applicable statutory or administrative rules. A copy of the O.R.C. 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 O.R.C. 4123.44.

## III. ROLES AND RESPONSIBILITIES

### A. Board Responsibilities

The Board 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 theBoard, 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 Board 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 Board finds to be contrary to the Investment Objectives of the Funds. In the event that the Board determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the Board 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 Board's criteria for approving proposed dividends submitted to it pursuant to R.C. 4123.32 and Ohio Admin. Code 4123-17-10.

The Board may appoint members to an Investment Committee for the express purpose of assisting the Board 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 Board, 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 Board 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 Board.

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 Board on the selection and termination of all Investment Consultants.

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

vi. Consult with and receive approval from the Board 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 Board.

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 Board 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 Board 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 Board 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 Board.

## 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 Board, 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 quarterly investment results and quarterly risk characteristics of the Funds to the Board.

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 Board 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 Board 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 Board 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 Board 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 Board, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
- The Funds' assets managed by any one firm, utilizing either active or passive investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that asset class at the time it is hired. For purposes of this constraint, "asset class" shall be broadly defined to include all styles, sub-sectors, or specialty portfolios managed by a firm within a particular asset class.

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 Board 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 Fixed Income** |
|---|---|
| **U.S. Governments:** | ***100%*** |
| Treasuries | 100% |
| Agencies | 100% |
| **Mortgages** | ***40%*** |
| Agencies | 40% |
| Non-Agency | 10% |
| Collateralized Mortgage Obligations (CMOs) (must be rated AA or better) | 10% |
| Commercial Mortgage Backed Securities (CMBS) and Project Loans | 10% |
| Floating Rate Mortgages | 10% |
| **Investment Grade Credit** | ***70%*** |
| Finance | 35% |
| Industrial | 35% |
| Transportation | 35% |
| Utilities | 35% |
| Yankees | 10% |
| Asset Backed Securities (ABS) (must be rated AA or better) | 10% |
| **Foreign Governments** | ***0%*** |
| **Below Investment Grade Credit** | ***7.5%*** |

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

***By Credit Quality:***

| Credit Quality | Max. % of Fixed Income | Credit Name Max % |
|---|---|---|
| Governments/Agencies | 100% | N.A. |
| Aaa/AAA or below | 80% | 1.00% (AAA only) |
| Aa/AA or below | 65% | 1.00% (AA only) |
| A/A or below | 40% | 0.75% (A only) |
| Baa/BBB or below | 25% | 0.50% (BBB only) |
| Ba/BB or below | 7.5% | 0.25% (BB only) |
| B/B or below | * | 0.10% (B only) |
| CCC | ** | 0.05% (CCC only) |
| Below CCC | 0% | 0.00% |

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

Individual credit name limits are applicable for actively managed fixed income mandates, and are not applicable for passively managed (index) fixed income mandates. Credit name is defined as unique ticker symbol, such that each distinct credit name has a different ticker symbol as represented on Bloomberg or other such informational source used by the sponsor of the fixed income benchmark index approved.

Maximum percentages refer to market value of each security or credit name owned for the Funds' Fixed Income portfolio in its aggregate. Credit ratings recognized are Moody's, Standard & Poor's and Fitch. Credit rating applicable is the lower of the two ratings if such security is rated by only two of the three rating agencies. Credit rating applicable is the middle rating if such security is rated by all three rating agencies, as consistent with the rules used by the sponsor of the fixed income benchmark index approved. The Chief Investment Officer will report to the Board the details of any guideline violation at the next scheduled Board meeting, or sooner if warranted in the judgment of the Chief Investment Officer. Each Investment Manager will be required to adhere to this Investment Policy in general and will be provided with specific investment security guidelines by the Chief Investment Officer consistent with these Credit Quality and Sector Allocation guidelines in the aggregate.

In the event that downgraded securities result in a violation of these constraints, the Board shall grant an exemption that would allow the Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the Chief Investment Officer. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the applicable guidelines to the Chief Investment Officer. Such action plan will be reflected in the compliance report of the Chief Investment Officer to be presented at the next scheduled Board meeting.

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

iii. **U.S. Equity**

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

**<u>Diversification</u>**
The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

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

**Non-U.S. Equity**

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

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

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

iv. **Alternative Investments**

The SIF has allocated a portion of its investment portfolio to private equity securities, limited partnerships and funds of funds subject to all applicable legal requirements and limits set forth in this

Investment Policy. The purpose of investing in private equity securities, partnerships or funds is to enhance the overall investment returns of the Funds.

**Future investments in Alternative Investments are not presently anticipated.**

v. **Cash Equivalents**

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

vi. **Securities Lending**

Securities lending is not permitted by the Funds or their Investment Managers in order to accommodate the implementation of the asset allocation strategy reflected in Appendix XI.

vii. **Derivatives**

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

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

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

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

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

viii. **Commission Recapture / Directed Brokerage**

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

ix. **General Prohibitions**

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

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

## V. PERFORMANCE OBJECTIVES

### A. Total Fund

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

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

### B. Asset Class Composites

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

### C. Investment Managers

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

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

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

The performance of each Investment Manager will be monitored on an ongoing basis and the Administrator and the Chief Investment Office shall take any appropriate corrective action, including, subject to approval by the Board, 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 Board.
- 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 Board 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 Board 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 Board's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the Board 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.

## 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 Board 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 Board 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. The allowable range for all target weights is reflected in the following table.

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

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

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

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

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

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the Board 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 Board 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. The allowable range for all target weights is reflected in the following table

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

## Appendix X.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 Board has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[2] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

The Board 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. 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%[3] |
| ***Cash Equivalents*** | ***1%*** |
| ***Total Equity*** | ***0%*** |

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

[3] Approval to invest the assets of the MIF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

# 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 Board 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 Board 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. The allowable range for all target weights is reflected in the following table

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

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

The Public Work-Relief Employees' Fund ("PWRF") 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 Board 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 Board 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. 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%[1] |
| ***Cash Equivalents*** | ***1%*** |
| ***Total Equity*** | ***0%*** |

[1] Approval to invest the assets of the PWRF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

# 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 Board 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. 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%*** |

# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the BWC Board of Directors: November 21, 2007

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

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

## I. INVESTMENT OBJECTIVES

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

## II. BACKGROUND

### A. Purpose

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

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

### B. Fiduciary Standard

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

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

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

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

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 Fixed Income |
|---|---|
| **U.S. Governments:** | ***100%*** |
| Treasuries | 100% |
| Agencies | 100% |
| **Mortgages** | ***40%*** |
| Agencies | 40% |
| Non-Agency | 10% |
| Collateralized Mortgage Obligations (CMOs) (must be rated AA or better) | 10% |
| Commercial Mortgage Backed Securities (CMBS) and Project Loans | 10% |
| Floating Rate Mortgages | 10% |
| **Investment Grade Credit** | ***70%*** |
| Finance | 35% |
| Industrial | 35% |
| Transportation | 35% |
| Utilities | 35% |
| Yankees | 10% |
| Asset Backed Securities (ABS) (must be rated AA or better) | 10% |
| **Foreign Governments** | ***0%*** |
| **Below Investment Grade Credit** | ***7.5%*** |

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

***By Credit Quality:***

| Credit Quality | Max. % of Fixed Income | Credit Name Max % |
|---|---|---|
| Governments/Agencies | 100% | N.A. |
| Aaa/AAA or below | 80% | 1.00% (AAA only) |
| Aa/AA or below | 65% | 1.00% (AA only) |
| A/A or below | 40% | 0.75% (A only) |
| Baa/BBB or below | 25% | 0.50% (BBB only) |
| Ba/BB or below | 7.5% | 0.25% (BB only) |
| B/B or below | * | 0.10% (B only) |
| CCC | ** | 0.05% (CCC only) |
| Below CCC | 0% | 0.00% |

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

Individual credit name limits are applicable for actively managed fixed income mandates, and are not applicable for passively managed (index) fixed income mandates. Credit name is defined as unique ticker symbol, such that each distinct credit name has a different ticker symbol as represented on Bloomberg or other such informational source used by the sponsor of the fixed income benchmark index approved.

Maximum percentages refer to market value of each security or credit name owned for the Funds' Fixed Income portfolio in its aggregate. Credit ratings recognized are Moody's, Standard & Poor's and Fitch. Credit rating applicable is the lower of the two ratings if such security is rated by only two of the three rating agencies. Credit rating applicable is the middle rating if such security is rated by all three rating agencies, as consistent with the rules used by the sponsor of the fixed income benchmark index approved. The Chief Investment Officer will report to the WCOC the details of any guideline violation at the next scheduled WCOC meeting, or sooner if warranted in the judgment of the Chief Investment Officer. Each Investment Manager will be required to adhere to this Investment Policy in general and will be provided with specific investment security guidelines by the Chief Investment Officer consistent with these Credit Quality and Sector Allocation guidelines in the aggregate.

In the event that downgraded securities result in a violation of these constraints, the WCOC shall grant an exemption that would allow the Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the Chief Investment Officer. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the applicable guidelines to the Chief Investment Officer. Such action plan will be reflected in the compliance report of the Chief Investment Officer to be presented at the next scheduled WCOC meeting.

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

### iii. U.S. Equity

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

**<u>Diversification</u>**
The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

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

### Non-U.S. Equity

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

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

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

### iv. Alternative Investments

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

**Future investments in Alternative Investments are not presently anticipated.**

v. **Cash Equivalents**

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

vi. **Securities Lending**

Securities lending is not permitted by the Funds or their Investment Managers in order to accommodate the implementation of the asset allocation strategy reflected in Appendix XI.

vii. **Derivatives**

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

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

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

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

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

viii. **Commission Recapture / Directed Brokerage**

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

ix. **General Prohibitions**

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

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

## V. PERFORMANCE OBJECTIVES

### A. Total Fund

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

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

### B. Asset Class Composites

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

### C. Investment Managers

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

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

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

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

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

## VI. COMMUNICATIONS

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

## VII. REVIEW PROCEDURES

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

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

## VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY

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

**Qualified Ohio Managers - Criteria**

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

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

**Minority Managers – Criteria**

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

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

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

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

# The Ohio Bureau of Workers' Compensation

# Appendix to Statement of Investment Policy and Guidelines

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

# Table of Contents

## Appendix IX: Asset Allocation Criteria

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

## Appendix X.A: State Insurance Fund (SIF)

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

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

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

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

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

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on July 20, 2006. The allowable range for all target weights is reflected in the following table.

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

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

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

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

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

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

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

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is reflected in the following table

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

# Appendix X.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[2] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

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

The table below highlights the general asset classes approved for investment 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%[3] |
| ***Cash Equivalents*** | ***1%*** |
| ***Total Equity*** | ***0%*** |

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

[3] Approval to invest the assets of the MIF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

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

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

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

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

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

The table below highlights the general asset classes approved for investment and the strategic target weights as adopted by the WCOC on September 28, 2006. The allowable range for all target weights is reflected in the following table

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

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

The Public Work-Relief Employees' Fund ("PWRF") 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%[1] |
| ***Cash Equivalents*** | ***1%*** |
| ***Total Equity*** | ***0%*** |

[1] Approval to invest the assets of the PWRF on an interim basis in the institutional money market fund that is currently utilized for BWC's cash balance assets was passed in the April 26, 2007 Workers' Compensation Oversight Commission meeting.

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

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

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

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

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

# Appendix XI.A

## Ohio Bureau of Workers' Compensation State Insurance Fund

Asset-Liability Valuation

July 26, 2007

Mark E. Brubaker, CFA
Managing Director

Michael D. Patalsky, CFA
Senior Associate

# Agenda

# Recommendation

- Wilshire recommends that the OBWC maintain a long-term orientation and utilize an asset mix with a minimum equity allocation target of 20%:

| Asset Class | Portfolio Weights |
|---|---|
| U.S. Equity | 15.0% |
| Non-U.S. Equity | 5.0% |
| **Total Equity** | **20%** |
| Fixed Income - Core | 0.0% |
| Fixed Income - Long Duration | 54.0% |
| Fixed Income - High Yield | 5.0% |
| Fixed Income - Inflation Protected | 20.0% |
| **Total Fixed Income** | **79%** |
| **Cash Equivalents** | **1.0%** |
| **Total Allocation** | ***100%*** |
| **Expected (Median) Return** | **6.24%** |
| **Standard Deviation of Return** | **6.07%** |

- The recommendation is based on the following factors:
  - The Obligations of the State Insurance Fund are long-term in nature, with a duration of approximately 10.3 years (versus 10.4 from the 2006 ALV report)
  - 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
- A mix with a minimum of 20% equities provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons

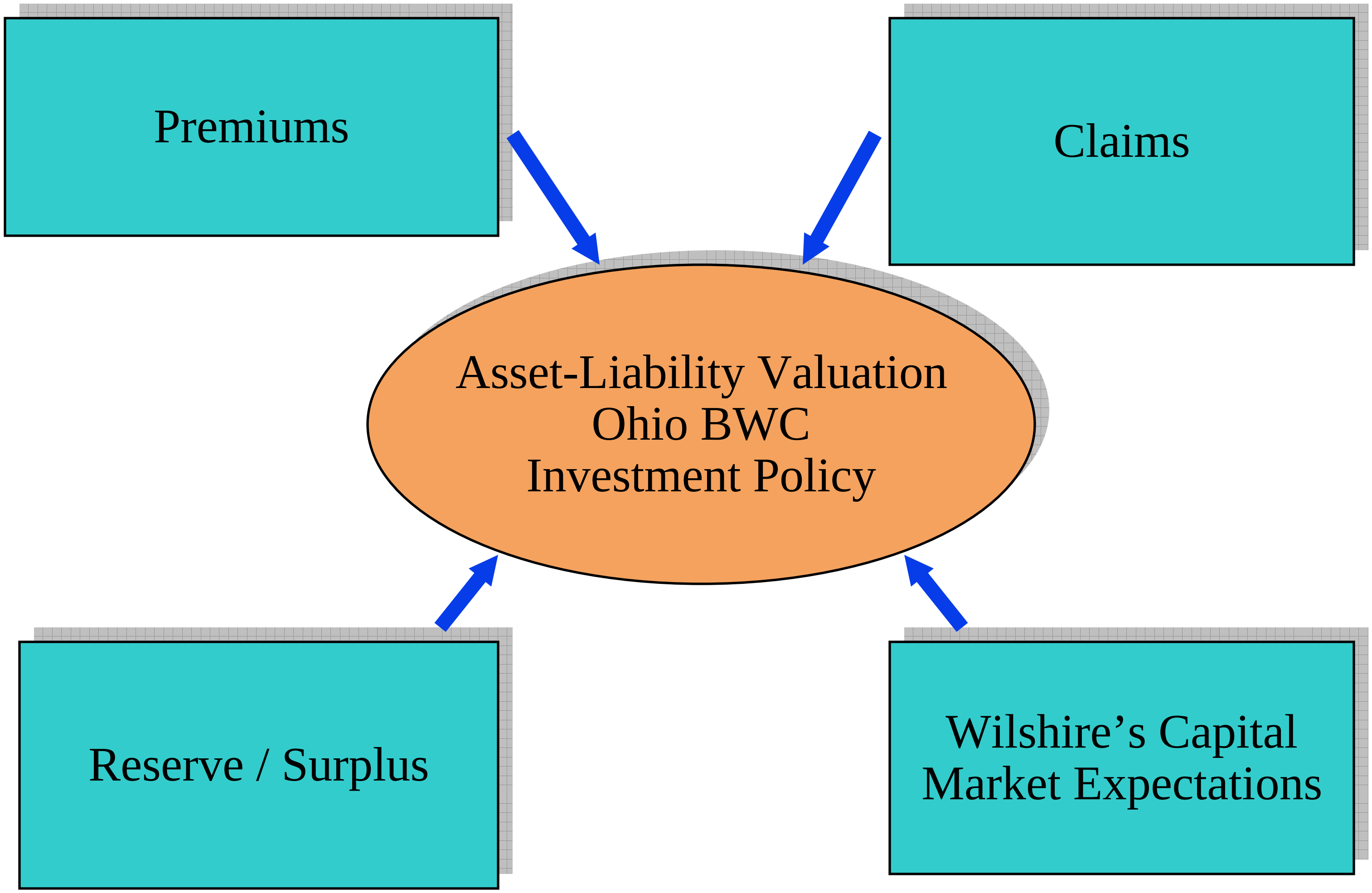
# II. Asset-Liability Valuation Background

## 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).

# Asset-Liability Valuation Methodology

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



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# Current BWC Accounting Status

- As of May 30, 2007, the BWC reported a surplus of $2.04 billion for the SIF

| Assets ($ mm) | SIF | DWRF* | CWPF | PWREF | MIF | SBF | ACF | Eliminations | Total* |
|---|---|---|---|---|---|---|---|---|---|
| Total Cash and Investments | 15,664 | 1,105 | 233 | 22 | 16 | 47 | 4 | | 17,091 |
| Accrued Premiums | 2,078 | 112 | - | 0 | - | 611 | 255 | | 3,056 |
| Other Accounts Receivable | 138 | 19 | 0 | 0 | - | 2 | 7 | | 166 |
| Investment Receivables | 286 | 68 | 2 | 0 | 0 | 1 | 75 | (154) | 279 |
| Other Assets | 26 | 0 | - | - | - | - | 96 | | 122 |
| **Total Assets** | 18,193 | 1,303 | 235 | 22 | 16 | 661 | 437 | (154) | 20,714 |
| | | | | | | | | | |
| **Liabilities ($ mm)** | **SIF** | **DWRF** | **CWPF** | **PWREF** | **MIF** | **SBF** | **ACF** | **Eliminations** | **Total** |
| Reserve | 15,678 | 98 | 61 | 5 | 2 | 611 | 997 | | 17,452 |
| Accounts Payable | 137 | - | 1 | | - | - | 1 | | 139 |
| Investment Payable | 192 | - | - | | - | - | 113 | | 305 |
| Other Liabilities | 143 | 376 | 0 | 0 | 0 | 44 | 20 | (154) | 430 |
| **Total Liabilities** | 16,151 | 475 | 62 | 5 | 2 | 656 | 1,130 | (154) | 18,327 |
| | | | | | | | | | |
| **Net Assets ($ mm)** | 2,042 | 828 | 173 | 18 | 14 | 6 | (693) | - | 2,387 |

- Slide 14 provides a simulation of potential future surplus under different asset allocation scenarios.

Source: BWC Fiscal Year Books, Statement of Net Assets – May 2007

*Note: The DWRF fund net assets are estimated to account for the legislative change that impacts the booking of reserves that will significantly increase the value of the surplus of this fund. As a result, the total fund surplus is also an estimate as the DWRF fund is a component of this total value.



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# III. Capital Markets Expectations and Efficient Frontier

# A Long Term Capital Market Perspective

| | 1802-2005 | 1926-2006 | *High Inflation* 1970-1979 | *Bull Market* 1980-1999 | *Wilshire* Forecast 2006 | *Wilshire* Forecast 2007 |
|---|---|---|---|---|---|---|
| **Total Returns** | | | | | | |
| Stocks | 8.2% | 10.4% | 5.9% | 17.8% | 8.25% | 8.25% |
| Bonds | 4.9 | 5.6 | 7.2 | 10.0 | 5.00 | 5.25 |
| T-Bills | 4.3 | 3.8 | 6.4 | 7.2 | 3.00 | 3.00 |
| **Inflation** | 1.4 | 3.0 | 7.4 | 4.0 | 2.30 | 2.25 |
| **Real Returns** | | | | | | |
| Stocks | 6.8 | 7.4 | -1.5 | 13.8 | 6.00 | 6.00 |
| Bonds | 3.5 | 2.6 | -0.2 | 6.0 | 2.80 | 3.00 |
| T-Bills | 2.9 | 0.8 | -1.0 | 3.2 | 0.80 | 0.75 |
| **Risk (Std. Dev.)** | | | | | | |
| Stocks | | 19.3 | 16.0 | 15.0 | 17.00 | 16.00 |
| Bonds | | 5.2 | 6.4 | 6.6 | 5.00 | 5.00 |
| T-Bills | | 1.0 | 0.6 | 1.0 | 1.00 | 1.00 |
| Stocks minus Bonds | 3.3 | 4.8 | -1.3 | 7.8 | 3.30 | 3.00 |



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# Wilshire's 10-Year Capital Market Assumptions

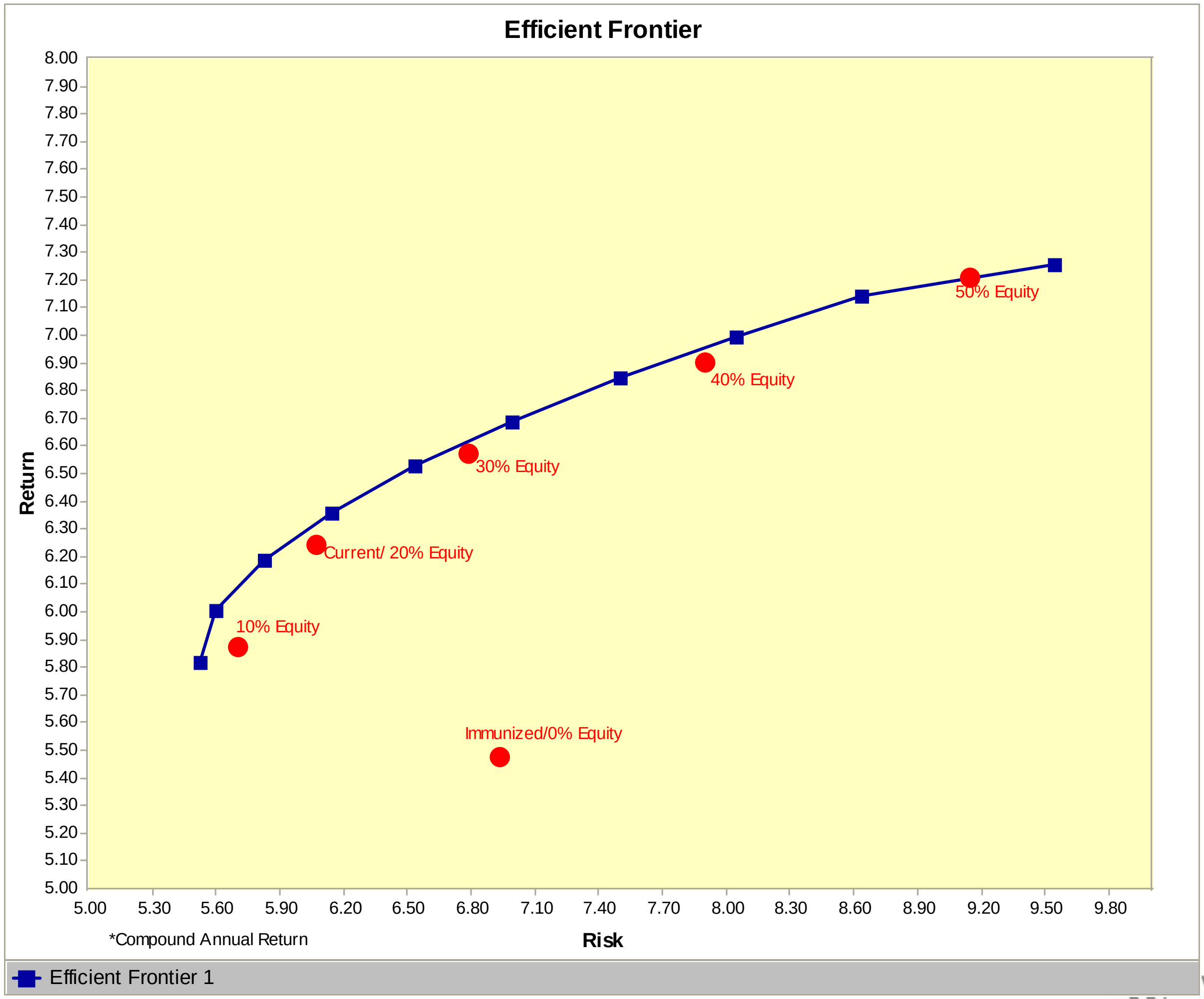
| Asset Class | U.S. Equity | Non-U.S. Equity | Fixed Income - Core | Fixed Income - Long Duration/Dedicated | Fixed Income - High Yield | Fixed Income - Inflation Protected | Cash Equivalents |
|---|---|---|---|---|---|---|---|
| **Return** | 8.25 | 8.25 | 5.25 | 5.50 | 6.75 | 5.00 | 3.00 |
| **Risk** | 16.00 | 18.00 | 5.00 | 7.00 | 10.00 | 6.00 | 1.00 |
| **Yield** | 1.70 | 2.45 | 5.25 | 5.50 | 6.75 | 5.00 | 3.00 |
| **Correlations** | | | | | | | |
| **U.S. Equity** | 1.00 | | | | | | |
| **Non-U.S. Equity** | 0.77 | 1.00 | | | | | |
| **Fixed Income - Core** | 0.29 | 0.05 | 1.00 | | | | |
| **Fixed Income - Long Duration/Dedicated** | 0.34 | 0.09 | 0.95 | 1.00 | | | |
| **Fixed Income - High Yield** | 0.48 | 0.35 | 0.39 | 0.40 | 1.00 | | |
| **Fixed Income - Inflation Protected** | -0.05 | 0.05 | 0.20 | 0.15 | 0.01 | 1.00 | |
| **Cash Equivalents** | 0.00 | -0.09 | 0.10 | 0.10 | 0.00 | 0.15 | 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: 2007 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:



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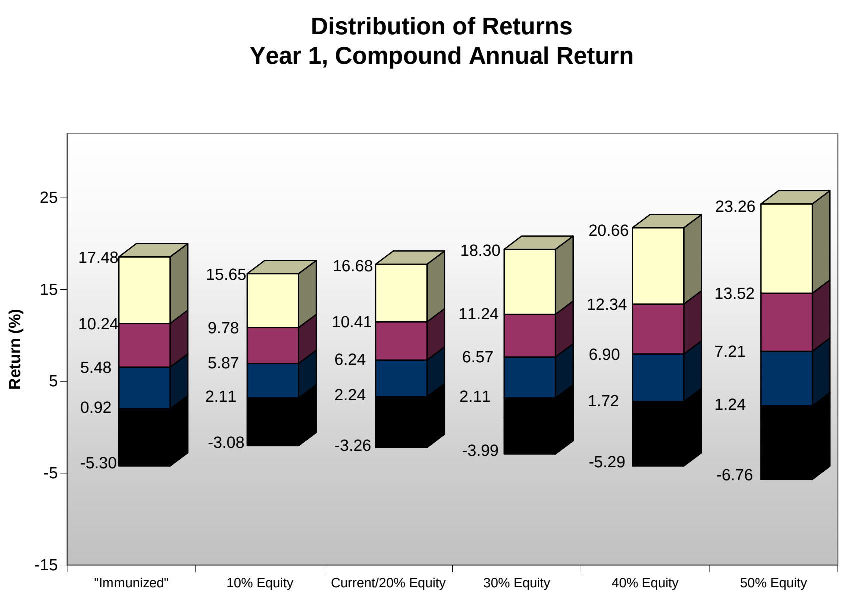
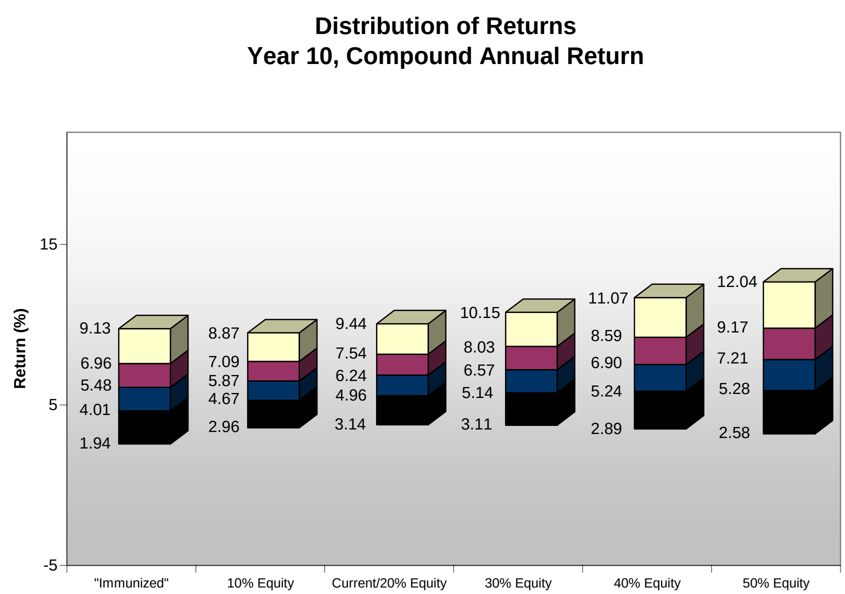
# Efficient Portfolios

| | Portfolio Weights | | | | | |
|---|---|---|---|---|---|---|
| | "Immunized" | Total Return | | | | |
| **Asset Class** | **0% Equity** | **10% Equity** | **Current/20% Equity** | **30% Equity** | **40% Equity** | **50% Equity** |
| U.S. Equity | 0.0% | 7.5% | 15.0% | 22.5% | 30.0% | 37.5% |
| Non-U.S. Equity | 0.0% | 2.5% | 5.0% | 7.5% | 10.0% | 12.5% |
| **Total Equity** | **0%** | **10%** | **20%** | **30%** | **40%** | **50%** |
| Fixed Income - Core | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Fixed Income - Long Duration/Dedicated | 99.0% | 65.0% | 54.0% | 44.0% | 39.0% | 34.0% |
| Fixed Income - High Yield | 0.0% | 4.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Fixed Income - Inflation Protected | 0.0% | 20.0% | 20.0% | 20.0% | 15.0% | 10.0% |
| **Total Fixed Income** | **99%** | **89%** | **79%** | **69%** | **59%** | **49%** |
| Cash Equivalents | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| **Total Allocation** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** |
| **Expected (Median) Return** | **5.48%** | **5.87%** | **6.24%** | **6.57%** | **6.90%** | **7.21%** |
| **Standard Deviation of Return** | **6.93%** | **5.70%** | **6.07%** | **6.78%** | **7.90%** | **9.15%** |

- 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



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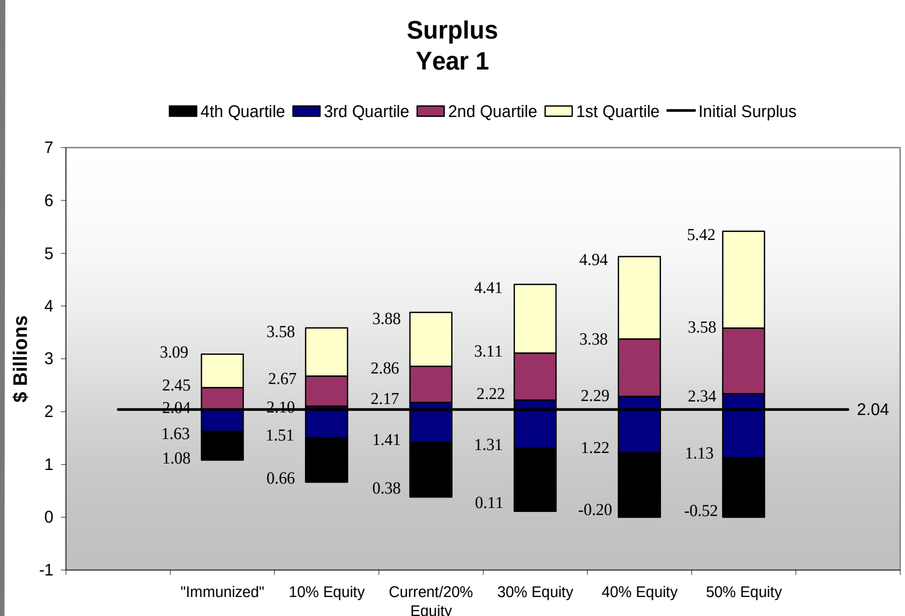
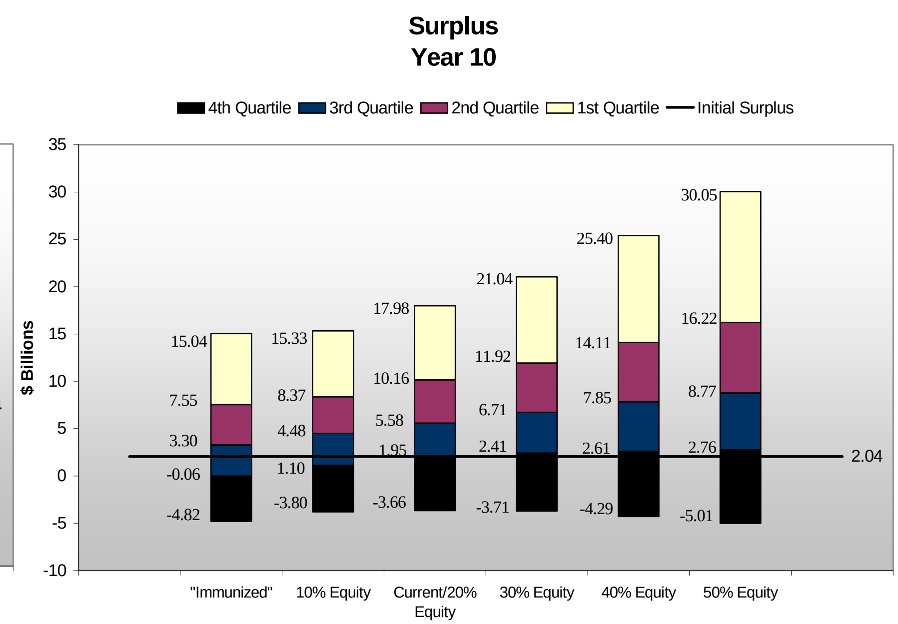
# IV. Asset-Liability Modeling

# 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:






Source:  Mercer and Wilshire

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# Potential Outcomes: Surplus

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

| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 1 | Bottom 5% | 1.08 | 0.66 | 0.38 | 0.11 | -0.20 | -0.52 |
| | Bottom Quartile | 1.63 | 1.51 | 1.41 | 1.31 | 1.22 | 1.13 |
| | Median | 2.04 | 2.10 | 2.17 | 2.22 | 2.29 | 2.34 |
| | Top Quartile | 2.45 | 2.67 | 2.86 | 3.11 | 3.38 | 3.58 |
| | Top 5% | 3.09 | 3.58 | 3.88 | 4.41 | 4.94 | 5.42 |

| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 2 | Bottom 5% | 0.71 | 0.25 | -0.08 | -0.43 | -0.74 | -1.09 |
| | Bottom Quartile | 1.56 | 1.50 | 1.43 | 1.30 | 1.17 | 1.06 |
| | Median | 2.17 | 2.35 | 2.49 | 2.60 | 2.72 | 2.87 |
| | Top Quartile | 2.87 | 3.25 | 3.61 | 3.96 | 4.37 | 4.74 |
| | Top 5% | 3.77 | 4.51 | 5.16 | 5.91 | 6.76 | 7.70 |

| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 3 | Bottom 5% | 0.37 | -0.13 | -0.48 | -0.94 | -1.39 | -1.78 |
| | Bottom Quartile | 1.42 | 1.46 | 1.43 | 1.36 | 1.20 | 1.04 |
| | Median | 2.35 | 2.52 | 2.75 | 2.94 | 3.14 | 3.35 |
| | Top Quartile | 3.28 | 3.69 | 4.12 | 4.65 | 5.18 | 5.77 |
| | Top 5% | 4.75 | 5.55 | 6.45 | 7.41 | 8.51 | 9.78 |

| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 4 | Bottom 5% | -0.27 | -0.69 | -0.88 | -1.29 | -1.62 | -2.17 |
| | Bottom Quartile | 1.35 | 1.44 | 1.43 | 1.32 | 1.25 | 1.06 |
| | Median | 2.49 | 2.78 | 3.10 | 3.35 | 3.62 | 3.90 |
| | Top Quartile | 3.66 | 4.23 | 4.86 | 5.48 | 6.12 | 6.81 |
| | Top 5% | 5.55 | 6.52 | 7.74 | 8.85 | 10.49 | 11.97 |

| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 5 | Bottom 5% | -0.76 | -1.05 | -1.43 | -1.96 | -2.49 | -2.97 |
| | Bottom Quartile | 1.15 | 1.42 | 1.50 | 1.53 | 1.46 | 1.34 |
| | Median | 2.66 | 3.07 | 3.47 | 3.74 | 4.11 | 4.50 |
| | Top Quartile | 4.16 | 4.68 | 5.49 | 6.24 | 7.10 | 7.92 |
| | Top 5% | 6.46 | 7.45 | 8.72 | 9.93 | 11.61 | 13.46 |



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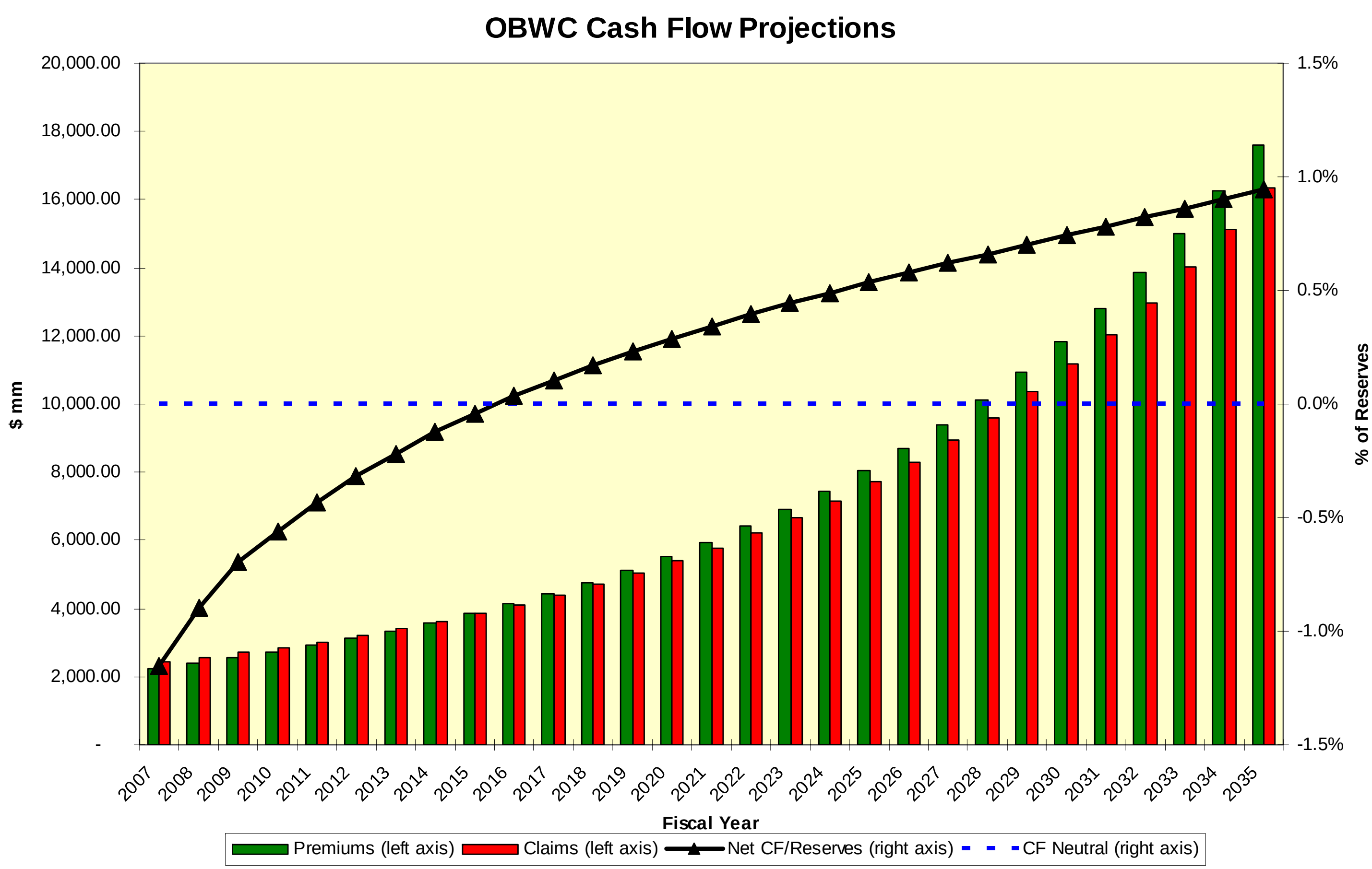
# OBWC Cash Flow Projections

- 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



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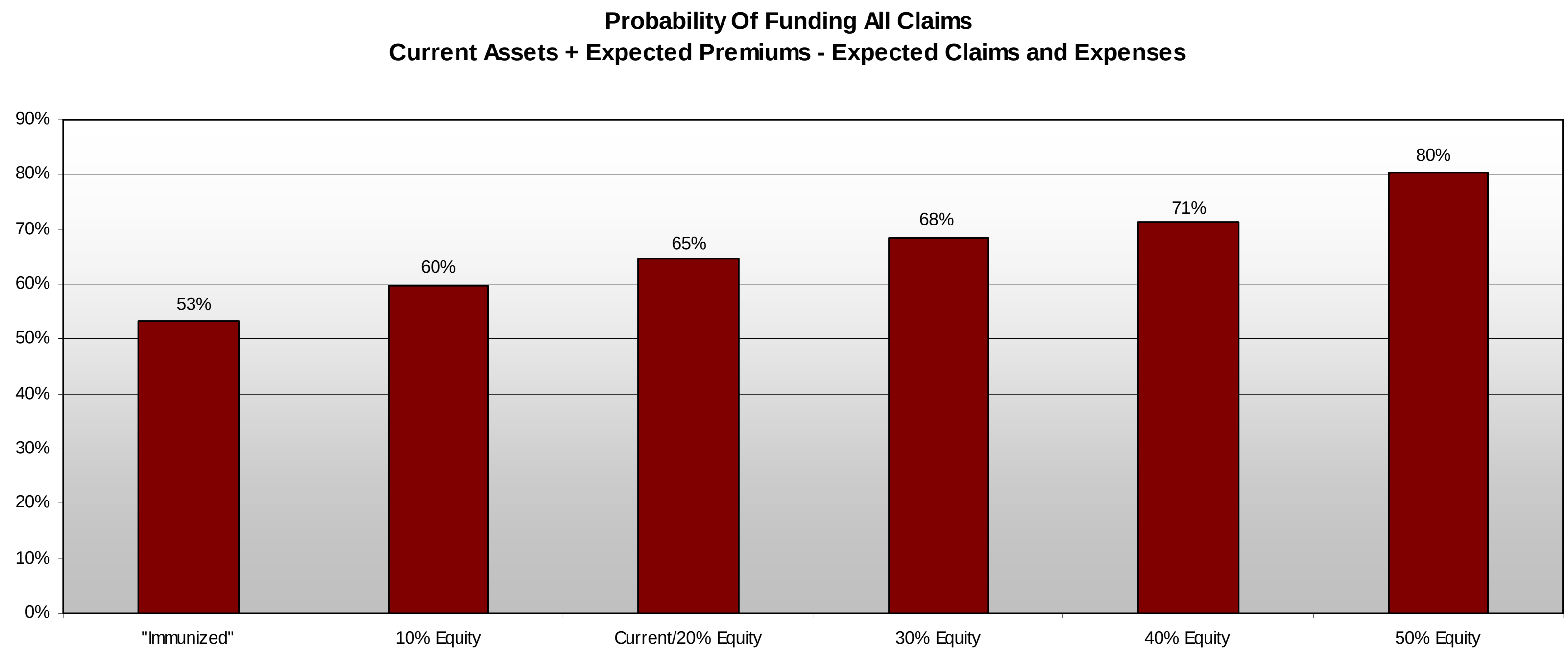
# Probability of Success

- 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:



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# Conclusion and Observations

- The mixes with at least a 20% allocation to equities provide a balance between regulating the volatility of the surplus in both the short term and long term periods, while acting to enhance the expected surplus
- The portfolio containing a 10% allocation to equities minimizes the volatility of the level of the surplus in the long term 10-year period, but expected growth of the surplus over the long term period is lower than in higher equity mixes
  - Expected surplus in year 10 with a 10% equity allocation is $4.48 Billion vs. an expected surplus of $5.58 Billion with a 20% allocation to equities or $6.71 Billion with a 30% allocation to equities
- The immunized bond portfolio is optimal is minimizing the surplus in the short term (1-year) period, but suboptimal in both minimizing the volatility of the surplus in the long term period and growing the surplus

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# V. Asset Class Structure

# Investment Structure

- Wilshire recommends continuing to utilize the following investment structure for the asset allocation policy:

| | SIF Allocation | | |
|---|---|---|---|
| ***Asset Class*** | ***%*** | ***$ mm*** | ***Benchmark*** |
| **U.S. Equity** | **15** | **2,500** | **Wilshire 5000** |
| *Large Cap* | *12* | *2,000* | *S&P 500* |
| Active (0%) | 0 | - | |
| Passive (100%) | 12 | 2,000 | |
| *Small/Mid Cap* | *3* | *500* | *Wilshire 4500 / Russell 2500* |
| Active (100%) | 3 | 500 | |
| Passive (0%) | 0 | - | |
| **Non-U.S. Equity** | **5** | **833** | **MSCI EAFE** |
| Active (100%) | 5 | 833 | |
| Passsive (0%) | 0 | - | |
| **Fixed Income - Long Duration** | **54** | **8,999** | **Custom Lehman Long Government/Credit** |
| Active (50%) | 27 | 4,499 | |
| Passive (50%) | 27 | 4,499 | |
| **High Yield** | **5** | **833** | **Merrill Lynch High Yield Master II** |
| Active (100%) | 5 | 833 | |
| Passive (0%) | 0 | - | |
| **Inflation-Protected Securities** | **20** | **3,333** | **Lehman U.S. TIPS** |
| Active (0%) | 0 | - | |
| Passive (100%) | 20 | 3,333 | |
| **Cash Equivalents** | **1** | **167** | **90-Day T-Bill** |

# Appendix – Wilshire's 2007 Asset Allocation Report

Appendix XI.B

# Ancillary Funds Asset Allocation Recommendation

Ohio Bureau of Workers' Compensation Investment Committee

September 28, 2006

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

# Ancillary Funds Asset Allocation Recommendation

- Wilshire has conducted an asset allocation analysis for the Ohio Bureau of Workers' Compensation Ancillary Funds:
  - Disabled Workers'
  - Coal Workers'
  - Public Workers'
  - Marine
  - Self-Insured
- As of August 31, 2006, Ancillary Fund assets totaled $1.4 billion, representing approximately 8% of total OBWC Investments
  - ➔ All Fund assets, excluding the Self-Insured Fund, were invested in the SSgA Lehman Aggregate Index Fund
  - ➔ The Self-Insured Fund has historically been invested in short-term cash-equivalents
- The asset allocation recommendations are detailed on the following page

# Asset Allocation Recommendation

***Summary Statistics:***

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

***Recommended Asset Allocation Policy:***

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

# Fund Descriptions

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

# Fund Descriptions

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

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

# Implementation Issues

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

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

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

## Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HISTORICAL AND STATUTORY NOTES

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

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

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

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

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

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

CROSS REFERENCES

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

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

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

RESEARCH REFERENCES

Encyclopedias

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

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

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

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

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

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

1. Constitutional issues

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

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

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

2. In general

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

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

3. Disbursements; investments

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

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

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

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

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

4. Fiduciary obligations

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

5. Effective date

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

R.C. § 4123.44, OH ST § 4123.44

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

# Appendix XIII: Legal Requirements Summary

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

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

## I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

## II. Workers' Compensation Oversight Commission Investment Duties

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

> 4121.12(G): The commission shall . . . (6) Establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. The commission shall review and publish the objectives, policies, and criteria no less than annually and shall make copies available to interested parties. The commission shall prohibit, on a prospective basis, any specific investment it finds to be contrary to its investment objectives, policies, and criteria.
>
> The objectives, policies, and criteria adopted by the commission for the operation of the investment program shall prohibit investing assets of funds, directly or indirectly, in vehicles that target any of the following:
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> (a) Coins;
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> (b) Artwork;
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> (c) Horses;
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> (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

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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. As amended by the legislature in 2007, these Election Law proscriptions now apply to <u>competitively bid</u> contracts, as well as non-competitively bid contracts to which they applied under former law. The legislature has also expanded the categories of persons affiliated with firms seeking to conduct business with the Bureau whose political contributions may result in disqualification of the firm from public contracts. These provisions are set forth below:

> "(I)(1)(a) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust if any of the following has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee:

(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (I)(1)(a)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (I)(1)(a)(i) to (vi) of this section.
(b) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust if any combination of the following has made, within the two previous calendar years, one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee:
(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (I)(1)(b)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (I)(1)(b)(i) to (vi) of this section;
(ix) Any political action committee affiliated with the partnership or other unincorporated business, association, estate, or trust.
(2)(a) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded a contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, none of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of one thousand dollars to the holder of the public office having ultimate responsibility for the award of that contract:
(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;

(vii) The spouse of any person identified in divisions (I)(2)(a)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (I)(2)(a)(i) to (vi) of this section.
(b) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded a contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, no combination of any of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of that contract:
(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (I)(2)(b)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (I)(2)(b)(i) to (vi) of this section;
(ix) Any political action committee affiliated with the partnership or other unincorporated business, association, estate, or trust.
(3) Subject to divisions (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall enter into any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars with an individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust unless the contract includes a certification by the individual, partnership or other unincorporated business, association, estate, or trust that all of the following persons, if applicable, are in compliance with division (I)(1) of this section:
(a) The individual;
(b) Each partner or owner of the partnership or other unincorporated business;
(c) Each shareholder of the association;
(d) Each administrator of the estate;
(e) Each executor of the estate;
(f) Each trustee of the trust;
(g) Each spouse of any person identified in divisions (I)(3)(a) to (f) of this section;
(h) Each child seven years of age to seventeen years of age of any person identified in divisions (I)(3)(a) to (f) of this section;
(i) Any combination of persons identified in divisions (I)(3)(a) to (h) of this section.
(4)(a) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any partnership or other unincorporated business,

association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust if a political action committee that is affiliated with the partnership or other unincorporated business, association, estate, or trust has made, within the two previous calendar years, one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee.
(b) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, no political action committee that is affiliated with the partnership or other unincorporated business, association, estate, or trust shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee.

(J)(1)(a) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract 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 any of the following has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of that period, one or more contributions totaling in excess of one thousand dollars to the holder of a public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee:
(i) An owner of more than twenty per cent of the corporation or business trust;
(ii) A spouse of an owner of more than twenty per cent of the corporation or business trust;
(iii) A child seven years of age through seventeen years of age of an owner of more than twenty per cent of the corporation or business trust.
(b) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract 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 any combination of the following has made, within the two previous calendar years, taking into consideration only owners for all of that period, one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee:
(i) Owners of more than twenty per cent of the corporation or business trust;
(ii) Spouses of owners of more than twenty per cent of the corporation or business trust;

(iii) Children seven years of age through seventeen years of age of owners of more than twenty per cent of the corporation or business trust;
(iv) Any political action committee affiliated with the corporation or business trust.
(2)(a) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded a contract 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, none of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of one thousand dollars to the holder of the public office having ultimate responsibility for the award of that contract:
(i) An owner of more than twenty per cent of the corporation or business trust;
(ii) A spouse of an owner of more than twenty per cent of the corporation or business trust;
(iii) A child seven years of age through seventeen years of age of an owner of more than twenty per cent of the corporation or business trust.
(b) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded a contract 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, no combination of any of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of that contract:
(i) Owners of more than twenty per cent of the corporation or business trust;
(ii) Spouses of owners of more than twenty per cent of the corporation or business trust;
(iii) Children seven years of age through seventeen years of age of owners of more than twenty per cent of the corporation or business trust;
(iv) Any political action committee affiliated with the corporation or business trust.
(3) Subject to divisions (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall enter into any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars with a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, unless the contract includes a certification by the corporation or business trust that all of the following persons, if applicable, are in compliance with division (J)(1) of this section:
(a) Each owner of more than twenty per cent of the corporation or business trust;
(b) Each spouse of an owner of more than twenty per cent of the corporation or business trust;
(c) Each child seven years of age to seventeen years of age of an owner of more than twenty per cent of the corporation or business trust;
(d) Any combination of persons identified in divisions (J)(3)(a) to (c) of this section.
(4)(a) Subject to divisions (K), (L), (M), and (N) of this section, no agency or department of this state or any political subdivision shall award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any corporation or business trust, except a professional

association organized under Chapter 1785. of the Revised Code, if a political action committee that is affiliated with the corporation or business trust has made, within the two previous calendar years, one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee.

(b) Subject to divisions (K), (L), (M), and (N) of this section, if any agency or department of this state or any political subdivision has awarded any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, no political action committee that is affiliated with the corporation or business trust shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two thousand dollars to the holder of the public office having ultimate responsibility for the award of the contract or to the public officer's campaign committee."

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. "(Y) (1)(a) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if any of the following 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:

(i) The individual;

(ii) Any partner or owner of the partnership or other unincorporated business;

(iii) Any shareholder of the association;

(iv) Any administrator of the estate;

(v) Any executor of the estate;

(vi) Any trustee of the trust;

(vii) The spouse of any person identified in divisions (Y)(1)(a)(i) to (vi) of this section;

(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (Y)(1)(a)(i) to (vi) of this section.

(b) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust if any combination of the following has made, within the two previous calendar years, one or more contributions totaling in excess of two 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:
(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (Y)(1)(b)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (Y)(1)(b)(i) to (vi) of this section;
(ix) Any political action committee affiliated with the partnership or other unincorporated business, association, estate, or trust.
(2)(a) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded a contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, none of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make 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:
(i) The individual;
(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (Y)(2)(a)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (Y)(2)(a)(i) to (vi) of this section.
(b) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded a contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, no combination of any of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two 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:
(i) The individual;

(ii) Any partner or owner of the partnership or other unincorporated business;
(iii) Any shareholder of the association;
(iv) Any administrator of the estate;
(v) Any executor of the estate;
(vi) Any trustee of the trust;
(vii) The spouse of any person identified in divisions (Y)(2)(b)(i) to (vi) of this section;
(viii) Any child seven years of age through seventeen years of age of any person identified in divisions (Y)(2)(b)(i) to (vi) of this section;
(ix) Any political action committee affiliated with the partnership or other unincorporated business, association, estate, or trust.
(3) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not enter into any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars with an individual, partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust unless the contract includes a certification by the individual, partnership or other unincorporated business, association, estate, or trust that all of the following persons, if applicable, are in compliance with division (Y)(1) of this section:
(a) The individual;
(b) Each partner or owner of the partnership or other unincorporated business;
(c) Each shareholder of the association;
(d) Each administrator of the estate;
(e) Each executor of the estate;
(f) Each trustee of the trust;
(g) Each spouse of any person identified in divisions (Y)(3)(a) to (f) of this section;
(h) Each child seven years of age to seventeen years of age of any person identified in divisions (Y)(3)(a) to (f) of this section;
(i) Any combination of persons identified in divisions (Y)(3)(a) to (h) of this section.
(4)(a) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any partnership or other unincorporated business, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust if a political action committee that is affiliated with the partnership or other unincorporated business, association, estate, or trust has made, within the two previous calendar years, one or more contributions totaling in excess of two 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.
(b) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any partnership or other unincorporated business, association, including, without limitation, a professional

association organized under Chapter 1785. of the Revised Code, estate, or trust, no political action committee that is affiliated with the partnership or other unincorporated business, association, estate, or trust shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two 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) (1)(a) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract 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 any of the following 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:
(i) An owner of more than twenty per cent of the corporation or business trust;
(ii) A spouse of an owner of more than twenty per cent of the corporation or business trust;
(iii) A child seven years of age through seventeen years of age of an owner of more than twenty per cent of the corporation or business trust.
(b) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract 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 any combination of the following has made, within the two previous calendar years, taking into consideration only owners for all of that period, one or more contributions totaling in excess of two 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:
(i) Owners of more than twenty per cent of the corporation or business trust;
(ii) Spouses of owners of more than twenty per cent of the corporation or business trust;
(iii) Children seven years of age through seventeen years of age of owners of more than twenty per cent of the corporation or business trust;
(iv) Any political action committee affiliated with the corporation or business trust.
(2)(a) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded a contract 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, none of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make 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:

(i) An owner of more than twenty per cent of the corporation or business trust;

(ii) A spouse of an owner of more than twenty per cent of the corporation or business trust;

(iii) A child seven years of age through seventeen years of age of an owner of more than twenty per cent of the corporation or business trust.

(b) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded a contract 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, no combination of any of the following shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two 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:

(i) Owners of more than twenty per cent of the corporation or business trust;

(ii) Spouses of owners of more than twenty per cent of the corporation or business trust;

(iii) Children seven years of age through seventeen years of age of owners of more than twenty per cent of the corporation or business trust;

(iv) Any political action committee affiliated with the corporation or business trust.

(3) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not enter into any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars with a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, unless the contract includes a certification by the corporation or business trust that all of the following persons, if applicable, are in compliance with division (Z)(1) of this section:

(a) Each owner of more than twenty per cent of the corporation or business trust;

(b) Each spouse of an owner of more than twenty per cent of the corporation or business trust;

(c) Each child seven years of age to seventeen years of age of an owner of more than twenty per cent of the corporation or business trust;

(d) Any combination of persons identified in divisions (Z)(3)(a) to (c) of this section.

(4)(a) Subject to divisions (L), (M)(2), and (N) of this section, the administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if a political action committee that is affiliated with the corporation or business trust has made, within the two previous calendar years, one or more contributions totaling in excess of two 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.

(b) Subject to divisions (L), (M)(2), and (N) of this section, if the administrator of workers' compensation or the employees of the bureau of workers' compensation has awarded any contract for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, no political action committee that is affiliated with the corporation or business trust shall, beginning on the date the contract is awarded and extending until one year following the conclusion of that contract, make one or more contributions totaling in excess of two 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.

(AA) No individual, partnership or other incorporated business, association, estate, trust, corporation, or business trust shall knowingly make a false statement on a certification required under division (I)(3), (J)(3), (Y)(3), or (Z)(3) of this section."

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

# Ohio Bureau of Workers' Compensation

## Summary Performance Gross of Fees

## October 31, 2007

| Portfolio Name | Benchmark Reference | | Market Value | BWC Monthly ROR | Bmk Monthly ROR | BWC YTD ROR | Bmk YTD ROR | BWC 3 Mo. Trailing ROR | Bmk 3 Mo. Trailing ROR | BWC 12 Mo. Trailing ROR | Bmk 12 Mo. Trailing ROR | BWC Inception to Date ROR | BWC 1 Month Variance | BWC YTD Variance | BWC 3 Mo. Variance | BWC 12 Mo. Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Fund** | **NR** | $ | 17,798,433,419 | 1.51 | NR | 5.71 | NR | 4.32 | NR | 6.40 | NR | 7.21 | | | | |
| **Total Fund ex Alternatives** | **Interim Benchmark** | $ | 17,592,368,090 | 1.50 | 1.45 | 5.50 | 6.28 | 4.27 | 4.22 | 6.21 | - | 7.05 | 0.05 | (0.79) | 0.05 | |
| | **Target Benchmark** | | | | 1.62 | | 6.50 | | 4.48 | | - | | (0.12) | (1.01) | (0.21) | |
| **Total SIF** | **NR** | $ | 16,311,784,956 | 1.52 | NR | 5.76 | NR | 4.43 | NR | 6.45 | NR | 7.25 | | | | |
| **Total SIF ex Alternatives** | **Interim Benchmark** | $ | 16,105,719,626 | 1.51 | 1.45 | 5.52 | 6.28 | 4.38 | 4.22 | 6.24 | - | 7.21 | 0.06 | (0.76) | 0.15 | |
| | **Target Benchmark** | | | | 1.62 | | 6.50 | | 4.48 | | - | | (0.11) | (0.98) | (0.10) | |
| **SIF Bond Composite** | **Interim Benchmark** | $ | 12,821,461,748 | 1.52 | 1.50 | 5.04 | 5.57 | 3.90 | 3.79 | - | - | 5.04 | 0.02 | (0.53) | 0.11 | |
| | **Target Benchmark** | | | | 1.44 | | 5.30 | | 3.80 | | - | | 0.08 | (0.26) | 0.09 | |
| . **Long Duration** | **L.B. Custom Long G/C** | $ | 9,609,477,368 | 1.64 | 1.63 | - | 4.21 | 4.06 | 3.93 | - | 4.21 | 3.20 | 0.01 | | 0.13 | |
| . **TIPS** | L.B. U.S. TIPS | $ | 3,211,984,380 | 1.17 | 1.12 | - | - | 3.40 | 3.36 | - | - | 7.44 | 0.05 | | 0.04 | |
| . **State Street LDFI Passive** | **L.B. Custom Long G/C** | $ | 8,068,155,430 | 1.63 | 1.63 | - | 4.21 | 4.07 | 3.93 | - | 4.21 | 3.24 | 0.01 | | 0.14 | |
| . **Barclays LDFI Passive** | **L.B. Custom Long G/C** | $ | 1,541,321,938 | 1.64 | 1.63 | - | 4.21 | 4.04 | 3.93 | - | 4.21 | 2.98 | 0.01 | | 0.11 | |
| **SIF Cash** | **M.L. 91 day T-Bill** | $ | 244,096,107 | 0.40 | 0.30 | 4.33 | 4.22 | 1.27 | 1.24 | 5.23 | 5.13 | 4.91 | 0.11 | 0.12 | 0.03 | 0.10 |
| **SIF Equity** | **Interim Benchmark** | $ | 3,210,748,110 | 1.66 | 1.73 | 11.20 | 11.40 | 6.92 | 7.20 | - | - | 11.20 | (0.08) | (0.20) | (0.28) | |
| | **Target Benchmark** | | | | 2.44 | | 12.61 | | 7.30 | | - | | (0.78) | (1.41) | (0.38) | |
| . **Public Equity** | **S & P 500** | $ | 3,014,050,650 | 1.59 | 1.59 | 10.61 | 10.61 | 6.94 | 6.97 | - | - | 10.61 | 0.00 | 0.00 | (0.03) | |
| . **Alternatives** | **Wilshire 5000 + 5%** | $ | 196,697,460 | 2.40 | 2.54 | 14.60 | 16.00 | 6.65 | 8.50 | 14.07 | 20.99 | 12.31 | (0.14) | (1.40) | (1.85) | (6.92) |
| **SIF Misc. Accounts** | | $ | 35,478,992 | 1.36 | | 18.78 | | 5.58 | | - | | 18.78 | | | | |
| **Total Non-SIF** | **Interim Benchmark** | $ | 1,486,648,463 | 1.36 | 1.43 | 5.16 | 5.64 | 3.08 | 3.72 | 5.81 | - | 4.88 | (0.07) | (0.49) | (0.64) | |
| | **Target Benchmark** | | | | 1.56 | | 6.35 | | 4.36 | | - | | (0.20) | (1.20) | (1.28) | |
| . **Non-SIF Bonds** | **Interim Benchmark** | $ | 1,103,636,450 | 1.50 | 1.50 | 6.10 | 6.00 | 4.05 | 4.10 | - | - | 6.10 | 0.00 | 0.11 | (0.06) | |
| | **Target Benchmark** | | | | 1.13 | | 5.03 | | 3.48 | | - | | 0.38 | 1.08 | 0.57 | |
| . **Black Lung LDFI Passive** | **L.B. Custom Long G/C** | $ | 144,969,348 | 1.58 | 1.63 | - | - | - | - | - | - | 1.58 | (0.05) | | | |
| . **Black LungTIPS** | **L.B. U.S. TIPS** | $ | 48,544,744 | 1.32 | 1.12 | - | - | - | - | - | - | 1.32 | 0.20 | | | |
| . **DWRF LDFI Passive** | **L.B. Custom Long G/C** | $ | 683,628,445 | 1.61 | 1.63 | - | - | - | - | - | - | 1.61 | (0.02) | | | |
| . **DWRF TIPS** | **L.B. U.S. TIPS** | $ | 222,602,502 | 1.35 | 1.12 | - | - | - | - | - | - | 1.35 | 0.23 | | | |
| . **Transition - DWRF** | **NR** | $ | 73,859 | 0.02 | | - | | - | | - | | (1.15) | 0.02 | | | |
| . **Transition - Black Lung** | **NR** | $ | 20,139 | 0.06 | | - | | - | | - | | (1.12) | 0.06 | | | |
| . **Non-SIF Public Equity** | **Interim Benchmark** | $ | 288,868,031 | 1.58 | 1.59 | - | - | - | 3.01 | - | - | 2.21 | (0.01) | | | |
| | **Target Benchmark** | | | | 2.34 | | - | | 7.27 | | - | | (0.77) | | | |
| . **Non-SIF Cash** | **M.L. 91 day T-Bill** | $ | 94,049,984 | 0.41 | 0.30 | 4.34 | 4.22 | 1.27 | 1.24 | - | 5.13 | 4.34 | 0.11 | 0.12 | 0.03 | |

Note: Returns less than 12 months are cumulative and returns of 12 months or longer are annualized

Note: Interim and Target benchmarks began January 2007

Prepared by JPMorgan Investment Analytics & Consulting

# Investment Committee Calendar

## December

Securities Lending presentation, possible vote
Commingled Index Manager RFP, first consideration, possible vote
LDFI benchmark replacement, first consideration, possible vote
IPS proposed revisions, first consideration, possible vote
IPS Appendices relevance discussion

## January

Investment Consultant RFP Finalist recommendation, approval vote
Commingled Index Manager RFP issuance recommendation, approval vote
LDFI benchmark replacement, approval vote
Securities Lending, approval vote

## February

Public Work-Relief / Marine Industry trust funds RFQ Finalist recommendation, approval vote
Investment Consultant Performance Report 4Q07
Investment risk tolerance discussion/education

## March

Commingled Index Manager RFP Finalist recommendations, approval votes
Minority Manager/Consultant discussion
Derivatives utilization discussion

## April

Investment Consultant Asset/Liability Report and recommendation, possible vote
Commingled Index Manager RFP Finalist recommendations, approval votes
Minority Manager/Consultant RFP issuance, first consideration, possible vote

## May

Minority Manager/Consultant RFP issuance, approval vote
Investment Consultant Performance Report 1Q08
Annual CIO review and BWC Investment staff review (certification/ethics/conflict of interests/compliance)

## June

Investment Division Goals FY2009
Annual BWC Investment Division staffing review
Annual economist outlook presentation

## July

BWC Investment Income Projections FY09
IPS annual review

## August

Minority Manager/Consultant RFP Finalist recommendation, approval vote
Investment Consultant Performance Report 2Q08

## September

Annual Investment Committee Charter Review

## October

Annual Custodial Review

## November

Investment Consultant Performance Report 3Q08

# BWC Board of Directors

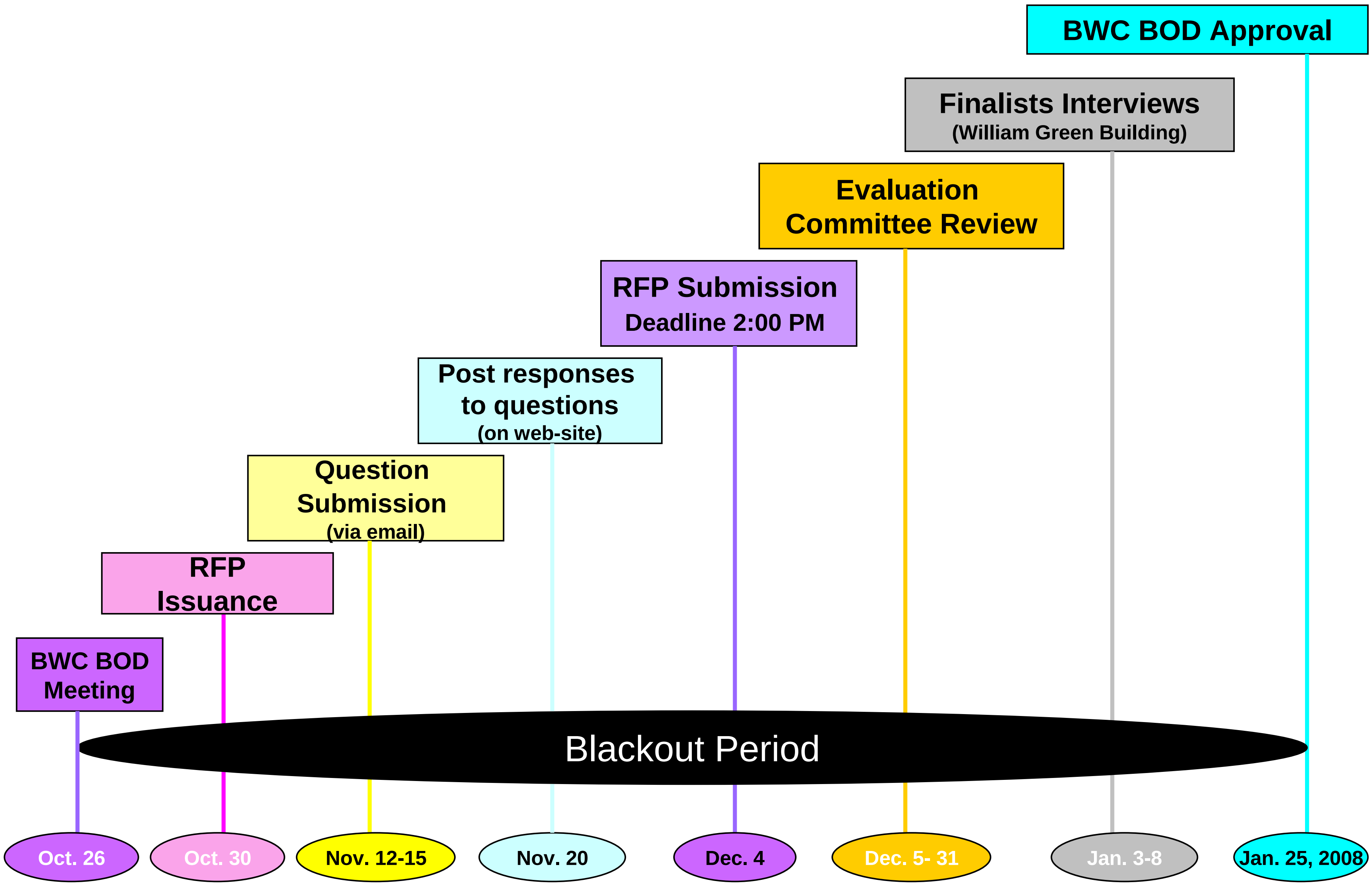
## Full Service Investment Consultant RFP

December 19-20, 2007


# Full Service Investment Consultant RFP Timeline

| RFP ACTION ITEM | TIMELINE |
|---|---|
| ***Investment Committee and BOD MEETING*** *(BWC requested to issue RFP)* | ***Oct. 25-26, 2007-COMPLETE*** |
| Issue RFP | Oct. 30, 2007 **COMPLETE** |
| RFP Advertisement to Newspaper/Journal | Oct. 30 - Nov.12, 2007 **COMPLETE** |
| Open Period for respondents' question submission via email | Nov.12-15, 2007 **COMPLETE** |
| Post responses to questions on BWC website on or before | Nov. 20, 2007 **COMPLETE** |
| ***Investment Committee and BOD MEETING*** | ***Nov. 20-21, 2007*** **- COMPLETE** |
| **Deadline for submissions of Proposals 2:00 PM** | ***Dec. 4, 2007*** **COMPLETE** |
| Initial review of proposals | Dec. 5-21, 2007 |
| ***Investment Committee and BOD MEETING*** | ***Dec. 19-20, 2007*** |
| Evaluation Committee finalist candidates identified | Dec. 22-31, 2007 |
| Interviews at William Green Building | Jan. 3-8, 2008 |
| On-site visit of finalists | Jan. 9-11, 2008 |
| BWC BOD Meeting printing deadline | Jan. 14, 2008 |
| ***Investment Committee and BOD MEETING*** *(Final Approval)* | ***Jan. 24-25, 2008*** |

# Full Service Investment Consultant RFP Timeline



## ***INVESTMENT DIVISION***

| | |
|---|---|
| TO: | Marsha Ryan, Administrator<br>Robert Smith, Chairman, Investment Committee<br>Alison Falls, CFA, Vice Chair, Investment Committee<br>David Caldwell, Investment Committee<br>James Harris, Investment Committee<br>Larry Price, Investment Committee |
| FROM: | Bruce Dunn, CFA, Chief Investment Officer |
| DATE: | December 7, 2007 |
| SUBJECT: | CIO Report November, 2007 |

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The Investment Division in November, 2007 continued to work on important investment initiatives. This report summarizes some of these activities, issues and action plans relating to the Ohio Bureau of Workers' Compensation Investment Division.

## Fiscal Year 2008 Goals

The Investment Division has six major goals for fiscal year 2008. These goals are the following:

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

2. Complete establishment of new BWC Investment Division

3. Assist in establishment of new investment accounting system

4. Sell all 68 private equity funds

5. Establish proper investment controls and compliance procedures

6. Provide education to new BWC Board of Directors and Investment Committee

**Strategic Goal One – PORTFOLIO TRANSITION**

A pool of three Transition Managers (Barclays, Russell, State Street) were approved by the former Workers' Compensation Oversight Commission (WCOC) at its September 28, 2006 meeting. At the discretion of the BWC Investment Division, these transition managers are selected to oversee and effectively manage one or more of the many specific asset class exchanges in fulfillment of the goals 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 trust fund portfolios. At the time of this approval, most invested assets of the State Insurance Fund and all assets of four ancillary trust funds (except operating cash) were invested in bonds in a customized commingled fund passively indexed managed to the intermediate-duration Lehman Aggregate benchmark index.

The State Insurance Fund (SIF) had approximately $14.8 billion of investment assets involved in transitions to achieve its portfolio asset allocation and portfolio duration targets as per the new BWC Investment Policy. The State Insurance Fund asset transitions occurred over two stages between January, 2007 and April, 2007. These SIF asset transitions involved invested assets being sold, reinvested and transferred to respective approved passive indexed managers under the oversight and management of the respective transition managers chosen. Each such transition was very closely monitored by the BWC investment staff.

The transition of approximately $1.4 billion of assets involving four ancillary funds was completed in two distinct stages in July, 2007 and September, 2007. The first stage of the ancillary fund transitions involved invested assets totalling $21.4 million for the Ohio Public Workers Relief Fund (PWRF) and $15.2 million for the Ohio Marine Industry Fund (MIF). These assets were transitioned in July, 2007 to the JPMorgan U.S. Government Money Market Fund. This money market fund serves as the current interim investment strategy for these two smaller ancillary funds.

The second stage of the ancillary trust funds asset transition strategy involved the transitioning of invested assets of the two large ancillary trust funds, the Disabled Workers Relief Fund (DWRF) and the Coal Workers Pneumoconiosis Fund (CWPF). These two trust fund transitions totaled approximately $1.38 billion in invested assets, comprising approximately $1.14 billion for DWRF and $240 million for CWPF. These respective trust funds were transitioned in September, 2007 to three respective asset class mandates per the Investment Policy targeted asset class allocation. Similar to the SIF portfolio, these assets were all targeted to approved passive indexed managers.

As the result of the approval provided by the Board of Directors on November 21, 2007, all assets of PWRF and MIF will be transitioned to a commingled pooled intermediate duration bond fund indexed to the new intermediate duration fixed income benchmark also approved by the Board of Directors at the November, 2007 meeting. A Request for Quote document will be issued by BWC with the objective of identifying and recommending an experienced and low-fee passive indexed investment manager to manage these assets.

**Strategic Goal Two – BUILD INVESTMENT STAFF**

The Investment Division began fiscal year 2008 commencing July 1, 2007 with a staff of seven individuals consisting of the CIO, Director of Investments, two Senior Investment Managers, two assistant Investment Managers and an administrative assistant. Two new additions to staff occurred in late July, 2007 with the hiring of an Investment Administration Manager and an Assistant Investment Manager. Both of these recent hires are making many immediate contributions.

One of the two Senior Investment Managers who was on staff at the start of fiscal year 2008 is no longer a member of the Investment Division team, effective November 9, 2007. To fill this vacancy, one of the Assistant Managers was offered and accepted the new position of Investment Manager. There are currently job postings for two additional staff positions. These positions are for a senior investment manager position and an administrative assistant. It is anticipated that both of these positions will be filled in the first quarter of 2008. The required increase in positions of the BWC investment staff reflects the next stage of the building of a team of experienced investment professionals dedicated to serving the needs of the BWC and its customers with the highest of integrity and competence.

**Strategic Goal Three – NEW INVESTMENT ACCOUNTING SYSTEM**

A RFP process that began in November, 2006 for a new investment accounting and reporting system resulted in the selection of an integrated outsourced vendor solution. BWC has now completed the conversion process and is currently near completion of the full implementation process to this web-based system. The BWC Investment Division is near the completion of this goal to have an improved accounting system available to BWC to accommodate the effective daily monitoring of both passive and active style asset managers in satisfaction of the current BWC Investment Policy. The investment staff is in the process of learning how to utilize many of the tools and resources offered by this accounting system through both formal training sessions and self education.

**Strategic Goal Four – PRIVATE EQUITY SALE**

Progress continued in the month of November, 2007 towards the goal of selling all 68 private equity partnerships. The sale of an additional 13 private equity partnerships occurred in November for total proceeds of $73.3 million. At the end of November, a total of 45 private equity partnerships were sold by BWC for total proceeds of $350.4 million. All such proceeds received from private equity partnership sales are reinvested in the passive indexed Large Cap S&P 500 Equity portfolio managed by Northern Trust. It is expected that the sale of most remaining private equity partnerships will be completed by the end of 2007.

**Strategic Goal Five – INTERNAL INVESTMENT PROCEDURES**

The Internal Audit Division is providing guidance and assistance in both the creation and further improvement of proper procedures and controls for the Investment Division. This is important as the Investment Division selects and very closely monitors existing and new investment managers who will manage specific mandates reflected from the new Investment Policy approved.

The Investment Division has focused on the management oversight of the passive style investment managers, performance reporting, and other investment activities to support the Investment Policy. Internal procedures for the monitoring of active style investment managers will be developed well in advance of the selection of such managers.

**Strategic Goal Six – BOARD OF DIRECTORS EDUCATION**

An added goal of the Investment Division is to provide investment-related fundamental training to the new BWC Board of Directors. Such training will assist the Board of Directors in carrying out its fiduciary responsibilities to the BWC trust funds. The Investment Division will provide educational presentations (written and oral) on relevant topics at scheduled public meetings. The Investment Division will also provide training through informal discussion, as appropriate under the Ohio Sunshine Laws. The CIO and Director of Investments encourage Board members to contact them with inquiries, comments or concerns.

At the September meetings, there were formal presentations made by the Investment Division on (i) the fundamentals of investments as relevant to the BWC portfolio of assets and current investment strategy, (ii) the BWC RFP process for securing external investment management services/products, and (iii) the advantages/disadvantages of the two types of alternative custodial structures for investment asset management. The BWC RFP process for securing a full service investment consulting firm and the roles of an evaluation committee in the RFP process was addressed in the October meetings. Discussion on the fundamentals of securities lending was started in the November meeting and will be continued at the December meeting. As determined by each of the Investment Division, BWC Investment Committee and Board of Directors, many additional investment topics will be addressed over the course of the current fiscal year.

## Compliance

The investment portfolios in the aggregate were in compliance on October 31, 2007 with the BWC Investment Policy. There were two credit issuer names owned in the passive indexed Long Duration fixed income portfolio for the Disabled Workers Relief Fund that exceeded imposed credit name maximum ownership limits on October 31, 2007. This portfolio valued at $683.6 million on 10/31/07 is managed by State Street. Total bond holdings of IBM Corp. aggregated $6.84 million or 1.00% of total portfolio assets at market value on 10/31/07 compared with a BWC imposed limit of 0.90% ($6.15 million) of total assets at market value applicable for "A" rated credits. Total bond holdings of AT&T Corp. and subsidiaries aggregated $6.36 million or 0.93% of total portfolio assets at market value on 10/31/07 compared with a BWC imposed limit of 0.90% ($6.15 million) of total assets at market value applicable for "A" rated credits. The amount of excess holdings of these two well-known "A" rated credits were $0.69 million for IBM and $0.21 million for AT&T on 10/31/07. The Board of Directors approved a change in the BWC Investment Policy on November 21, 2007 that eliminates individual credit name ownership limits for passive indexed managers effective immediately. The restrictions described herein that resulted in these two non-compliance instances at the end of October are no longer applicable for passive indexed portfolios.

**Legislative Updates**
(*comments herein provided by and courtesy of Laura Abu-Absi, BWC Deputy Legislative Liaison*)

The 2007 legislative year is winding down, with the first two weeks of December having session by the Ohio House of Representatives "if needed."

BWC is working with legislators from both the House and Senate who are developing legislation that would affect the filing of a claim in multi-state jurisdictions; and separately, that would address the concurrent jurisdiction that currently exists between the Ohio Marine Industry Fund and the Federal Longshore and Harbor Workers' Compensation Act. We are also coordinating with the Office of the Governor and the Ohio Department of Natural Resources to develop legislation that will allow a portion of the interest from the Coal-Workers' Pneumoconiosis Fund to be used to fund Ohio's Mine Safety Program.

In addition, BWC has had its focus on a number of pieces of introduced legislation. Below is a list of the bills of particular interest to BWC and their current status:

**HB 101 (Brinkman)**

- General Summary
  - This bill is formerly the Industrial Commission (IC) biennial budget. The House Insurance Committee decided to roll the IC budget in with House Bill 100 (BWC Budget) and reserve this bill number for various policy changes to BWC.
  - No language has been drafted yet.
- Current Status
  - BWC Interested Party hearings have been held regularly in the House Insurance Committee (chaired by Rep. William Batchelder:)
    - 10/02/07 – Administrator Ryan
    - *10/09/07 – committee canceled*
    - 10/16/07 – We've Had Enough
    - 10/23/07 – Ohio Retail Merchants, NFIB, and Ohio Chamber of Commerce
    - 10/30/07 – Ohio Automobile Dealers Association, Construction Employer Association, Mr. Bruce DeMarco, Cincinnati Chamber of Commerce
    - *11/06/07 – committee canceled*

**Sub HB 79 (Batchelder) BWC Investments**

- General Summary

        - Makes numerous changes to the investment policy of BWC, including specifying the classes of investments in which BWC funds may be invested in place of the current "prudent person" standard.
- Current Status
    - Passed by the full House of Representatives by a vote of 56-39. This bill will now go to the Ohio Senate. This bill is expected to be examined closely by the yet-to-be-formed Workers' Compensation Council (12/04/07)
- BWC Action
    - At Representative Batchelder's request, Bruce Dunn and Lee Damsel appeared before House Commerce and Labor Committee to offer impact testimony (5/08/07)
    - Letter including impact information and proposed recommendations was submitted to Representative Batchelder (6/14/07)
    - As a result of the proposed alternatives set forth in the letter from BWC (6/14/07 prepared in conjunction with the BWC Investment Division), the Committee amended the bill in the following ways: (6/26/07)
        - Expanding the scope of the bill to include all BWC funds, not just the State Insurance Fund;
        - Specifying Moody's, Standard and Poor's, or Fitch rating services for rating bond investments;
        - Elimination of duration of existence requirement (5 years) and payment of dividend requirement for certain corporate investments;
        - Expansion of investment authority to money market funds that have received the highest credit rating in Standard and Poor's or Moody's;
        - Authorizes the hiring of external investment managers and consultants, subjects them to background checks, and prohibits the Administrator from hiring those who have pleaded guilty to or been convicted of a financial crime;
        - LSC technical amendment

**HB166 (Schindel) OBM Office of Internal Audits**

- General Summary
    - Requires all state agency internal auditors to be centralized under an OBM Office of Internal Auditing.
- Current Status – Passed.
    - House concurred with Senate amendments (9/7/07)
- BWC Action.
    - BWC Chief of Internal Auditing prepared a memo detailing the impact that enactment of this legislation will have on BWC for use in Executive coordinated lobbying effort.

**HB 151 (Mandel) Retirement System Investments**

- General Summary
    - This bill specifies procedures for divesting investments a public investor holds in directly held publicly traded companies conducting specified types of business in the Islamic Republic of Iran and the Republic of Sudan.
- Current Status
    - Passed by House Real Estate and Securities Committee (5/30/07)
    - Prior to consideration by the full House of Representatives, the Ohio Retirement Systems agreed to voluntarily comply with the legislation.
    - Statements have been made by members of the Ohio Retirement Study Council that Ohio Police and Fire Pension Fund did not uphold bargain; will continue to track legislation closely for potential movement.

**HB 179 (Blessing) BWC Claims Employee Reimbursement**

- General Summary
  - This bill requires a health insurer, and allows an injured worker, during the time the injured worker's claim is pending approval, to pay for medical services, and requires BWC to reimburse an injured worker once the claim is deemed compensable.
- Current Status.
  - One hearing in House Commerce, and Labor (5/15/07)

**House Bill 181 (Stebelton) Missing Children**

- General Summary
  - This bill requires public and nonpublic schools to mark the records of students identified as missing children and to notify law enforcement officials if those students' records are requested.
  - It also specifies that law enforcement officials of this state rendering services related to the location of these children are entitled to workers' compensation benefits under Revised Code Chapter 4123 regardless of whether the services are rendered inside this state or in another state.
- Current Status
  - Passed House Education Committee (6/18/07)
  - Passed full House (9/11/07)
  - Sponsor testimony given in front of House Judiciary-Criminal Justice Committee (10/17/07)