Agenda
Investment Committee
September 26, 2007
Level 2, Room2
12:00 pm – 2:00 pm

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

**Roll Call**
Tom Woodruff, Scribe

**Approve Minutes of the August 24, 2007 Meeting**
Bob Smith

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

1. Investment Committee Charter
   Alison Falls

2. Investment Consultant
   - Current Wilshire Associates Contract
     Bruce Dunn
   - Possible Request For Proposal issuance
     Bob Smith and Alison Falls
     *possible vote* to recommend approval to the Board of Directors

3. Custodial Structure - Passive Asset Management
   - Commingled vs. Separate Account Analysis
     Bob Smith
   - Industry Best Practices
     Mark Brubaker, Wilshire Associates

4. Investment Policy Recommendation:
   - Proposed revision to Long Duration Fixed Income Benchmark
     Bruce Dunn and Mark Brubaker
     *First consideration and possible Motion to amend* Section V.A of the BWC Investment Policy and Guidelines
   - Implications of Recommendation on BWC Investment Policy and Guidelines
     Bruce Dunn

5. Temporary Waiver – Appendix XV (Calendar of Reports) of BWC Investment Policy and Guidelines
   Bob Smith

**Discussion Items**

1. Annual Investment Consultant Asset/Liability Valuation Study – State Insurance Fund
   - Mark Brubaker and Mike Patalsky, Wilshire Associates

2. Portfolio Performance
   - JPMorgan BWC Monthly – July and August 2007
     Bruce Dunn
   - JPMorgan Manager Monthly – July and August 2007
     Bruce Dunn
3. CIO Report July and August 2007
   Bruce Dunn

Adjourn

***Next Meeting: October 25, 12:00 pm – 2:00 pm***

# *Minutes of the BWC Investment Committee Meeting*

The initial meeting of the BWC Board of Directors Investment Committee was conducted in the William Green Building, Room # 2, Level 2, 30 West Spring Street, Columbus, OH 43215, on Friday August 24th, 2007, at 8:00 AM. Minutes recorded and prepared by BWC Litigation Manager Michael Travis, Esq.

Members Present:

Robert C. Smith, Chairman
Alison L. Falls, Vice Chair
David Lee Caldwell
James W. Harris
Larry Price

Others in Attendance:

Marsha Ryan, BWC Administrator

*(Other various individuals, as listed below in the minutes, testified before the Investment Committee)*

The Investment Committee meeting was called to order by Robert C. Smith at 8:02 AM, on Friday August 24th, 2007.

First order of business was to elect Committee officers. Committee member Alison L. Falls nominated Robert C. Smith to be Investment Committee Chairman, and this nomination was seconded by member David Lee Caldwell. Mr. Smith's nomination as Chairman was approved by a unanimous voice vote of all Committee members.

Chairman Smith then nominated Alison L. Falls to be Vice Chair, with second by Mr. Caldwell, and this nomination was approved by a unanimous voice vote of all Committee members.

Chairman Smith then made introductory comments, reminding Committee members that decision making on investment matters must be a team effort between the BWC Board and the BWC Investment staff, with mutual deference provided by both parties. Chairman Smith then provided three key thoughts: (1) The focus should be on investments from an insurance mind-set, and not a pension fund mind-set; (2) The Bureau of Workers' Compensation is a public entity, not private, and all decisions are subject to public review and scrutiny; (3) The Investment Committee should be focusing on looking forward to present and future investments policies, procedures and execution, not focusing on the complicated and problematic investment vehicles of the past. Chairman Smith then reminded everyone of the interdependence between the BWC Board, BWC in-house investment staff and outside managers, analogizing that the in-house staff is the base of the iceberg, but the BWC Investment Committee needs to timely be kept aware of any major issues and concerns.

Each Investment Committee member then introduced themselves, and provided a brief background summary:

Alison L. Falls - 30 years professional experience with Bank of America, and several other financial institutions, specializing in fixed income investments. Vice Chair Falls then pledged to help set the tone of openness in BWC investments and the actions of the Investment Committee.

Larry Price - 15 years experience as an elected member of the Ohio Senate, bringing the perspective experience as a public member, and also looking to contributing his expertise to the group, and the BWC Board of Directors, as well.

James W. Harris - 37 years experience with General Motors and the United Auto Workers, including extensive background in collective bargaining and politics. Harris hopes to bring a labor / injured worker / lay person perspective to the Investment Committee. Stated that he had no direct experience in high-volume investments but would be a faithful attendee.

David Lee Caldwell - Lifetime steel worker, elected to a wide range of union leadership positions, from 1976 to the present. Stated that he had no first-hand experience with large-scale investments but would be an active participant in the functions and duties of the Investment Committee.

Robert C. Smith - Native of Cadiz, Ohio, with a family background in the coal industry; Chair of Ohio Northern University Board of Trustees; commented that he brings a different perspective from his prior role on the Board of OPERS; referenced lesson learned from a book entitled *Wisdom of Crowds*, specifically that it is a misconception that the smartest people in a group should make all the decisions, instead diversity of thought is the key to the best problem solving and decision making.

At the request of Chairman Smith, role was taken, and all five members of the Investment Committee were present.

Bruce Dunn, BWC Chief Investment Officer then introduced himself, listing 30 years of investment experience, including over 20 years at Washington National Insurance and four years at the reinsurance affiliate of Great West Life; managed portfolios of varying sizes and types of liabilities; has been CIO at BWC since May, 2006. Mr. Dunn then introduced Lee Damsel, BWC Director of Investments.

Mr. Dunn then indicated that Ms. Damsel joined BWC as Interim Chief Investment Officer in April, 2005, and currently serves as BWC Director of Investments. Prior public sector investment experience at Ohio State University and Franklin County, Ohio focusing on fixed-income investments. Mr. Dunn stated that Ms. Damsel had tremendous challenges in terminating all investment managers and some BWC investment staff, and served BWC in an excellent capacity, during this difficult period. A table of organization of the BWC Investment Division was provided to all Investment Committee members.

Ms. Damsel then introduced the BWC in-house investment staff. Each investment staff member in attendance briefly discussed their credentials and professional experience:

Greg Stought - BWC Assistant Investment Manager

Doug Walouke - BWC Senior Investment Manager

Vyts Kulpa - BWC Investment Administration Manager

Vince Thomas – BWC Senior Investment Manager

Darnee Jalil - BWC Assistant Investment Manager

Roy Charles - BWC Assistant Investment Manager (*absent*)

Monica Dejarnett – BWC Investment Division Executive Secretary (*absent*)

Both Mr. Smith and Ms. Falls complimented the BWC investment staff on their level of expertise and professional qualifications, and acknowledged the staff members that had earned their Chartered Financial Analyst (CFA) designation. Mr. Smith stated that this CFA designation is key to ensuring both technical expertise and high ethical standards.

Mr. Dunn then introduced representatives from Wilshire Associates, Marc Friedberg and Michael Patalsky. They briefly updated the Investment Committee members on Wilshire’s role in evaluating, selecting and monitoring external investment managers.

At the request of Chairman Smith, BWC Litigation Manager Michael Travis, Esq., provided to members of the Investment Committee a listing of their principal duties, under the Ohio Revised Code, including:

(1) Develop investment policies for the administration of the investments at BWC;

(2) Submit investment policies to BWC Board for their approval;

(3) Monitor implementation of investment policies by the Administrator and Chief Investment Officer;

(4) Recommend outside investment counsel with whom the BWC Board of Directors may contract, to assist the BWC Investment Committee in fulfilling its duties;

(5) Review performance of Chief Investment Officer and any investment consultants retained by the Administrator, to ensure compliance with investment policy and achievement of best possible returns.

Mr. Dunn then introduced Rich Hartzell and Bill Wasp of J.P. Morgan, in their role as Custodians of BWC investments. Mr. Dunn mentioned that J.P. Morgan is the appointed custodian of both the Ohio Treasurer of State and BWC, and further stated that J.P. Morgan produces monthly performance reports, including reviews of investment managers, for the Bureau's Investment Division.

Mr. Dunn then informed the Committee that the current BWC Investment Policy, currently comprising approximately 85 pages, was implemented in April, 2006 and continues to be in place until the new Investment Committee makes changes, subject to approval by the BWC Board of Directors. Mr. Dunn then provided a summary of the current BWC Investment Policy, including:

(1) roles and responsibilities of all parties, duties of outside investment managers, and duties of investment consultants;
(2) asset allocation of BWC assets;
(3) performance objectives;
(4) various reports that are required to the BWC Board of Directors;
(5) general comments regarding the overall make-up of BWC assets, including current total value of approximately $16.8 billion, among six different funds. State Insurance Fund (SIF) is largest, comprising 92% of total value, but all six funds must be kept separate and can not be commingled.

Mr. Dunn suggested that the current BWC Investment Policy document needs to be reviewed, so that appropriate changes can be made over the upcoming months. Mr. Harris requested that a copy of this document, and all other related investment documents, be given to all Investment Committee members as far in advance of upcoming meetings as possible. Administrator Ryan confirmed that BWC administration will strive to provide all documents to Investment Committee members as quickly as possible, noting that some records will be distributed via hard copy, while others can be sent electronically. Mr. Dunn then reminded the members that almost all of the information provided to the Investment Committee are public records under Ohio's public records law, and are generally available on the BWC website, www.ohiobwc.com, soon after each meeting.

Chairman Smith then asked what, if any, records are private, and Mr. Dunn stated that certain specific timelines related to transitions executed to change asset allocations will not be shared until such transitions are completed. Administrator Ryan re-confirmed that the vast majority of records reviewed and acted upon by both the Investment Committee and BWC Board are public records.

Mr. Price then stated his appreciation of the openness and transparency of this Committee, and stated his desire to receive all of the relevant materials as early as possible, to ensure that a full understanding of the issues can be achieved, prior to the Committee meetings.

Mr. Caldwell then stated that the State of Ohio has prepared an excellent summary of the legal issues found in ORC 4117, Ohio's collective bargaining laws, and he would like to see a similar document prepared, summarizing BWC investment laws. BWC Litigation Manager Michael Travis stated that a summary would be drafted for review by all members of the Investment Committee.

Vice Chair Falls then stated that BWC and the Investment Committee were very fortunate to have this investment policy already in place, but that an 86 page record is too detailed to be a viable working document. Chairman Smith agreed with this assessment, and appointed Ms. Falls to begin the process of drafting proposed edits and modifications to the investment policy document.

Mr. Dunn then updated the Investment Committee of two other investment concepts related to BWC investments, *passive vs. active investments* and *pooled funds vs. separate funds*, and the advantages and drawbacks of each.

Mr. Dunn and Ms. Damsel then updated the Investment Committee on the volatility to be expected when a large fund, such as BWC, has large holdings in fixed income investments such as medium and long-term bonds. Ms. Damsel pointed out that the current BWC portfolio is approximately 80% bonds and 20% equities. Mr. Dunn then informed the Investment Committee that because the BWC has embraced an asset / liability matching and BWC does have sufficient cash on hand to meet short term obligations, the Bureau is not forced to sell under duress, when an investment has temporarily lost value.

Pursuant to a question from Mr. Harris, Mr. Dunn then informed the Investment Committee about the role of the Ohio Treasurer of State, and what is the role of TOS in BWC investment policies and procedures.

Mr. Dunn then discussed how recent market changes over the last several months have impacted BWC total asset values. With an increase in bond yields in both May and June 2007, BWC's bond portfolio declined in value in each of these two months. By contrast, yield levels declined in July 2007, resulting in an increase in BWC bond asset values by approximately $200 million.

Mr. Harris then stated that the State Insurance Fund would have had a larger surplus without refunds and/or premium dividends, and that he would closely monitor investments, regarding this issue. Chairman Smith then replied that the entire board needs to be mindful of prosperity, and how best to handle any actuarial surpluses.

Mr. Dunn then discussed the concept of medical inflation within the workers' compensation investment arena. He stated that the Bureau is vulnerable to such medical inflation, due to few available investment assets that offset such risk. Chairman Smith strongly agreed that protection against medical inflation is important. Marc Friedberg of Wilshire Associates added that while there is no perfect vehicle to protect against medical inflation, two options include Treasury Inflation Protected Securities (TIPS), that provide a certain yield increase with inflation, and equities. Mr. Dunn added that the Investment Committee has authority to recommend such investment vehicles to the BWC Board of Directors, but that the Investment Committee has no independent decision-making authority, without BWC Board of Directors approval.

Chairman Smith then started a discussion about the process of selecting external money managers. Mr. Dunn informed the Committee that both BWC staff and Wilshire independently rate and recommend which money managers to hire, and that the Board is not involved in the formal request for proposal (RFP) and related interview process. Pursuant to a question from Chairman Smith, Mr. Dunn confirmed that the Committee members will be able to ask both BWC staff and Wilshire about their judgments and evaluations of potential managers. Chairman Smith then informed the Investment Committee members that potential fund managers should not contact Board members, while the RFP process is still open.

Mr. Caldwell then asked if preference is given to Ohio based firms, when evaluating fund managers. Mr. Dunn replied that given the minimum qualifications regarding size of assets under management for the most recent passive management investment manager searches, most Ohio based and/or minority firms do not qualify. Mr. Dunn, responding to an inquiry from Vice Chair Falls, stated that BWC staff would work with the Investment Committee in establishing minimum qualifications in future RFPs.

Mr. Caldwell then inquired about sending RFPs directly to Minority Business Enterprise (MBE). Ms. Damsel responded, stating that all RFPs are posted on BWC's website, trade journals such as *The Wall Street Journal*, and that all investment RFPs are sent out to the DAS database of prospective vendors, as well as all potential vendors that have requested notification. Ms. Damsel then mentioned the black-out period, when potential vendors are prohibited from contacting BWC Board members, to avoid any appearance of ethics violations, and to ensure that the potential vendor is not disqualified from bidding. Mr. Price then stated that the BWC Investment Policy needs to be reviewed and possibly edited, to ensure that the policy adequately addresses MBE participation in the investment process.

Mr. Friedberg of Wilshire Associates then provided an update to the Investment Committee on Portfolio Performance Measurements, which involves Wilshire obtaining information from all custodians and managers, then reconciling any differences, then placing the performance data into monthly and quarterly reports. Wilshire stated that the market review for the most recent quarter ending 6/30/07 showed a surge in equities, and fixed income down slightly. BWC equity investments for this most recent quarter were up 6.0%, while fixed income bonds were down 0.5%. In response to a question posed by Chairman Smith, Wilshire stated that these quarterly records are available as far back as 6/30/2005. Chairman Smith requested that Wilshire include a historical perspective on returns, in all future Portfolio Performance Reports.

Chairman Smith inquired about any potential BWC exposure to the recent real estate home mortgage problems. Mr. Dunn stated that BWC has no direct exposure to the subprime mortgage-backed securities market, but BWC does have indirect exposure with the ownership of securities issued by financial institutions and investment firms who hold subprime residential loans and mortgage-backed securities.

Mr. Friedberg of Wilshire Associates and Mr. Dunn then updated the Investment Committee on the Bureau's past use of private equity funds, and explained that all of these funds are being liquidated, Mr. Dunn stated that when BWC sells off their private equity partnerships, they also release the Bureau from any future legal funding obligations and commitments. Mr. Friedberg then stated that conceptually, adding alternative investment vehicles to a fund the size of BWC is not a bad idea, but that the private equity fund selection process was just not well executed.

Mr. Harris then asked if the Bureau still had any collectables as assets, and Mr. Dunn stated that the Bureau is actively liquidating the remainder of these assets, including coins, memorabilia, and collectables.

Chairman Smith then requested that the Investment Committee be provided with the current Asset Allocation study, and Mr. Dunn stated that this updated research would be included in the September 2007 Investment Committee materials. Mr. Dunn further noted that this data is also available as an attachment to the materials provided to Investment Committee members for today's meeting.

Mr. Price then inquired about how the services of Wilshire Associates are used by BWC. Mr. Dunn pointed out that Wilshire's role is a consultant to the BWC Board of Directors, and not the in-house staff. Wilshire generates performance reports for review and analysis by the BWC Investment Committee and Board of Directors, and has a fiduciary duty to the State Insurance Fund and other BWC trust funds. Mr. Price then confirmed that Wilshire Associates is an agent of the Board of Directors, but provides assistance to BWC investment staff. Mr. Dunn further stated that both Wilshire and BWC in-house investment staff interview potential investment managers, and independently score and evaluate these managers. Mr. Dunn further informed the Investment Committee members that BWC investment staff receives independent performance reports generated by J.P. Morgan, on a monthly basis.

John T. Williams, from the Ohio Attorney General's office, then advised the Investment Committee that the members need to begin reviewing whether to renew Wilshire's contract, which is due to expire November 2007. Chairman Smith stated that an immediate Investment Committee goal should be to determine the appropriate level of service to include in a possible new investment consultant RFP. Vice Chair Falls commented that this should be a topic for the September 2007 Investment Committee meeting, especially because the RFP process can take several months. Ms. Damsel then reminded the Committee members that the Wilshire contract can be extended on a month-by-month basis.

Chairman Smith then stated he would talk with the other Committee Chairs to determine a schedule for the remainder of 2007. The Chairman then instructed Vice Chair Falls to work with Mr. Dunn on drafting a new Investment Committee charter, to be available for review at the September 2007 meeting.

Chairman Smith then made a motion to adjourn the meeting, seconded by Vice Chair Falls, and after a unanimous voice vote, the meeting was adjourned at 10:55 AM.

Respectfully Submitted,

Michael Travis, Esq.

Draft September 13, 2007

# OHIO BUREAU OF WORKERS' COMPENSATION BOARD OF DIRECTORS

# INVESTMENT COMMITTEE CHARTER

## I. PURPOSE

The purpose of the Investment Committee is to ensure that the assets of the Ohio Bureau of Workers' Compensation (BWC) 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. The Investment Committee is responsible for developing and monitoring the implementation of the BWC's investment policy.

## II. ORGANIZATION

1. Charter: At least annually, this charter must be reviewed by the Investment Committee and any proposed changes submitted to the Board for approval.

2. Members: The Investment Committee must consist of at least four members, two of whom must be the investment and securities expert members of the Board. The Board, by majority vote, must appoint two additional members to serve on the Investment Committee and may appoint one additional member, either from the Board or someone not on the Board. Each additional member the Board appoints 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 Board, by majority vote, may remove any committee member, with the exception of the investment and securities expert members. The Investment Committee, by majority vote, shall elect a Chairperson.

3. Meetings: The Investment Committee will meet monthly; additional meetings may be scheduled as the Committee or its chairperson deem advisable.

4. Quorum: 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.

5. Agenda, Minutes: The Chairperson 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.

## III. RESPONSIBILITIES AND AUTHORITY

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. 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.

3. Evaluate and recommend an outside investment counsel to assist the Investment Committee in its duties. Submit a contract with the recommended investment counsel to the Board for approval.

4. 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.

5. 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.

6. Monitor and review the investment performance of the Funds on a quarterly basis to determine achievement of objectives and compliance with this investment policy.

7. 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.

8. Recommend the opening and closing of each investment class and submit to the Board for approval.

9. Approve 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.

10. Report all activities/recommendations to the Board following each meeting of the Investment Committee.

InvestmentCommitteeCharter.doc
Draft 092607

DATE: September 17, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Wilshire Associates**
**Investment Consulting Contract**

## Background

A Request for Proposals (RFP) was issued on August 31, 2005 by the BWC for the services of an Investment Consultant firm. The purpose of this RFP was to identify an investment consulting firm that could provide a comprehensive range of consulting advice and services to assist and advise the former Workers' Compensation Oversight Commission (WCOC) in carrying out its fiduciary duties and oversight responsibilities with regards to the BWC invested assets. A copy of this RFP is provided with this report.

After an evaluation period of respondents to this RFP made by an Evaluation Committee that included certain members of the WCOC as well as the BWC Interim Chief Investment Officer at that time (Lee Damsel, current BWC Director of Investments), Wilshire Associates, Inc. (Wilshire) was selected as the finalist first choice consulting firm. Approval by vote of the WCOC for Wilshire to serve as WCOC investment consultant was provided on November 17, 2005. An investment consulting contract dated December 1, 2005 between BWC and Wilshire was executed on such date. A copy of this contract is also provided with this report.

## Contract Terms

This initial contract with Wilshire is a one-year term contract expiring November 30, 2006 with the ability to be renewed at the sole discretion of the WCOC (now BWC Board of Directors) for no more than two additional one-year terms. The contract specifies the scope of services to be provided by Wilshire. The first year fee of the contract was $636,000 payable in monthly installments of $53,000. The former WCOC voted on November 16, 2006 to renew the contract for an additional one-year term expiring November 30, 2007. The contract allows for an annual Consumer Price Index (CPI) fee adjustment exercisable by Wilshire effective for each additional one-year term renewal. Wilshire did exercise this CPI adjustment fee option and the second-year fee of the contract became $653,000, payable in monthly installments of $54,416. This second-year fee adjustment reflected an approximate 2.67% increase over the first-year fee. A copy of the Renewal Addendum to the contract reflecting this fee adjustment is also provided with this report.

In the exercising and fulfillment of their duties, Wilshire reports directly to the BWC Board of Directors (or selected members thereof such as Investment Committee members) per the RFP. From an operational perspective, Wilshire (or any BWC investment consultant) works closely with the BWC Investment staff and the investment experts of the BWC Investment Committee. Among the scope of services provided by Wilshire under the current contract include the following:

- investment policy determination, review/modification and asset allocation strategy
- investment manager search/selection support
- investment manager evaluation/oversight duties
- investment performance analysis and reporting
- private equity partnership review, advice and performance reporting/analysis
- access by BWC to proprietary investment manager database and analytical software

BWC is in the process of selling all 68 of its private equity partnership investments that were outstanding at the time of the execution of the Wilshire contract in 2005. It is anticipated that only a few of these partnerships may not be sold by the end of 2007. Acceptable prices for all 68 partnership sales have been achieved via an extensive auction process conducted by UBS serving in its contracted role as BWC sales agent and adviser.

## **Action Item**

With the November 30, 2007 expiration of the second one-year term of the Wilshire contract approaching, a decision must be made by the BWC Investment Committee and Board of Directors in addressing the optional third-year renewal. In any event, the Wilshire contract has a maximum three-year term ending November 30, 2008. As a result, the BWC must issue a new Investment Consultant RFP sometime in 2008 at the latest even if Wilshire is renewed for a full third-year term.

Although the Wilshire contract states renewal terms in annual periods, section 6.6 (p.30) of the applicable Investment Consultant RFP provided with this report allows for the WCOC (now BWC Board of Directors) to terminate the contract with Wilshire *for convenience* by giving Wilshire not less than 30 days advance notice in writing on its intent to terminate. As a result, the BWC Board of Directors could renew the contract for a final third year effective December 1, 2007 but yet terminate the contract with proper notice early in the final third-year term. This is important if a vote is made by the Board of Directors to direct the issuance of a new RFP for Investment Consultant services for the BWC. It is projected that the RFP process from initiation to Board approval for an investment consultant would be over a 3-4 month period. It must be mentioned that if such a new RFP is issued for investment consultant services, Wilshire is eligible to respond and reapply.

ORIGINAL

**AGREEMENT**
**between**
**OHIO BUREAU OF WORKERS' COMPENSATION**
**and**
**WILSHIRE ASSOCIATES INCORPORATED**

This is an Agreement by and between Wilshire Associates Incorporated, (hereinafter referred to as the "Consulting Firm"), having offices at 1299 Ocean Avenue, Suite 700, Santa Monica, CA 90401, and the State of Ohio, Bureau of Workers' Compensation (hereinafter referred to as the "Bureau"), on behalf of the Workers' Compensation Oversight Commission, having offices at 30 W. Spring Street, Columbus, Ohio 43215-2256, entered into the day, month and year set out below.

**Whereas,** the Workers' Compensation Oversight Commission issued a Request for Proposals B#06005 for SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT, and the Consulting Firm submitted a proposal determined by the Workers' Compensation Oversight Commission to be the best responsive and responsible response to the Request for Proposals;

**Now, therefore,** the parties hereto mutually agree to perform the contract in accordance with the Request for Proposals and the Consulting Firm's Proposal, which are hereby incorporated by reference as if fully rewritten herein. Furthermore the parties agree that if there is any conflict between the Request for Proposals and the Consulting Firm's Proposal, the Request for Proposals controls.

**SCOPE OF SERVICES.** The Consulting Firm agrees to perform the services described in the RFP under Scope of Services, Section 3.2 through Section 3.6, inclusive.

In addition, the parties agree to modify the Request for Proposals, Scope of Services, to include the following sections:

**Section 3.8** Additional Consulting Firm Services: oversight of the State of Ohio, Bureau of Workers' Compensation current private equity partnerships (68) and/or managers (54)

47. The Consulting Firm shall conduct conference calls and/or visits (as needed) with managers to develop a sense of what is working and not working, whether the internal rate of return (IRR) articulated is likely to be accurate and establish a general comfort and confidence that the funds are working smoothly and being properly described.
48. Performance reporting and analysis for each of existing 68 partnerships
49. Collect annual Valuation Certificates
50. Collect, review and organize GP periodic reports
51. Prepare and update master drawdown schedule
52. Authorize capital contributions to partnerships
53. Receive and verify returns of capital
54. Understand and record fee structure of each partnership and monitor general partnership fee collections; check fee invoices and advise BWC on payment

**Section 3.9** Additional Consulting Firm Services: The Consulting Firm shall provide two copies of the Wilshire Compass manager database and analytical software to the Bureau and/or the Workers' Compensation Oversight Commission. One copy may be installed on a stand alone (desktop or laptop) computer and the other copy may be installed on a local area network, and shall not exceed twenty-five (25) users per network installation. The Bureau may make a backup copy. The Bureau and the Workers' Compensation Oversight Commission agree not to distribute copies of the software or documentation to a third party, nor to lease or to transfer control of the software or the documentation to a third party without the Consulting Firm's prior express written consent. The Bureau and the Workers' Compensation Oversight Commission agree not to modify, adapt, translate, reverse engineer, decompile, disassemble, or create derivative works based on the software without the Consulting Firm's prior express written consent.

The Wilshire Compass consists of six parts, including but not limited to the following: (1) asset allocation analytics; (2) domestic equity analytics; (3) international and emerging markets equity analytics; (4) domestic fixed income; (5) international fixed income; and (6) an ongoing consulting and servicing relationship.

(1) Asset Allocation Analytics includes (a) Asset class optimization; (b) Surplus optimization; (c) Utility optimization; (d) Currency optimization; (e) Portfolio simulations; (f) Capital market database; (g) Statistical analysis; and (h) Policy benchmarks.

(2) Domestic Equity Analytics includes (a) Portfolio simulations; (b) Style mapping; (c) Portfolio characteristics; (d) performance measurement; (e) Manager database; and (f) Universe comparisons.

(3) International and Emerging Markets Equity Analytics includes (a) Portfolio simulations; (b) Style mapping; (c) Portfolio characteristics; (d) Performance measurement; (e) Manager database; and (f) Universe comparisons.

(4) Domestic Fixed Income includes (a) Portfolio characteristics; (b) Performance measurement; (c) Manager database; and (d) Universe comparisons

(5) International Fixed Income includes (a) Portfolio characteristics; (b) Performance measurement; (c) Manager database; and (d) Universe comparisons.

(6) Servicing includes (a) Ongoing client service support via telephone during normal business hours; (b) Semi-annual consulting and training sessions in client's office; (c) Monthly index updates and quarterly manager updates; (d) Consulting Firm's sponsored seminars; (e) Product updates, including general upgrades and new releases, at no additional cost; and (f) Total Fund Attribution Report.

The parties understand and agree that the software and accompanying written materials (the "documentation") are owned by the Consulting Firm and are protected by United States copyright laws and international treaty provisions, and that use of the software and documentation shall be limited to the Bureau and to the members of the Workers' Compensation Oversight Commission. The Bureau and the Workers' Compensation Oversight Commission agree to return or to delete all copies of the software, documentation and other equipment supplied with the service, and all portions and copies thereof, immediately upon termination of this Agreement, and the Bureau and the Workers' Compensation Oversight Commission agree to certify in writing that such actions have been completed.

With respect to the software only, the Consulting Firm warrants only (a) that it has the right to provide access to the software in accordance with this Agreement, and (b) that the software shall conform to the written documentation and shall operate in accordance with the Consulting Firm's written representations. If it fails to perform in accordance therewith, the sole warranty obligation of the Consulting Firm, with respect to the software, shall be to use reasonable efforts to remedy such failure and to conform to the express covenants and conditions. The Consulting Firm shall defend, at its expense, any action brought against the Bureau and the Workers' Compensation Oversight Commission arising out of any claim that their use of the software infringes upon the intellectual property rights of any third party, provided that prompt notice of any such action is given, and provided that the Consulting Firm, at its option, shall have sole control of the defense of any such action and all negotiations for its settlement or compromise, and provided, further, that the Bureau and the Workers' Compensation Oversight Commission shall cooperate fully with the Consulting Firm in defending against such actions. In addition, in connection with such actions, the Consulting Firm shall indemnify and hold the Bureau and the Workers' Compensation Oversight Commission harmless against any and all damages and costs awarded against the Bureau and the Workers' Compensation Oversight Commission by final court order or fully executed settlement agreement.

The parties understand and agree that the Bureau and the Workers' Compensation Oversight Commission may distribute reports generated through the software to third parties if the reports serve to document the organization, functions, policies, decisions, procedures, operations, or other activities of the Bureau and/or of the Workers' Compensation Oversight Commission.

**CONDITIONS PRECEDENT.** The parties agree that as a condition precedent, any applicable approvals of the Office of Budget and Management must be given before obligations under this Agreement commence.

**FEES.** The parties agree that the Consulting Firm shall submit monthly invoices in arrears, for all services rendered under this Agreement not to exceed fifty-three thousand dollars ($53,000.00) per month for the first year. Total costs for Fiscal Year 2006 shall not exceed the amount of six hundred thirty-six thousand dollars ($636,000.00).

No fewer than thirty days before the expiration of this Agreement, or the expiration of a subsequent renewal term, the Consulting Firm may submit to the Workers' Compensation Oversight Commission a written request for an increase in fees not to exceed the increase in the index now known as "United States Bureau of Labor Statistics Consumer Price Index For All Urban Consumers All Items, United States City Average". If this Agreement is renewed in accordance with the terms of the Request for Proposal, the Renewal Agreement will include the fee increase.

The parties understand and agree that the Bureau and the Workers' Compensation Oversight Commission are state agencies, and as such are exempt from most taxes.

**TERM.** The parties agree that services under this contract shall commence on December 1, 2005, and shall continue until November 30, 2006. At the sole discretion of the Workers' Compensation Oversight Commission, this contract can be renewed for no more than two (2) additional one (1) year terms.

**In witness whereof**, the parties hereunto affix their signatures this 1st day of December, 2005.

**WILSHIRE ASSOCIATES INCORPORATED**
**TAX ID:** 95-2755361

Julia K Bonafede

Printed Name: Julia K. Bonafede
Title: Senior Managing Director

Wilshire.doc
December 1, 2005

**On Behalf of the WORKERS' COMPENSATION OVERSIGHT COMMISSION, STATE OF OHIO, BUREAU OF WORKERS' COMPENSATION**

William E. Mabe

William E. Mabe
Administrator
by Kay Goodman
(verbal authorization)

# RENEWAL ADDENDUM

This is a Renewal Addendum to the Agreement by and between Wilshire Associates Incorporated, (hereinafter referred to as the "Consulting Firm"), having offices at 1299 Ocean Avenue, Suite 700, Santa Monica, CA 90401, and the State of Ohio, Bureau of Workers' Compensation (hereinafter referred to as the "Bureau"), on behalf of the Workers' Compensation Oversight Commission, having offices at 30 W. Spring Street, Columbus, Ohio 43215-2256, entered into the day, month and year set out below.

**Whereas,** the Workers' Compensation Oversight Commission issued a Request for Proposals B#06005 for SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT, and the Consulting Firm submitted a proposal determined by the Workers' Compensation Oversight Commission to be the best responsive and responsible response to the Request for Proposals; and

**Whereas**, the parties wish to extend the Agreement for an additional year for additional fees;

**Now, therefore,** the parties hereto mutually agree to the following modifications to the Agreement:

**FEES.** The parties agree that the Consulting Firm shall submit monthly invoices in arrears, for all services rendered under this Agreement not to exceed fifty-four thousand, four hundred sixteen dollars ($54,416.00) per month for this second year. Total costs for this second year shall not exceed the amount of six hundred fifty-three thousand dollars ($653,000.00).

No fewer than thirty days before the expiration of this renewal term, the Consulting Firm may submit to the Workers' Compensation Oversight Commission a written request for an increase in fees not to exceed the increase in the index now known as "United States Bureau of Labor Statistics Consumer Price Index For All Urban Consumers All Items, United States City Average". If the Agreement is renewed again in accordance with the terms of the Request for Proposal, the Renewal Addendum will include the fee increase.

The parties understand and agree that the Bureau and the Workers' Compensation Oversight Commission are state agencies, and as such are exempt from most taxes.

**TERM.** The parties agree that services under this contract shall commence on December 1, 2006, and shall continue until November 30, 2007. At the sole discretion of the Workers' Compensation Oversight Commission, this contract can be renewed for no more than one (1) additional one (1) year term.

**CONDITIONS PRECEDENT.** The parties agree that as a condition precedent, any applicable approvals of the Office of Budget and Management must be given before obligations under this Addendum commence.

In all other respects the parties affirm the Agreement, as herein amended.

**In witness whereof**, the parties hereunto affix their signatures this 12 day of December, 2006.

**WILSHIRE ASSOCIATES INCORPORATED**
**TAX ID:** 95-2755361

Printed Name: Julia K. Bonafede
Title: Senior Managing Director

**On Behalf of the WORKERS' COMPENSATION OVERSIGHT COMMISSION, STATE OF OHIO, BUREAU OF WORKERS' COMPENSATION**

William E. Mabe
Administrator

Wilshire renewal 2006.doc
November 30, 2006

# REQUEST FOR PROPOSALS

by the

**STATE OF OHIO**
**Workers' Compensation Oversight Commission of the**
**BUREAU OF WORKERS' COMPENSATION**

for the

SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT

**August 31, 2005**

**Bid # B06005**

REQUEST FOR PROPOSALS
by the
STATE OF OHIO
WORKERS' COMPENSATION OVERSIGHT COMMISSION of the
BUREAU OF WORKERS' COMPENSATION
for
SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT
**August 31, 2005**

READ ALL CONDITIONS AS SET FORTH IN THIS REQUEST FOR PROPOSALS (RFP) FOR A FULL UNDERSTANDING OF THE REQUIREMENTS.

# 1.0 BACKGROUND AND NATURE OF PROJECT

## 1.1 Purpose of the Request for Proposals

The purpose of this RFP is to locate and contract with a consulting firm(s) that has(have) demonstrated experience with, and success in general investment consulting and several specific duties, more fully described in Section 3 of this RFP to the Workers' Compensation Oversight Commission (WCOC) and the Ohio Bureau of Workers' Compensation (BWC) in their investment efforts.

References in this document to a firm, vendor, contractor, consultant and similar nomenclature in the singular are to be interpreted in the plural, to potentially represent more than one provider.

In the past, the BWC has retained Callan, Ennis-Knupp and others to provide specific services, such as asset allocation, performance measurement and others. Investment activities and oversight at the BWC are undergoing significant scrutiny and anticipated change. The WCOC seeks a comprehensive range of consulting advice and services provided in an integrated manner. The selected investment consulting firm(s) will play a key role in guiding the portfolio and related processes in the future, leading to the establishment of best practices which are critical to the success of the largest exclusive state insurance fund system in the United States. The selected firm will serve an independent oversight function with respect to all BWC portfolios, including those internally managed, in support of the WCOC's fiduciary duties.

The selected investment consulting firm will report directly to the WCOC (or selected members thereof) and operationally work closely both with the WCOC and BWC Investment Staff.

Given the breadth of services under consideration, the WCOC will consider more than one relationship to ensure best-of-class service for all of its needs. Each respondent should indicate their areas of professional emphasis, competitive strength and excellence, as a split mandate or grouping of services may be required to achieve the best result for the WCOC and the BWC. Examples of natural splits could include private vs. public asset classes; ability to analyze and integrate insurance (vs. pension) liability and surplus characteristics in an asset-liability management framework; policy-ALM-asset allocation-benchmarks group vs. manager selection-manager evaluation-performance measurement groupings. These are provided only as examples and do not represent our targeted segmentation. Respondents without full expertise in all areas of this RFP are nevertheless encouraged to respond.

### 1.2 BWC Background

Under the mandates of the Ohio Revised Code (ORC), the Ohio Workers' Compensation System is the largest exclusive state insurance fund system in the United States, with assets of $14.5 billion and annual insurance premiums and assessments of $2.1 billion. The Ohio Workers' Compensation System consists of BWC, responsible for administrative and insurance functions, and the Industrial Commission of Ohio (IC), responsible for claims adjudicative functions. BWC exercises fiduciary authority with respect to the State Insurance Fund (SIF) and related ancillary accounts. These funds are held for the benefit of the injured workers and employers of Ohio. It is from this fund that all claims for both medical and compensation for disability benefits are paid with the exception of self-insured claims. Self-insuring employers have been granted the status of self-insurance by having proven ability to meet certain obligations set forth in the ORC 4123.35. Self-insuring employers administer their own workers' compensation claims and are monitored by BWC. Presently, BWC processes claims, pays compensation and medical benefits to injured workers and underwrites workers' compensation coverage for employers doing business in Ohio. BWC also offers safety training and accident prevention programs to employers and helps injured employees return to work through rehabilitation programs. The WCOC oversees BWC's activities, and functions as a fiduciary.

In 2004, BWC provided coverage to 288,709 employers and received 189,046 claim applications for workers' compensation benefits. Benefits paid out in 2004 totaled $2,093,451,987.

### 1.3 BWC Investment Program Background

In accordance with Ohio Revised Code Section 4123.44 and the Investment Policy in force as approved by the WCOC, the WCOC seeks to retain the services of an investment consultant(s) to facilitate the WCOC's and the BWC's efforts in the investment of the surplus and reserves belonging to the State Insurance Fund and all ancillary funds.

Prior to 1997 BWC invested the State Insurance Fund with five outside managers as well as an internal investment staff to manage an index fund. In 1997 BWC released its first of many RFP's to outsource more of the State Insurance Fund's assets to encourage emerging and minority managers to apply to manage BWC assets with the objective to better diversify the State Insurance Fund and increase returns. Since 1997 BWC has contracted with 199 outside management firms and is currently under contract with 137 active management firms. We anticipate that this number will fall materially and respondents can assume a more normal number in the development of their proposals.

# SUMMARY OF BWC ASSETS

| **FUND** | **MARKET VALUE, in Millions (May,31, 2005)** |
|---|---|
| I. State Insurance Fund | $14,351 million |
| A. Equities ($1,967 non-US) (the equities are mostly actively managed by 54 advisors) | $ 6,349 |
| B. Fixed Income (the Fixed Income portfolios are actively managed by 19 advisors) | $ 6,931 |
| C. Private Equity (actively managed by 65 outside managers) | $954 |
| D. Cash (the Short Term portfolio is managed by JPMorgan) | $117 |
| II. Disabled Workers' Relief Fund | $1,047 |
| III. Coal Workers' Pneumoconiosis Fund | $215 |
| IV. Public Workers' Relief Fund | $19 |
| V. Marine Industry Fund | $14 |
| VI. Self Insuring Employers' Guaranty Fund | $8 |

**1.4 Calendar of Events**

| | |
|---|---|
| RFP made public and issued | August 31, 2005 |
| Open period for respondents' question submission via email | Aug 31 – Sep 13, 2005 |
| Responses by WCOC to all questions published on web site, on or before | Sep 17, 2005 |
| **Deadline for submissions of Proposals** | **September 22, 2005** |
| Evaluation Committee Review | Oct 14 – Oct 20, 2005 |
| Interviews | Oct 21 – Nov 8, 2005 |
| WCOC Meeting – Final selection decision | November 17, 2005 |

## 2.0 PROPOSAL SUBMISSIONS AND INQUIRIES

### 2.1 Communications Restrictions

General assistance will be available to consulting firms who seek clarification on specific sections of this RFP. However, WCOC members and BWC employees or representatives shall be prohibited from responding to any inquiries where there is a potential for bias or favoritism or appearance of impropriety due to personal or potential conflicts of interest. Any and all communications relating to this RFP shall be directed to the e-mail below. Communications directed elsewhere and not written may result in disqualification of the consulting firm. All WCOC responses to questions will be in writing and will be made available to all respondents to this RFP via the web site described below.

C. Lee Damsel
Interim Chief Investment Officer
Ohio Bureau of Workers' Compensation
E-mail: BWCFullServiceInvestmentConsultantRFP2005@bwc.state.oh.us
Web Site: www.ohiobwc.com

If the vendor attempts or undertakes an unauthorized communication, the WCOC reserves the right to reject that vendor's proposal, without evaluation. The WCOC shall not be responsible for any vendor's reliance on any information regarding the RFP or any work hereunder if the information was provided by any source other than through this inquiry process.

### 2.2 Proposal Submittal

Consulting firms must carefully review all elements of their final proposals. Once received by the WCOC, a proposal cannot be altered. Seven (7) complete, sealed and signed copies of each proposal shall be submitted for evaluation. Proposals shall be clearly marked "WCOC Investment Consultant, Bid Number B06005" on the outside of the envelope. FAX transmittals will not be accepted. All copies must be received by BWC together and in a timely manner.

Proposals must be sealed, and received by 2:00 P.M. local time on **SEPTEMBER 22, 2005.** Proposals delivered after the deadline will not be accepted nor evaluated, and shall be deemed non-responsive. Proposals will be opened publicly after the 2:00 P.M. deadline at BWC.

If mailing proposals, vendors should allow for sufficient mailing time to ensure timely receipt by the Purchasing Department. All mail and deliveries can be expected to undergo package security screening (amounting to approximately one hour) before receipt in the Purchasing Department. Vendors must anticipate this additional time when arranging for mail or delivery of proposals. If attending the opening, vendors must bring photo identification and should allow for additional time for personal security screening (amounting to approximately twenty minutes) and for package security screening (amounting to approximately one hour) if they are also delivering their proposals in person at that time.

Submit complete copies of the proposal to:

## BY MAIL OR HAND-DELIVERED:

Ohio Bureau of Workers' Compensation
Purchasing Department
William Green Building
30 West Spring Street, Level 24
Columbus, Ohio 43215-2256

**PLEASE MAKE SURE THE PROPOSALS ARE DELIVERED TO THE PURCHASING DEPARTMENT ON THE 24TH FLOOR BY 2:00 PM. PROPOSALS DELIVERED TO OTHER LOCATIONS MAY NOT BE RECEIVED BY THE PURCHASING DEPARTMENT IN A TIMELY MANNER. ONLY PROPOSALS RECEIVED IN THE PURCHASING DEPARTMENT BY 2:00 PM ON THE DUE DATE WILL BE OPENED AND CONSIDERED.**

### 2.3 Changes to the RFP by the WCOC

The WCOC reserves the right to amend specific sections of this RFP at any time during the bidding process. In the event that the WCOC does amend the RFP during the bidding process, the WCOC will provide notice to prospective consulting firms, to the fullest extent possible. Should the WCOC issue an addendum to this RFP, additional time may be given to all prospective consulting firms, if appropriate, to extend the deadline to accommodate needed changes in proposal.

### 2.4 Consulting Firm Costs for Responses Not Reimbursable by WCOC

The WCOC shall not be liable for any costs incurred in responding to this RFP, including the costs of proposal preparation and any travel relating to the proposal process.

## 3.0 SCOPE OF SERVICES

### 3.1 General

Proposals are hereby solicited for general investment consulting services to be provided to the WCOC.

In general, the successful firm will assist the WCOC in establishing *goals and risk* targets, *investment policy* review and compliance, strategic investment planning and *asset allocation* decisions that integrate an *assessment of the BWC's insurance liability characteristics and surplus* levels. This firm will support efforts to *select managers and in their ongoing evaluation*. The successful firm will be responsible for providing timely, accurate, and meaningful *performance reporting* (absolute and risk-adjusted results and brokerage activity) to the WCOC and support the *development of appropriate market and competitive benchmarks*. The WCOC will rely on both the consultant(s) and Staff for investment support and recommendations, depending on levels of expertise. The selected firm will provide to the WCOC an *independent assessment* of major Staff recommendations and proposed actions as requested by the WCOC. The selected firm should bring its marketplace expertise to share with the WCOC best practices on *governance* issues. The investment consultant may also be asked to provide other services as required by the WCOC and/or the Investment Staff.

The WCOC is interested in understanding respondents' expertise in delivering these services in both the insurance industry as well as other institutional settings. As such, we are interested in this information for each of the insurance vs. pension/like plans.

The firm will serve in a fiduciary capacity and by signing a contract affirms this fiduciary status, without qualification.

Key consulting services sought are identified as follows:

### 3.2 Investment Performance Analysis and Reporting: Monitoring and Attribution

Consulting firm's activity to include:

1. Generation of AIMR-compliant (CFA Institute) written reports on a monthly, quarterly and annual basis reflecting monthly, quarterly, year-to-date, and extended time period investment performance analysis, including individual asset class, individual manager and total fund performance, consistent with respective benchmarks/performance objectives (including style benchmarks), guidelines, and risk levels in a format developed by the consulting firm and approved by WCOC staff. These reports should include return attribution characteristics and analysis and explanation of investment performance relative to agreed upon benchmarks, on an absolute and risk-adjusted basis. Also require recommendations for increase/decrease in funding or terminations if applicable. Provide a fee quote to generate performance reports on each of the Bureau's advisors.

2. Assist WCOC staff in the analysis of investment managers' investment activity and results relative to their compliance with the terms of BWC's Investment Policy as adopted by the WCOC including, without limitation, an evaluation of the manager's performance for consistency with style, benchmarks and performance objectives and guidelines.

3. Advise WCOC staff on questions and issues that arise in the course of monitoring managers, e.g., on appropriate benchmarks, investment guidelines and fee structures for various managers.

4. Provide performance measurement, monitoring, attribution, style analysis, and risk analysis for 1) total portfolio, 2) all asset categories (including private equity) 3) all individual external managers and 4) all portfolios managed internally by BWC Staff.

5. Monitor and report on managers' brokerage allocations and effectiveness.

6. Assist Staff in reviewing written guidelines with respect to establishing cause for terminating an external manager if necessary. Prepare analyses on problem managers, as needed.

7. Evaluate internal and external managers' performance consistent with their benchmarks/performance objectives (including style benchmarks), guidelines, and risks undertaken. Rank managers, including internally managed accounts, against a relevant universe.

8. Provide benchmark evaluation, implementation, and analysis, as requested.

9. Compare total portfolio investment performance to custom policy benchmark to demonstrate the value added by active management (if any).

10. Provide an evaluation of the value-added specifically from the consulting advice provided by the firm.

### 3.3 Investment Manager Search/Selection Support: Identification, Evaluation, Recommendation

Consulting firm's activity to include:

11. Maintenance of broad manager data bases that provide detailed information pertaining to investment managers, including philosophies, organization, performance, track record, client base, risk statistics, staff turnover, etc. Manager information should be available for a broad range of manager types by investment sector (equity, fixed income, international, et al); by investment style, e.g., large, mid and small capitalization securities, value, growth, et al, in the equity area; broad range of geographical dispersion by product and location, e.g., money center firms, regional firms, etc.; data assisting in the identification and analysis of emerging investment firms.

12. Assisting WCOC staff in determining the need for managers of particular characteristics and styles based upon investment policies, objectives and strategies, and developing specifications for manager searches.

13. Assisting WCOC staff in conducting manager searches, including the development of any necessary RFPs, evaluation factors and methods, preparation of background material, and any necessary screening and interviewing of candidates in conjunction with BWC personnel or its designees. The fee for each search should be itemized individually in the fee proposal.

### 3.4 Investment Manager Evaluation/Oversight Duties:

14. Support and provide on-going monitoring of internally and externally managed accounts (by asset class). Report to the WCOC, as necessary, concerning those accounts.

15. Maintain a broad database of investment managers including their philosophies, styles, fee schedules, portfolio characteristics, firm characteristics, performance, and client base. The manager database should include domestic equity, fixed income, international equity, private equity and currency management/overlay specialists.

16. Provide recommendations concerning manager allocation and structure. In the event the WCOC should engage in one or more manager searches during the contract term, assist Staff, as requested, with duties which may include but not be limited to, development of Requests for Proposals (RFPs), development of evaluation factors and methods, preparation of background material, interviewing managers, and making recommendations concerning the selection of managers.

17. Advise the WCOC and Staff on questions or issues that arise in the course of administering the overall investment management program. For example, provide advice on appropriate benchmarks, investment guidelines or fee structures in the case of external managers.

18. Evaluate and make recommendations for Ohio BWC's purchase of software to aid in internal analysis of investment managers, portfolio performance, structure and risk. This task would be performed infrequently.

19. Provide investment manager compliance monitoring, including compliance monitoring for the internally managed accounts.

### 3.5 Investment Policy Determination, Review and Modification & Asset Allocation

This activity will include:

20. Assist WCOC and Staff in confirming/establishing investment objectives and risk tolerance for both investment and operational risks.

21. Analysis of and recommendation for an asset allocation policy that captures the asset/liability relationship underlying BWC's investable funds and fully reflects the

actuarially projected stream of liabilities and the actuarial assumptions adopted for BWC's invested assets, on a stochastic basis (i.e., reflecting both expected outcomes and non-expected or tail events).

22. Integration of applicable legal parameters/restrictions under which BWC investment policies must be effected. BWC and/or AG-assigned counsel will provide a summary of the key legal restrictions.

23. Assist review and development of Investment Policy as supplied by BWC Investment staff relative to an appropriate statement fully expressing the supporting structure of BWC's objectives and strategies.

24. Development of comparative investment benchmarks against which the returns of the overall fund and individual investment advisors may be appraised in setting performance goals and monitoring performance.

25. Development of risk/return characteristics of the asset mix as a whole and of each asset category and manager style.

26. Insights into alternative portfolio structure issues, e.g., active vs. passive management, internal vs. external manufacturing.

27. Generation of appropriate proxy voting policies and procedures in consultation with BWC staff and counsel.

28. Participation with BWC staff in generating finalized investment policy document to be submitted to WCOC for approval.

29. Provide to the WCOC an independent assessment of major Staff recommendations and proposed actions.

30. Provide recommendations concerning long-term investment policy, investment objectives and strategy, including manager continuation policies and rebalancing policies.

31. Provide recommendations concerning risk management strategies

### 3.6 Service Requirements

32. **Meetings:** During an initial start-up transitional period, regular and frequent meetings (perhaps monthly) are anticipated. Subsequently, quarterly and annual meeting/presentations involving the WCOC will be required. Quarterly meeting with the Chief Executive Officer, Chief Investment Officer, and the Chief Financial Officer, and members of BWC's Investment Department is anticipated. Costs to attend such meetings are to be borne by the consulting firm at its own expense. The consulting firm should be aware that meetings required by unforeseen events may be required on occasion.

33. **Reports:** The preparation of detailed, timely and summary reports on all investment activity conducted on behalf of the BWC's investment portfolio, including reporting on each manager as well as the composite. In addition, monthly and quarterly reports will measure managers, and total fund results against an objective set forth in the approved investment policy. The format of such reports will have been mutually determined by the consulting firm and investment representative from WCOC.

34. **Coordination with WCOC and BWC legal counsel:** The selected firm will be expected to coordinate with Legal counsel selected by WCOC or BWC on a range of issues – e.g., Private Equity fiduciary legal work

35. **Standard of Care:** The selected consulting firm shall, in performing any work under a contract resulting from this RFP, exercise at all times the diligence and standard of care required of a fiduciary under applicable Ohio and federal law.

36. **Transferability of Data:** The consulting firm will maintain historical data on the Bureau in a format that can be easily transferred to the Bureau or another consulting firm upon termination of the consulting agreement.

### 3.7 Research, Educational Capabilities and Client Relations:

37. Provide WCOC with insight into a governance model that leverages the marketplace's thought leaders. This should include a review of internal vs. external management models, staffing, IT capabilities, accounting, custody, control systems and auditing structures.

38. Provide the WCOC with an independent perspective of Staff's key recommendations.

39. Provide investment education and training to the WCOC and Staff on a periodic basis, as requested.

40. Proactively advise the WCOC and Staff of new investment vehicles and techniques or major changes in existing practices within the industry and, upon request, prepare a comprehensive analysis and make recommendations.

41. Participate in annual planning session with Investment Staff.

42. Provide assistance on special projects, as needed.

43. Participate in ad hoc workshops on specific issues designated by the WCOC and Staff.

44. Take an active role in planning and conducting the annual investment strategy meeting.

45. Respond in an agreed-upon and timely manner to WCOC members and/or Staff inquiries between meetings.

46. Share all firm research, including white papers, and provide access to the research staff.

47. Report any significant changes in the consulting firm's organizational structure and staffing in timely manner to WCOC.

# 4.0 PROPOSAL FORMAT

## 4.1 General

The proposal should be concisely written with attention given to its readability, clarity, technical exposition, and completeness. When completing the firm's response to this proposal, it is necessary to comply with the following directions:

Please be as clear, accurate, and complete as possible. Providing incomplete or misleading data may lead to disqualification of the proposal and elimination of the firm from the search process.

If the firm has offices in more than one location, when completing responses to questions followed with an asterisk (*), please provide the requested information for each of the following: 1) the office location proposed to serve WCOC, and 2) all U.S. office locations in aggregate.

These instructions describe the required format for proposals and have been designed to ensure submission of information essential to timely evaluation and complete understanding of the content of proposals. Proposals which do not comply with all the requirements of this RFP shall be considered non-responsive. Proposals submitted shall follow the format described below.

## 4.2 Cover Letter

Please complete all questions in the order they are presented in this RFP and number your responses identically. A cover letter, which will be considered an integral part of the proposal, must be signed by the individual(s) who is/are authorized to bind the Proposer contractually. This cover letter must indicate the signer is so authorized and must indicate the title or position that the signer holds in the Proposer's firm. The cover letter must contain a statement that the firm acknowledges that all documents submitted pursuant to this request for proposal process will become a matter of public record.

Please note: The entire proposal, including any attachments, addenda, schedules, or other separate documents should NOT contain any information the proposer believes qualifies as confidential, proprietary or trade secret information, unless the proposer intends to waive such rights. Any claim, notes, captions, headers, or footers attempting to reserve confidentiality or proprietary rights will result in the disqualification of the proposal.

All proposals are subject to public records reviews and discussions or deliberations in meetings open to the public.

## 4.3 Consulting Firm Profile

1. List the owners of the firm (from largest to smallest with respect to ownership) and their ownership percentage. Please include individuals and all other entities. Identify the organizational structure, including the firm, parent company, any affiliated companies and joint ventures.

2. If the firm anticipates any near-term changes in its corporate structure, organizational structure, location, or professional staffing, please indicate the nature of such changes.

3. For calendar year ended December 31, 2004, please list all services provided by the firm, the nature thereof, and the dollar revenue or percentage of total income that such services represent. If the firm has an ultimate parent company, please list the percentage of total income that the firm's consulting services represent to the ultimate parent company.

4. Does the firm or does an affiliate serve as an investment manager for clients?

5. Does the firm or does an affiliate act as a securities broker-dealer? If yes, please provide the most recent "focus report" (X-17A5) the firm or the affiliate filed with the Securities and Exchange Commission.

6. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?

7. Does the firm and/or any affiliates accept soft dollars as a method of payment for services provided? If you allow plans to pay your consulting fees using the plan's brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees?

8. If you allow plans to pay your consulting fees using the plan's brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?

9. Please list the percentage of revenues the firm's ultimate parent company received in calendar year ended December 31, 2004 from the following sources: (Total must add to 100%.)

   i. Revenues from investment manager clients:
   ii. Revenues from brokerage activity:
   iii. Revenues from plan sponsor consulting clients:
   iv. Revenues from other clients (please specify):

10. Please list, separately, the total revenue the firm and the total revenue each of its affiliates received directly or indirectly from investment managers for auditing, actuarial, benefits, or any other management consulting work in the calendar year 2004.

11. Please list the dollar value of revenues, commissions or any other benefits the ultimate parent company received (or a brokerage affiliate received – please specify) as a result of any type of brokerage activity in calendar year 2004.

12. For 2004, please list the names of all investment management firms from which the firm, each of its affiliates, and the ultimate parent company of the firm has received any compensation or has any relationship. Please state the dollar amounts received from each entity and describe the relationships.

13. What percentage of your plan clients utilize money managers, investment funds, brokerage services or other service providers from whom you receive fees?

14. Would the firm be willing to disclose, annually or upon client request, the dollar amount and nature of all material beneficial relationships, that the firm or any affiliate of the firm, engages in with investment manager clients? If not, please explain.

15. Please describe the firm's conflict of interest policy. If the firm, its affiliates, or the ultimate parent company provides investment management services, brokerage services, or services to investment managers, please include an explanation of how this policy, and any other measures taken by the firm, limit the likelihood that the client could receive investment advice that is not completely objective.

16. Please explain in detail any potential conflicts of interest that would be created by the firm's representation of WCOC. Please include any activities of affiliated or parent organizations as well as other client relationships that may affect services to WCOC.

17. Are you registered with the SEC or a state securities regulator as an investment adviser? If so, have you provided us with all the disclosures required under those laws (including Part II of Form ADV)?

18. Do you consider yourself a fiduciary with respect to the recommendations you provide the plan?

19. Please acknowledge in writing the following:
    a. Our organization is a person, firm, or corporation registered as an investment advisor under the Investment Advisor Act of 1940, and functions as a fiduciary.
        1. **Yes/No**

## 4.4 Personnel Profile

20. Please provide the following contact information:
    Firm Name:
    Contact's Name:
    Contact's Title:
    Contact's Address:
    Contact's Email Address:
    Contact's Phone Number:
    Contact's Facsimile Number:
    Firm's Internet (www) address:

21. Does the firm have offices at other locations in addition to the location listed above? Yes/No

22. If yes, please list all other office locations and the number of individuals working in each office. If the firm has multiple offices, please state the office that will primarily serve the WCOC relationship.

23. Please list the total number of personnel in the firm in each of the following categories for the past five years. Each person should be assigned to only one category. For 2005, please list the names of all individuals currently employed by the firm, by category. * Please attach a resume for each consultant.

*Please provide calendar year-end (December 31) data for each year:*

| | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|
| Lead Consultants | | | | | |
| Consultants | | | | | |
| Analysts | | | | | |
| Firm Management | | | | | |
| Economists | | | | | |
| Marketing | | | | | |
| Client Service | | | | | |
| Analytics/Systems | | | | | |
| Total Professional Staff (above) | | | | | |

24. Please list the number and names of personnel in the firm within each category that *your* firm generally uses for classification of professionals. For each category, please indicate the experience and or qualifications that are required. *

25. Please list the names and number of employees, acting in the role of Lead Consultant or Consultant that left the firm in 2004 and 2005

26. At December 31, 2004, how many professionals were assigned to investment manager research, selection, and monitoring? Please also state the name of each individual assigned.*

| | **Assigned Full-time** | **Assigned but not Full-time** |
|---|---|---|

| | | |
|---|---|---|
| Public US Equity | | |
| Public US Fixed Income | | |
| Non-US Equity | | |
| Non-US Fixed Income | | |
| Private Equity | | |
| Hedge Funds | | |
| Other (Please Specify) | | |

27. What is the average number and the maximum number (if any) of client relationships assigned to each of the firm's consultants?

28. Please provide a brief description of the firm's compensation arrangements for professional staff, including any incentive bonuses, sharing of profits and/or equity ownership. Specific compensation amounts need not be presented.

29. What specific incentives are employed to ensure key professionals do not leave the firm either as a group or individually?

30. When hiring consultants and analysts, what are the qualifications, skills, and experiences that your firm generally seeks?

31. Please identify the individual(s) who would perform the requested services for WCOC. For each person, please also provide a biography as well as the following information:

    Name:

    Title:

    Certifications:

    Expected role:

    Total years of institutional investment experience:

    Total years of insurance investment experience:

    (Please provide above question in total as well as split into Life, P&C and Health)

    Total years of investment consulting experience:

Total current number of assigned accounts:

Name, plan type, length of relationship, and size of each assigned client account:

32. Please explain how the team dedicated to the WCOC account would function, including lead consultant, back-up, quality control and support services. Is there one individual who will be responsible for quality control for all work done for WCOC?

33. Please describe the firm's procedures in the event the key personnel assigned to this account should leave the firm.

### 4.5 Investment Philosophy and Key Strengths

34. What key strengths or competitive advantages does the firm possess, that will generate superior performance and service to WCOC?

35. Are there common beliefs about the investment markets, which underpin your investment advice across clients? If yes, please describe them.

36. Please describe how the firm's experience in pension and/or insurance client engagements makes it a good fit for WCOC's needs. Please bifurcate your experience and approach to each of insurance (split into Life, P&C and Health) vs. other institutional clients.

### 4.6 Investment Process & Tools

37. Please list and describe the specific analytical tools and/or software programs used by the firm with regard to:
    A. General Market & Economic Research
    B. Asset/Liability Modeling and Asset Allocation
    C. Assessment of insurance liability and surplus characteristics
    D. Risk Management
    E. Public Market Investment Manager Oversight, Selection & Monitoring
    F. Private Markets/Real Estate Opportunities
    G. International asset classes
    H. Performance Measurement/Attribution
    I. Other (please specify)

38. For the year ended December 31, 2004, what percentage of the firm's revenues were reinvested into the following areas (do not include personnel costs):
    A. General Market & Economic Research
    B. Asset/Liability Modeling and Asset Allocation
    C. Assessment of insurance liability and surplus characteristics
    D. Risk Management
    E. Public Market Investment Manager Oversight, Selection & Monitoring
    F. Private Markets/Real Estate Research
    G. International asset classes

H. Performance Measurement/Attribution
I. Other Research or Technology (please specify)

39. Please describe how the firm monitors investment advisors. In 2004, how many in-person meetings did the firm hold with investment managers (do not include those meetings held at client conferences or educational forums.)?

40. Please describe the results of each investment manager search conducted by the firm for clients in 2004. Please provide the details in a chart as the following example demonstrates:

| **Client Description** | **Search Mandate** | **Account Size** | **Manager Selected** | **Date Hired** |
|---|---|---|---|---|
| Private pension plan – Midwest | Small cap value | $50 million | Sanford C. Bernstein & Co., Inc. | 01/31/05 |
| Public pension fund – West | Core Plus | $100 million | PIMCO | 02/28/05 |

41. In the event that BWC manages assets internally in the future, please describe specifically how the firm intends to monitor the BWC internally managed portfolios. Please describe the firm's experience in monitoring large, internally managed portfolios. How would the firm's reporting differ from the reporting the firm would provide to the WCOC concerning the externally managed accounts?

42. Please describe the firm's experience and capability for assessing an investment manager's total performance. Besides investment returns, what key criteria do you consider in your overall evaluation of an investment manager? At what point would your firm recommend terminating an investment manager? Please describe how you would handle any underperformance in the internally managed accounts.

43. Describe how benchmarks are chosen or developed and how performance is compared to similar portfolios. Can the firm provide custom benchmarks? Style benchmarks? Normal portfolios? Please indicate whether your firm has ever developed benchmarks, and if so, please provide a description of the benchmarks developed.

44. Please describe your firm's experience and capability for calculating performance. Describe differences, if any, in the way the firm would calculate performance among different asset

classes. How would the firm ensure accuracy in the performance calculations? How soon after receipt of settlement-date accounting data from the custodian would accurate performance reports be available to present to the WCOC? How do you measure performance for insurance clients?

45. Describe how performance measurement data would actually be presented at the WCOC meeting. To what extent will the data summarized or graphically represented? Would all report data provided to the WCOC? If not, why not?

**4.7 Investment Policy Structure and Asset Allocation**

46. Describe the process the consulting firm will utilize in recommending investment policies, objectives and guidelines for BWC's investment structure. Provide specific experience and approach in doing this with insurance clients. Do you have any experience representing clients to the rating agencies (e.g., AM Best) on the subject of investments? What degree of exposure and knowledge do you have of AM Best's rating criteria?
47. Describe the methodology used by the consulting firm in determining recommended asset allocation, including asset/liability modeling, determination of expected returns, standard deviations, correlation with other asset classes, etc. Provide specific experience and approach in doing this with insurance clients.
48. Describe specifically how the firm's experience would fit the BWC's insurance business, liability and surplus characteristics. How have you in the past, and how would you integrate this liability-side with development of policy and asset allocation targets and normal ranges?
49. Describe the consulting firm's policy for alterations to the fund's asset allocation reflecting changes in market environment; discuss review process for existing asset allocation and process for rebalancing, if applicable.
50. Describe the firms experience in and approach to risk management, specifically as integrated into policy development and Asset/Liability Management. How many insurance clients have you helped do this? For how long in each case? Which type of insurance client (Life, P&C, Health)?
51. Indicate the asset classes included for consideration in the consulting firm's asset allocation studies, including which subasset classes are employed.

**4.8 Performance Measurements**

52. Describe the consulting firm's performance measurement system. Indicate which asset categories are tracked in the consulting firm's performance measurement system; size of manager/advisor data base; duration of years of usable performance data. Is the utilized database generated internally or externally?
53. Describe any advantages the consulting firm perceives for its database relative to competitors.
54. Indicate the type of analysis normally provided with the consulting firm's performance measurement package. Can such reports be customized to better meet BWC fund needs?

55. Describe the firm's approach to measure risk-adjusted performance.
56. How does the consulting firm categorize a manager by style? How does the consulting firm monitor consistency of style? How large are the individual style databases?
57. Describe the consulting firm's methodology in calculating individual manager returns. Include the formula, the frequency of calculation, and the treatment of cash flows and fees. Are return calculations AIMR compliant?
58. Describe the methods and resources the consulting firm uses for customizing and tracking benchmarks in analyzing and evaluating portfolio performance.
59. What period of time is required to prepare reports?
60. Describe the process and data needed to input historical BWC performance data into the consulting firm's system.
61. Describe the consulting firm's process for monitoring managers and notifying clients of developments at management firms.

### 4.9 Research and Educational Capabilities

Information on specific topics of interest (e.g., alternative investments, index composition, current topics) may be requested by the WCOC or BWC Management. The consulting firm will be expected to participate in any roundtables or discussions arranged by or for WCOC.

62. Describe the consulting firm's research capabilities. If no separate department exists, describe how this function is performed. Indicate original research capabilities, research specialists, and breadth of research expertise and staff.

63. Describe the manner in which internal and external resources and sources of information are integrated in the research process.

64. Please describe the firm's research efforts both for the pension universe, the insurance universe and any others you care to identify.

65. Please describe the type, subject matter and frequency of research provided to clients. Can the information be delivered electronically or only by hard copy?

66. Describe the consulting firm's process for monitoring industry and market trends affecting large investment funds.

67. Does the consulting firm conduct educational programs for its clients? Please describe.

### 4.10 Client Information

68. Please provide the following information for calendar year ending 2003 and calendar year ending 2004. Please only include those clients for which the firm currently serves in a full-

retainer investment consulting relationship. (Performance evaluation services and/or project-based work alone are not considered full-retainer investment consulting relationships.)

- Totals assets served by the firm: *
- Total clients served by the firm: *
- Number of clients served by the firm (by size and by type): *
- Reasons for each client loss in 2003 and 2004. *

| | Less than $1 billion | $1 billion to $10 billion | $10 billion to $50 billion | Over $50 billion | Total AUM |
|---|---|---|---|---|---|
| Insurance comp. – Insurance funds | | | | | |
| Insurance comp. – Other (pension, foundation, etc.) | | | | | |
| Public Employees Retirement | | | | | |
| Union/Taft-Hartley | | | | | |
| Corporate Pension | | | | | |
| Endowment | | | | | |
| Foundation | | | | | |
| Hospital | | | | | |
| Other | | | | | |

### 4.11 References

69. Please provide a reference list of at least three current consulting clients with similarly-sized and structured investment plans; including the name, address and telephone number of the contact person. Additionally, please provide a list of your public sector clients and your insurance clients. The consulting firm recognizes that WCOC reserves the right to contact any or all of the references listed, and may consider the reference when evaluating the proposal.

### 4.12 Project Fees and Performance Measurement

70. Please provide a fee quote for the specific services requested. Please provide **one** fee for all services included in this RFP; and another fee for each of those services (e.g., retainer consulting, manager search, performance measurement/attribution, peer universe comparison, etc. If the firm provides private markets consulting, please indicate the estimated fee for private markets consulting services. We anticipate that the number of subadvisors will fall materially from current levels and respondents can assume a more normal number in the development of their proposals, or otherwise indicate how fees will vary as a function of the number of external subadvisors.

71. Will the firm confirm that it will not propose increases in the proposed fee structure for the next 3 years?

72. Please state how the firm – as a consultant – expects to add value to WCOC over the next 3-5 years. (For example, will it be through manager selection, asset allocation, cost containment, education, etc.)

73. Please suggest a methodology for measuring the firm's performance as an investment consultant.

**4.13 Litigation, Investigations and Convictions**

74. Please describe any litigation or investigation of the consulting firm or of a principal, by the SEC, a state or federal agency, or any governmental authority. If the consulting firm has ever been sued or has ever sued another party, please describe such suits.

75. If the consulting firm or a principal has ever been convicted of a felony or agreed to a sanction or penalty, please explain.

**4.14 Subcontracting**

If the consulting firm uses the services of a subcontractor, the consulting firm shall identify the subcontractor; describe the skills and qualifications of the subcontractor and its individual employees; describe what portions of the project will be assigned to the subcontractor; identify the cost associated with the portions of the project assigned to the subcontractor; and describe the inclusive periods and percentage of time the subcontractor will devote to the project. The consulting firm must describe the contractual arrangement contemplated with each subcontractor and describe generally the control/delegation of responsibilities anticipated in that arrangement.

WCOC reserves the right to review the credentials of the subcontractor and to approve the selection of such subcontractor.

The consulting firm's decision to use a subcontractor will not modify or abrogate the responsibility of the consulting firm for the acts, omissions, nonfeasance, malfeasance or misfeasance of any and all subcontractors.

**4.15 Conflicts of Interest**

The consulting firm shall present a statement at the time of the submission of a proposal that it presently has no interest and shall not acquire during the term of contract any interest, direct or indirect, which would conflict with the performance of services which are required to be performed under the RFP. The consulting firm shall affirm that no person having such interest shall be employed in the performance of the RFP. The consulting firm shall likewise advise WCOC immediately in writing in the event it acquires such interest during the course of the contract. Thereafter, such person shall not participate in any action affecting the work under the Agreement resulting from this RFP, unless the WCOC shall determine that, in light of the personal interest disclosed, such person's participation in any such action would not be contrary to the public interest.

The consulting firm shall disclose any existing or prior relationships with WCOC and describe in detail the nature of that relationship. The consulting firm must provide a disclosure statement concerning its organizational structure, including subsidiary or parent corporations and/or organization and ownership information. This statement should disclose any contractual or financial relationship, either direct or indirect, with any firm, business, company, or corporation. Any proposal that does not include these assurances will be deemed not responsive to the RFP.

The consulting firm agrees to adhere to all ethics laws contained in Chapters 102 and 2921 of the Ohio Revised Code governing ethical behavior, understands that such provisions apply to persons doing or seeking to do business with WCOC, and agrees to act in accordance with the requirements of such provisions. The consulting firm warrants that it has not paid and will not pay, has not given and will not give, any remuneration or thing of value directly or indirectly to WCOC or any of its board members, officers, employees, or agents, or any third party in any of the engagements of this contract or otherwise, including, but not limited to a finder's fee, cash solicitation fee, or a fee for consulting, lobbying or otherwise.

### 4.16 Workers' Compensation

The consulting firm shall submit as part of its proposal a copy of its current certificate of workers' compensation coverage.

### 4.17 Additional Requested Materials

- A corporate Organization Chart (showing the consulting firm, parent and all affiliates and subsidiaries).
- A current company Annual Report.
- Current firm policies related to conflicts of interest.
- Most recently filed Form ADV, Parts I and II.
- A copy of two recent quarterly client reports (including universe comparison reports).
- A detailed description of the composition of the peer universe to which BWC will be compared.
- A copy of your firm's standard marketing brochure that describes your processes and services.
- Any other information you feel would be necessary to gain a complete understanding of the firm or the services it provides.

# 5.0 EVALUATION AND SELECTION PROCESS

## 5.1 Evaluation Approach and Methodology

Evaluation of proposals submitted will be conducted by an evaluation committee. The Evaluation Committee (EC) shall consist of two (2) selected members of the WCOC and the BWC Chief Investment Officer. The EC will have the operational support of BWC staff to administer the search process

The WCOC intends to select the consulting firm that provides the best value and best accomplishes the requirements and objectives set forth in the RFP in a manner most advantageous to the WCOC and the BWC. Award will be made on the basis of the best overall proposal, taking into consideration in Phase I scoring as described below. In Phase II the assessment will reflect the firm's understanding of the project; its implementation of industry best practices toward objectivity in recommendations; and/or an interview assessment of capabilities for the finalists, or those firms amongst the highest scorers that, in the sole judgment of the WCOC best accomplish the objectives in this RFP. The WCOC reserves the right to award a contract to other than the lowest priced proposal after consideration of all factors.

Final award of the contract will be determined following the evaluation and scoring of the proposals and/or interviews with the finalists if that is judged necessary or valuable in making the final decision. WCOC reserves the right to reduce the scope of services required and to negotiate the price to reflect such change after award of the contract has been made.

All consulting firms will be notified by letter by email of the selection decision. No information will be released by WCOC after the proposal due date until an official announcement is made.

## 5.2 Scoring the Proposals

The proposals will initially be evaluated and scored (maximum score possible is 100 points) based upon the following criteria for selection:

1. Relevant knowledge and experience in similar consulting engagements; evidence of awareness of potential conflicts; and current organizational capacity to provide experienced staff for the engagement - 30%

2. Quality and depth of consulting firm capabilities - 40%
   a) Performance measurement, benchmarks, databases and style groups
   b) Manager search/selection
   c) Manager evaluation/oversight
   d) Investment policy; analysis, structuring, asset allocation, monitoring
   e) Research and educational capabilities

3. Demonstrated ability to meet service requirements, including communications with senior BWC staff and WCOC (minimum of one quarterly meeting) on both ongoing and specific issues, and to respond to concerns as they arise, including the operational plan for fulfilling its duties and the quality of the professional staff assigned to this project - 15%

4. Proposal fees and time commitments - 15%

Follow-up interviews may be conducted with the finalist candidates, at WCOC's invitation, based on initial scoring of the above criteria. After the interviews are completed, the scoring on the criteria described in this section will be re-calculated.

### 5.3 Basis for Award

Those proposals that earn the highest number of points after all points are added together will be selected as the top scorers. Notwithstanding the foregoing, WCOC reserves the right to award the contract to the proposal other than the one with the highest number of points if, in WCOC's sole determination, another proposal is determined to be the most advantageous to WCOC and the State of Ohio, taking into consideration the price and evaluation criteria of the RFP, pursuant to Ohio Revised Code Section 125.071(E). WCOC reserves the right to negotiate and to award contracts to more than one proposer, dividing the scope of services required and negotiating the price to reflect such division of service.

### 5.4 Validity of Offers

All offers tendered in response to this RFP shall remain open for a period of 180 days from the date upon which proposals submitted in response hereto are due.

### 5.5 Rejection of Proposals

Proposals that have been determined not to have met one or more of the mandatory requirements will be excluded from any further consideration or scoring.

## Selected Submission Requirements

The following details some of the most common submission errors that shall be grounds for rejection of proposal. This is not a complete list.

- Failure to sign all copies of the Proposal
- Failure to identify RFP Bid Number on the outside of envelope
- Failure to submit Seven (7) copies for evaluation purposes
- Failure to meet deadline for submission
- Claiming that the entire contents of a proposal qualifies for an exception to Ohio public records law
- Mailing proposal with insufficient postage
- Taking exception to mandatory technical terms, conditions, and requirements of the contract

## 6.0 TERMS AND CONDITIONS

### 6.1 General

BY SUBMITTING A PROPOSAL, THE CONSULTING FIRM ACKNOWLEDGES THAT IT HAS READ THE RFP, UNDERSTANDS IT, AND AGREES TO BE BOUND BY ITS REQUIREMENTS, TERMS AND CONDITIONS. WCOC RESERVES THE RIGHT TO REJECT ANY AND ALL PROPOSALS THAT TAKE EXCEPTION TO THE TERMS AND CONDITIONS OF THE RFP OR THAT FAIL TO MEET THE TERMS AND CONDITIONS, INCLUDING BUT NOT LIMITED TO, STANDARDS, SPECIFICATIONS AND REQUIREMENTS AS SPECIFIED IN THE RFP. FURTHERMORE, WCOC RESERVES THE RIGHT TO REFUSE ANY PROPOSAL NOT PROPERLY SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS OF THIS RFP. WCOC RESERVES THE RIGHT TO REJECT THE SELECTED PROPOSAL AT ANY TIME PRIOR TO EXECUTION OF A CONTRACT.

The evaluation committee may waive minor defects which are not material when no prejudice will result to the rights of any other consulting firm, the public, or WCOC. WCOC shall not pay for information solicited prior to entering into a contract with the selected consulting firm.

Headings in this RFP are for convenience only and shall not affect the interpretation of any of the terms and conditions contained in the RFP.

### 6.2 Travel Expenses

Any travel or per diem required by the selected consulting firm to carry out its obligations under the contract shall be at the consulting firm's expense. Any additional travel, requested by WCOC after award of the contract, shall be paid by WCOC only with prior written approval. All additional travel and per diem shall be paid in accordance with the Office of Budget and Management's Travel Rules as set forth in Section 126.31 of the ORC and the rules promulgated thereunder.

### 6.3 Resulting Contract

Any contract resulting from the RFP shall consist of this RFP and any written addenda issues by WCOC, the proposal and the executed contract.

WCOC will provide the successful Vendor a contract for execution based on the draft attached to this RFP. If Vendor fails to execute such contract within a reasonable time, WCOC reserves the right to reject the proposal and award the contract to the next highest scoring Vendor until a contract is negotiated, or WCOC decides not to contract. The draft of the contract attached hereto shall only be modified by WCOC and respondents may not modify it.

The term of the contract shall be for the period of one (1) year, renewable at the WCOC's sole discretion for no more than two (2) subsequent one (1) year periods. The contract with selected consulting firms may be terminated if any changes are made to the WCOC or to the authority of the WCOC over BWC's investment activities.

### 6.4 Contract Compliance

During the term of this contract, the WCOC shall be responsible for monitoring the consulting firm's performance and compliance with the terms and conditions of the contract. It is specifically understood that the nature of the services to be rendered pursuant to any contract resulting from this RFP are of such a nature that WCOC is the sole judge of the adequacy of such services.

### 6.5 Contract Termination

If for any reason the consulting firm fails to fulfill its obligations under the contract in a timely and professional manner, or if the consulting firm violates any of the covenants, agreements, or stipulations of the contract or applicable Ohio statutes, WCOC shall have the right to terminate the contract by giving one (1) day written notice to the consulting firm for defaults not subject to cure, and fifteen (15) days written notice to the consulting firm for defaults subject to cure. Failure to maintain commercial general liability coverage, or workers' compensation coverage will immediately terminate any agreement made pursuant to this RFP. Notification of such termination will be by Certified U.S. Mail. If WCOC's representative observes any infraction(s), such shall be documented and conveyed to the consulting firm for immediate correction. Continued failure on the consulting firm's part to comply with the terms and conditions of the ensuing contract may result in the immediate termination of the consulting firm from the contract by WCOC. In the event that WCOC executes its right to terminate the contract, the consulting firm shall not be relieved of any liability for damages sustained by WCOC by virtue of any breach by the consulting firm, and WCOC may withhold any payment due to the consulting firm, whether the payment is due to the consulting firm under the contract or otherwise, for the purpose of set off until such time as damages to WCOC are determined.

### 6.6 Termination for Convenience

Notwithstanding section 6.5, above, WCOC, in its sole determination, may terminate the contract with the consulting firm for convenience by giving not less than thirty (30) days notice in writing to the consulting firm of its intent to so terminate for convenience and the effective date of such termination. In the event that termination under this provision is elected, the contractor shall receive payment for work satisfactorily performed as determined by WCOC to the date of termination.

### 6.7 Governing Law - Severability

The validity, construction and performance of any contract resulting from this RFP and the legal relations among the parties to any contract shall be governed by and construed in accordance with the laws of the State of Ohio. If any provision of any contract resulting from this RFP or the application of any such provision shall be held by an Ohio court of competent jurisdiction to be contrary to law, the remaining provisions of the contract shall remain in full force and effect. The parties agree to submit irrevocably to the jurisdiction of Ohio courts.

### 6.8 Compliance with Applicable Laws and Acknowledgment of Fiduciary Status

The consulting firm agrees to comply with all applicable federal, state, and local laws in the conduct of the work hereunder. The Vendor accepts full responsibility for payment of all taxes and insurance including workers' compensation insurance premiums, unemployment compensation insurance premiums, all income tax deductions, social security deductions, and any and all other taxes or payroll deductions required for all employees engaged by the Vendor in the performance of the work authorized by this contract. WCOC does not agree to pay any taxes. Failure to have workers' compensation or other required insurance in accordance with the RFP shall deem any resulting contract voidable at WCOC's sole discretion.

The consulting firm acknowledges that the funds subject to a contract under this RFP are a public trust fund governed by the provisions of Chapters 4121 and 4123 of the Ohio Revised Code. The consulting firm agrees to adhere to the standard of care and conduct required of a fiduciary under the WCOC Statement of Investment Policy and Guidelines, as may be amended, Chapters 4121 and 4123 of the Ohio Revised Code, and any applicable federal and state law.

### 6.9 Publicity

Any use or reference to this RFP by the consulting firm to promote, solicit, or disseminate information regarding the scope of the contract is prohibited, unless otherwise agreed to in writing by WCOC. WCOC agrees to be used as a reference by the selected consulting firm in other State of Ohio competitive bid situations.

### 6.10 Equal Opportunity

In fulfilling the obligations and duties of any contract resulting from this RFP, the Consultant shall not discriminate against any employee or applicant for employment on the basis of race, religion, national origin, color, gender, sexual orientation, age, Vietnam-era Veteran status, or disability as defined in the Americans with Disabilities Act.

The Consultant shall ensure that applicants are hired and that employees are treated during employment without regard to any of the listed factors. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship.

The Consultant agrees to post in conspicuous places, available to employees and applicants for employment, notices stating that the Consultant complies with all applicable federal and state non-discrimination laws. The Consultant shall incorporate the foregoing requirements of this section in all of its contracts for any of the work prescribed herein (other than subcontractors for standard commercial supplies or chemical supplies), and shall require all of its subcontractors for any part of such work to incorporate such requirements in all subcontracts for such work.

### 6.11 Consulting Firm's Liability

The consulting firm shall hold BWC harmless and indemnify BWC from and against any claims, demands, losses, and causes of action asserted against or incurred by BWC with regard to personal injury or property damage which result from or arise out of negligent conduct or intentional acts of the consulting firm, its agents, employees and subcontractors. The consulting firm shall be liable for and shall indemnify the Bureau against any and all losses, damages, costs, expenses (including reasonable attorney fees), liabilities, claims and demands for any action, omission, information or recommendation in connection with this Agreement constituting a breach or violation of its fiduciary duties under applicable law, or a material breach of any agreement, representation, warranty or covenant made herein by the consulting firm or its agents, except that the consulting firms shall have no liability hereunder in the absence of negligence or reckless or willful misconduct on the part of itself or its agents.

### 6.12 Conditions Precedent

It is expressly understood by the parties that the contract is not binding on WCOC until such time as all necessary funds are made available and forthcoming from the appropriate State agencies, and such expenditure of funds is approved by the Administrator after execution of the contract by the Vendor but before execution by WCOC. No contract shall be binding upon either party until receipt by the contracting Vendor of a copy of a fully executed contract, and compliance with any and all conditions precedent.

### 6.13 Method of Remuneration and Billing Procedures

Project fees will be paid quarterly in arrears upon submission and review of an invoice. Upon delivery of performance of services, as described on any purchase order placed against the contract awarded, the consulting firm shall submit hard copy (in duplicate) invoices directly to:

C. Lee Damsel
Interim Chief Investment Officer
Bureau of Workers' Compensation
William Green Building
30 West Spring Street, Level 27
Columbus, Ohio 43215-2256

A proper invoice is defined as being free from defects, discrepancies, errors, or other improprieties and shall include, but may not be limited to:

- consulting firm's name and address as designated in the RFP;
- consulting firm's federal employer identification (E.I.) number;
- description, including time period (date received and date reported), of services delivered or rendered as specified in the Purchase Order.

Defective invoices shall be returned to the consulting firm noting areas for correction. When such notification of defect is sent, the required payment date shall be thirty (30) days after receipt of the corrected invoice.

Section 126.30 of the Ohio Revised Code, and any applicable rules thereto, are applicable to any resulting contract and requires payment of interest if, upon receipt of a proper invoice, payment is not made within thirty (30) calendar days, unless otherwise agreed in writing. The interest charge shall be at the rate per calendar month which equals one-twelfth of the rate per annum prescribed by Section 5703.47 of the Ohio Revised Code. In the event that WCOC does fail to make prompt payment, the consulting firm is entitled to the interest allowed by law. In no event shall such failure to make prompt payment be deemed a default or breach of contract on the part of WCOC.

Further, payment shall be made to the consulting firm, in the Firm's Federal E.I. number, and only as provided for in the response to the RFP. Any changes regarding payment after contract award will not be permitted. The date of the warrant issued in payment shall be considered the date payment is made. The consulting firm's payment shall not be initiated before a proper invoice is received by WCOC.

### 6.14 Workers' Compensation

The consulting firm shall submit with its proposal a copy of the certificate proving that the consulting firm and its agents are covered by Workers' Compensation, Employees' Liability and/or consulting firm's insurance in amounts sufficient to satisfy all claims that might arise from its acts or those of the employees and agents. The consulting firm is responsible for ensuring contractually that any subcontractors maintain workers' compensation insurance at all times during the term of the resulting contract. Failure to maintain coverage at any time during the term of any contract shall be deemed a material breach of the contract. Such failure may cause WCOC to terminate the contract at the WCOC's sole discretion.

### 6.15 Commercial General Liability

The consulting firm shall carry commercial general liability insurance with limits of not less than twenty five million dollars ($25,000,000.00) from an insurance carrier authorized to do business in Ohio. A minimum of fifty million dollars ($50,000,000.00) is preferred. Please indicate your level of coverage. Failure to maintain coverage at any time during the term of any contract may be deemed a default. Upon any such failure, the contract may be deemed void in its entirety.

### 6.16 Default by Consulting Firm

WCOC declares and the consulting firm acknowledges that WCOC may suffer damages due to the failure of the consulting firm to act in accordance with the requirements, terms, and conditions of the contract. WCOC declares and the consulting firm agrees that such failure shall constitute an event of default on the part of the consulting firm. The consulting firm agrees that if WCOC does not give prompt notice of such a failure, that WCOC has not waived any of its rights or remedies concerning the failure by the consulting firm.

### 6.17 Inspection of Time Records and Work-papers

WCOC reserves the right to inspect the records and work-papers of the consulting firm or any of its subcontractors to determine the validity of billings for work performed. Adequate records to support these charges must be maintained. Documentation must be retained for review for at least three (3) years subsequent to final payment.

### 6.18 Ohio Elections Law

By signing a contract, the consulting firm affirms that, as applicable to the selected consulting firm, no party listed in Division (I) or (J), (Y), or (Z) of Section 3517.13 of the Ohio Revised Code or spouse of such party has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of $1,000.00 to the Governor of Ohio or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

### 6.19 Drug-Free Workplace

The consulting firm agrees to comply with all applicable state and federal laws regarding drug-free workplace. The consulting firm shall make a good faith effort to ensure that all of its employees, if working on state property, will not purchase, use or possess illegal drugs or alcohol or abuse prescription drugs in any way.

### 6.20 Intellectual Property & Confidentiality

All materials, surveys, analysis and reports developed or used by the consulting firm shall become the property of WCOC as a work-made-for hire. WCOC shall have an unrestricted right to reproduce, distribute, modify, maintain and use the materials, surveys, analysis and reports, and the consulting firm shall not obtain copyright, patent or other proprietary protection for these items. The consulting firm relinquishes any and all copyrights, privileges and proprietary rights to these items. The consulting firm shall not include in the materials, surveys, analysis and reports any copyrighted matter, unless the copyright owner gives prior written approval to such copyrighted matter provided herein.

The consulting firm agrees to keep all data, information and documents furnished by the WCOC or by BWC under this Agreement in strict confidence. The consulting firm agrees to use any confidential information to which it has access during the work under this Agreement only for the purpose of completing work under this Agreement. Further, the consulting firm agrees to use the same degree of care that it uses to protect its own confidential, trade secret or proprietary information from unauthorized disclosure, but in no event less than a reasonable degree of care.

### 6.21 Assignment and Consulting Firm's Reorganization

Neither the contract nor any rights, duties or obligations described herein shall be assigned by either party hereto without prior, express and written consent of the other party.

If the consulting firm changes its business organization or identity from that described in its proposal before the contract is signed by both parties or before work pursuant to the contract commences, that change may be deemed a material change by the WCOC, if the contractor was selected based in part on its experience, corporate structure, responsibility or conflicts of interest, which factors have changed. The WCOC may withdraw the contract award or it may declare the contract void ab initio and may select another finalist for a contract under this RFP.

If the consulting firm changes its business organization or identity from that described in its proposal at any time after work pursuant to the contract commences, the consulting firm must immediately notify the WCOC of the change and that change may be deemed a material change by the WCOC, and may be deemed grounds for terminating the contract under this RFP.

### 6.22 Subcontracting

No subcontracting will be permitted without prior written approval by the WCOC or its designee. However, the WCOC's approval will not serve to modify or abrogate the responsibility of the Vendor for the acts, omissions, nonfeasance, malfeasance, or misfeasance of any and all subcontractors.

### 6.23 Unresolved Finding for Recovery

The vendor warrants that it is not subject to any unresolved finding for recovery issued by the Auditor of State within the meaning of Ohio Revised Code Section 9.24; provided, however that if the vendor is subject to a finding for recovery pursuant to Section 9.24 (A) and the vendor qualifies for and has taken the necessary steps to resolve the finding for recovery pursuant to Section 9.24 (B), the vendor must provide WCOC with specific documentation regarding the resolution prior to the award of the contract under this Request for Proposals. If it is discovered after the contract has been awarded that the vendor was subject to an unresolved finding for recovery on the date the contract was awarded, the contract will be declared "void ab initio", and WCOC will not pay for any services rendered or goods delivered under the contract.

### 6.24 No Secondary Interests

The consulting firm represents and warrants that in the event of any consulting firm's referral to WCOC to any third party to sell, license, or furnish hardware, software, services, or other items to WCOC, such referral shall not result in any such third party's payment to the consulting firm (or to any partner, director, principal or affiliate thereof) of any monetary consideration, referral fee, finder's fee or anything else of value. For breach of the above warranty, the consulting firm shall promptly pay to WCOC the full amount (or cash equivalent) of the consideration received from the third party for the referral.

The consulting firm represents and warrants that the work to be performed under this RFP will be a complete work product, not requiring any subsequent, additional purchase from the consulting firm.

### 6.25 Key Employee Credentials

It is expressly understood that the consulting firm's selection is based in part on the credentials of the consultants proposed in the Contractor's proposal. Any substitution for key personnel during the course of the contract shall be deemed a material breach unless substituted employee's credentials are submitted to the WCOC and approved by the WCOC prior to substitution.

*rfpcons85g.doc*
**August 31, 2005**

## 7.0 DRAFT CONTRACT

**DRAFT**
**AGREEMENT**
**between**
**OHIO BUREAU OF WORKERS' COMPENSATION**
**and**
**CONSULTING FIRM'S NAME**

This is an Agreement by and between Consulting Firm's Name, (hereinafter referred to as the "Consulting Firm"), having offices at Address from W-9 Form, and the State of Ohio, Bureau of Workers' Compensation (hereinafter referred to as the "Bureau"), on behalf of the Workers' Compensation Oversight Commission, having offices at 30 W. Spring Street, Columbus, Ohio 43215-2256, entered into the day, month and year set out below.

**Whereas,** the Workers' Compensation Oversight Commission issued a Request for Proposals B#06005 for SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT, and the Consulting Firm submitted a proposal determined by the Workers' Compensation Oversight Commission to be the best responsive and responsible response to the Request for Proposals;

**Now, therefore,** the parties hereto mutually agree to perform the contract in accordance with the Request for Proposals and the Consulting Firm's Proposal, which are hereby incorporated by reference as if fully rewritten herein. Furthermore the parties agree that if there is any conflict between the Request for Proposals and the Consulting Firm's Proposal, the Request for Proposals controls.

**SCOPE OF SERVICES.** The Consulting Firm agrees to perform the services described in the RFP under Scope of Services, Section 3.2, Paragraphs 1 through and including 10; Section 3.3, Paragraphs 11 through and including 13; Section 3.4, Paragraphs 14 through and including 19; Section 3.5 Paragraphs 20 through and including 31; Section 3.6 Paragraphs 32 through and including 36; and Section 3.7, Paragraphs 37 through and including 47. *(Please note: If multiple consulting firms are selected, this Scope of Services provision will detail only those services to be provided by the contracting consulting firm for each contract.)*

**CONDITIONS PRECEDENT.** The parties agree that as a condition precedent, any applicable approvals of the Office of Budget and Management must be given before obligations under this Agreement commence.

**FEES.** The parties agree that the Consulting Firm shall submit monthly invoices for services rendered not to exceed *(method and rate of billing-may be separate provisions for individual services described in Scope of Services)*. Total costs for Fiscal Year 2006 shall not exceed the amount of X dollars ($X).

**TERM.** The parties agree that services under this contract shall commence on *starting date*, 2005, and shall continue until *ending date*. At the sole discretion of the Workers' Compensation Oversight Commission, this contract can be renewed for no more than two (2) additional one (1) year terms.

**In witness whereof**, the parties hereunto affix their signatures this ____day of _________, 2005.

**CONSULTING FIRM'S NAME**
**TAX ID: ______________________**

______________________________

Printed Name: __________________
Title: _________________________

**On Behalf of the WORKERS' COMPENSATION OVERSIGHT COMMISSION, STATE OF OHIO, BUREAU OF WORKERS' COMPENSATION**

__________________________

Tina Kielmeyer, Administrator
Administrator

Filename.doc
Date Contract Offered

# REQUEST FOR PROPOSALS

by the

**STATE OF OHIO**
**Workers' Compensation Oversight Commission of the**
**BUREAU OF WORKERS' COMPENSATION**

for the

SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT

**August 31, 2005**

**Bid # B06005**

REQUEST FOR PROPOSALS
by the
STATE OF OHIO
WORKERS' COMPENSATION OVERSIGHT COMMISSION of the
BUREAU OF WORKERS' COMPENSATION
for
SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT
**August 31, 2005**

READ ALL CONDITIONS AS SET FORTH IN THIS REQUEST FOR PROPOSALS (RFP) FOR A FULL UNDERSTANDING OF THE REQUIREMENTS.

# 1.0 BACKGROUND AND NATURE OF PROJECT

## 1.1 Purpose of the Request for Proposals

The purpose of this RFP is to locate and contract with a consulting firm(s) that has(have) demonstrated experience with, and success in general investment consulting and several specific duties, more fully described in Section 3 of this RFP to the Workers' Compensation Oversight Commission (WCOC) and the Ohio Bureau of Workers' Compensation (BWC) in their investment efforts.

References in this document to a firm, vendor, contractor, consultant and similar nomenclature in the singular are to be interpreted in the plural, to potentially represent more than one provider.

In the past, the BWC has retained Callan, Ennis-Knupp and others to provide specific services, such as asset allocation, performance measurement and others. Investment activities and oversight at the BWC are undergoing significant scrutiny and anticipated change. The WCOC seeks a comprehensive range of consulting advice and services provided in an integrated manner. The selected investment consulting firm(s) will play a key role in guiding the portfolio and related processes in the future, leading to the establishment of best practices which are critical to the success of the largest exclusive state insurance fund system in the United States. The selected firm will serve an independent oversight function with respect to all BWC portfolios, including those internally managed, in support of the WCOC's fiduciary duties.

The selected investment consulting firm will report directly to the WCOC (or selected members thereof) and operationally work closely both with the WCOC and BWC Investment Staff.

Given the breadth of services under consideration, the WCOC will consider more than one relationship to ensure best-of-class service for all of its needs. Each respondent should indicate their areas of professional emphasis, competitive strength and excellence, as a split mandate or grouping of services may be required to achieve the best result for the WCOC and the BWC. Examples of natural splits could include private vs. public asset classes; ability to analyze and integrate insurance (vs. pension) liability and surplus characteristics in an asset-liability management framework; policy-ALM-asset allocation-benchmarks group vs. manager selection-manager evaluation-performance measurement groupings. These are provided only as examples and do not represent our targeted segmentation. Respondents without full expertise in all areas of this RFP are nevertheless encouraged to respond.

### 1.2 BWC Background

Under the mandates of the Ohio Revised Code (ORC), the Ohio Workers' Compensation System is the largest exclusive state insurance fund system in the United States, with assets of $14.5 billion and annual insurance premiums and assessments of $2.1 billion. The Ohio Workers' Compensation System consists of BWC, responsible for administrative and insurance functions, and the Industrial Commission of Ohio (IC), responsible for claims adjudicative functions. BWC exercises fiduciary authority with respect to the State Insurance Fund (SIF) and related ancillary accounts. These funds are held for the benefit of the injured workers and employers of Ohio. It is from this fund that all claims for both medical and compensation for disability benefits are paid with the exception of self-insured claims. Self-insuring employers have been granted the status of self-insurance by having proven ability to meet certain obligations set forth in the ORC 4123.35. Self-insuring employers administer their own workers' compensation claims and are monitored by BWC. Presently, BWC processes claims, pays compensation and medical benefits to injured workers and underwrites workers' compensation coverage for employers doing business in Ohio. BWC also offers safety training and accident prevention programs to employers and helps injured employees return to work through rehabilitation programs. The WCOC oversees BWC's activities, and functions as a fiduciary.

In 2004, BWC provided coverage to 288,709 employers and received 189,046 claim applications for workers' compensation benefits. Benefits paid out in 2004 totaled $2,093,451,987.

### 1.3 BWC Investment Program Background

In accordance with Ohio Revised Code Section 4123.44 and the Investment Policy in force as approved by the WCOC, the WCOC seeks to retain the services of an investment consultant(s) to facilitate the WCOC's and the BWC's efforts in the investment of the surplus and reserves belonging to the State Insurance Fund and all ancillary funds.

Prior to 1997 BWC invested the State Insurance Fund with five outside managers as well as an internal investment staff to manage an index fund. In 1997 BWC released its first of many RFP's to outsource more of the State Insurance Fund's assets to encourage emerging and minority managers to apply to manage BWC assets with the objective to better diversify the State Insurance Fund and increase returns. Since 1997 BWC has contracted with 199 outside management firms and is currently under contract with 137 active management firms. We anticipate that this number will fall materially and respondents can assume a more normal number in the development of their proposals.

# SUMMARY OF BWC ASSETS

| **FUND** | **MARKET VALUE, in Millions (May,31, 2005)** |
|---|---|
| I. State Insurance Fund | $14,351 million |
| A. Equities ($1,967 non-US) (the equities are mostly actively managed by 54 advisors) | $ 6,349 |
| B. Fixed Income (the Fixed Income portfolios are actively managed by 19 advisors) | $ 6,931 |
| C. Private Equity (actively managed by 65 outside managers) | $954 |
| D. Cash (the Short Term portfolio is managed by JPMorgan) | $117 |
| II. Disabled Workers' Relief Fund | $1,047 |
| III. Coal Workers' Pneumoconiosis Fund | $215 |
| IV. Public Workers' Relief Fund | $19 |
| V. Marine Industry Fund | $14 |
| VI. Self Insuring Employers' Guaranty Fund | $8 |

### 1.4 Calendar of Events

| | |
|---|---|
| RFP made public and issued | August 31, 2005 |
| Open period for respondents' question submission via email | Aug 31 – Sep 13, 2005 |
| Responses by WCOC to all questions published on web site, on or before | Sep 17, 2005 |
| **Deadline for submissions of Proposals** | **September 22, 2005** |
| Evaluation Committee Review | Oct 14 – Oct 20, 2005 |
| Interviews | Oct 21 – Nov 8, 2005 |
| WCOC Meeting – Final selection decision | November 17, 2005 |

## 2.0 PROPOSAL SUBMISSIONS AND INQUIRIES

### 2.1 Communications Restrictions

General assistance will be available to consulting firms who seek clarification on specific sections of this RFP. However, WCOC members and BWC employees or representatives shall be prohibited from responding to any inquiries where there is a potential for bias or favoritism or appearance of impropriety due to personal or potential conflicts of interest. Any and all communications relating to this RFP shall be directed to the e-mail below. Communications directed elsewhere and not written may result in disqualification of the consulting firm. All WCOC responses to questions will be in writing and will be made available to all respondents to this RFP via the web site described below.

C. Lee Damsel
Interim Chief Investment Officer
Ohio Bureau of Workers' Compensation
E-mail: BWCFullServiceInvestmentConsultantRFP2005@bwc.state.oh.us
Web Site: www.ohiobwc.com

If the vendor attempts or undertakes an unauthorized communication, the WCOC reserves the right to reject that vendor's proposal, without evaluation. The WCOC shall not be responsible for any vendor's reliance on any information regarding the RFP or any work hereunder if the information was provided by any source other than through this inquiry process.

### 2.2 Proposal Submittal

Consulting firms must carefully review all elements of their final proposals. Once received by the WCOC, a proposal cannot be altered. Seven (7) complete, sealed and signed copies of each proposal shall be submitted for evaluation. Proposals shall be clearly marked "WCOC Investment Consultant, Bid Number B06005" on the outside of the envelope. FAX transmittals will not be accepted. All copies must be received by BWC together and in a timely manner.

Proposals must be sealed, and received by 2:00 P.M. local time on **SEPTEMBER 22, 2005.** Proposals delivered after the deadline will not be accepted nor evaluated, and shall be deemed non-responsive. Proposals will be opened publicly after the 2:00 P.M. deadline at BWC.

If mailing proposals, vendors should allow for sufficient mailing time to ensure timely receipt by the Purchasing Department. All mail and deliveries can be expected to undergo package security screening (amounting to approximately one hour) before receipt in the Purchasing Department. Vendors must anticipate this additional time when arranging for mail or delivery of proposals. If attending the opening, vendors must bring photo identification and should allow for additional time for personal security screening (amounting to approximately twenty minutes) and for package security screening (amounting to approximately one hour) if they are also delivering their proposals in person at that time.

Submit complete copies of the proposal to:

## BY MAIL OR HAND-DELIVERED:

Ohio Bureau of Workers' Compensation
Purchasing Department
William Green Building
30 West Spring Street, Level 24
Columbus, Ohio 43215-2256

**PLEASE MAKE SURE THE PROPOSALS ARE DELIVERED TO THE PURCHASING DEPARTMENT ON THE 24TH FLOOR BY 2:00 PM. PROPOSALS DELIVERED TO OTHER LOCATIONS MAY NOT BE RECEIVED BY THE PURCHASING DEPARTMENT IN A TIMELY MANNER. ONLY PROPOSALS RECEIVED IN THE PURCHASING DEPARTMENT BY 2:00 PM ON THE DUE DATE WILL BE OPENED AND CONSIDERED.**

### 2.3 Changes to the RFP by the WCOC

The WCOC reserves the right to amend specific sections of this RFP at any time during the bidding process. In the event that the WCOC does amend the RFP during the bidding process, the WCOC will provide notice to prospective consulting firms, to the fullest extent possible. Should the WCOC issue an addendum to this RFP, additional time may be given to all prospective consulting firms, if appropriate, to extend the deadline to accommodate needed changes in proposal.

### 2.4 Consulting Firm Costs for Responses Not Reimbursable by WCOC

The WCOC shall not be liable for any costs incurred in responding to this RFP, including the costs of proposal preparation and any travel relating to the proposal process.

# 3.0 SCOPE OF SERVICES

## 3.1 General

Proposals are hereby solicited for general investment consulting services to be provided to the WCOC.

In general, the successful firm will assist the WCOC in establishing *goals and risk* targets, *investment policy* review and compliance, strategic investment planning and *asset allocation* decisions that integrate an *assessment of the BWC's insurance liability characteristics and surplus* levels. This firm will support efforts to *select managers and in their ongoing evaluation*. The successful firm will be responsible for providing timely, accurate, and meaningful *performance reporting* (absolute and risk-adjusted results and brokerage activity) to the WCOC and support the *development of appropriate market and competitive benchmarks*. The WCOC will rely on both the consultant(s) and Staff for investment support and recommendations, depending on levels of expertise. The selected firm will provide to the WCOC an *independent assessment* of major Staff recommendations and proposed actions as requested by the WCOC. The selected firm should bring its marketplace expertise to share with the WCOC best practices on *governance* issues. The investment consultant may also be asked to provide other services as required by the WCOC and/or the Investment Staff.

The WCOC is interested in understanding respondents' expertise in delivering these services in both the insurance industry as well as other institutional settings. As such, we are interested in this information for each of the insurance vs. pension/like plans.

The firm will serve in a fiduciary capacity and by signing a contract affirms this fiduciary status, without qualification.

Key consulting services sought are identified as follows:

## 3.2 Investment Performance Analysis and Reporting: Monitoring and Attribution

Consulting firm's activity to include:

1. Generation of AIMR-compliant (CFA Institute) written reports on a monthly, quarterly and annual basis reflecting monthly, quarterly, year-to-date, and extended time period investment performance analysis, including individual asset class, individual manager and total fund performance, consistent with respective benchmarks/performance objectives (including style benchmarks), guidelines, and risk levels in a format developed by the consulting firm and approved by WCOC staff. These reports should include return attribution characteristics and analysis and explanation of investment performance relative to agreed upon benchmarks, on an absolute and risk-adjusted basis. Also require recommendations for increase/decrease in funding or terminations if applicable. Provide a fee quote to generate performance reports on each of the Bureau's advisors.

2. Assist WCOC staff in the analysis of investment managers' investment activity and results relative to their compliance with the terms of BWC's Investment Policy as adopted by the WCOC including, without limitation, an evaluation of the manager's performance for consistency with style, benchmarks and performance objectives and guidelines.

3. Advise WCOC staff on questions and issues that arise in the course of monitoring managers, e.g., on appropriate benchmarks, investment guidelines and fee structures for various managers.

4. Provide performance measurement, monitoring, attribution, style analysis, and risk analysis for 1) total portfolio, 2) all asset categories (including private equity) 3) all individual external managers and 4) all portfolios managed internally by BWC Staff.

5. Monitor and report on managers' brokerage allocations and effectiveness.

6. Assist Staff in reviewing written guidelines with respect to establishing cause for terminating an external manager if necessary. Prepare analyses on problem managers, as needed.

7. Evaluate internal and external managers' performance consistent with their benchmarks/performance objectives (including style benchmarks), guidelines, and risks undertaken. Rank managers, including internally managed accounts, against a relevant universe.

8. Provide benchmark evaluation, implementation, and analysis, as requested.

9. Compare total portfolio investment performance to custom policy benchmark to demonstrate the value added by active management (if any).

10. Provide an evaluation of the value-added specifically from the consulting advice provided by the firm.

### 3.3 Investment Manager Search/Selection Support: Identification, Evaluation, Recommendation

Consulting firm's activity to include:

11. Maintenance of broad manager data bases that provide detailed information pertaining to investment managers, including philosophies, organization, performance, track record, client base, risk statistics, staff turnover, etc. Manager information should be available for a broad range of manager types by investment sector (equity, fixed income, international, et al); by investment style, e.g., large, mid and small capitalization securities, value, growth, et al, in the equity area; broad range of geographical dispersion by product and location, e.g., money center firms, regional firms, etc.; data assisting in the identification and analysis of emerging investment firms.

12. Assisting WCOC staff in determining the need for managers of particular characteristics and styles based upon investment policies, objectives and strategies, and developing specifications for manager searches.

13. Assisting WCOC staff in conducting manager searches, including the development of any necessary RFPs, evaluation factors and methods, preparation of background material, and any necessary screening and interviewing of candidates in conjunction with BWC personnel or its designees. The fee for each search should be itemized individually in the fee proposal.

**3.4 Investment Manager Evaluation/Oversight Duties:**

14. Support and provide on-going monitoring of internally and externally managed accounts (by asset class). Report to the WCOC, as necessary, concerning those accounts.

15. Maintain a broad database of investment managers including their philosophies, styles, fee schedules, portfolio characteristics, firm characteristics, performance, and client base. The manager database should include domestic equity, fixed income, international equity, private equity and currency management/overlay specialists.

16. Provide recommendations concerning manager allocation and structure. In the event the WCOC should engage in one or more manager searches during the contract term, assist Staff, as requested, with duties which may include but not be limited to, development of Requests for Proposals (RFPs), development of evaluation factors and methods, preparation of background material, interviewing managers, and making recommendations concerning the selection of managers.

17. Advise the WCOC and Staff on questions or issues that arise in the course of administering the overall investment management program. For example, provide advice on appropriate benchmarks, investment guidelines or fee structures in the case of external managers.

18. Evaluate and make recommendations for Ohio BWC's purchase of software to aid in internal analysis of investment managers, portfolio performance, structure and risk. This task would be performed infrequently.

19. Provide investment manager compliance monitoring, including compliance monitoring for the internally managed accounts.

**3.5 Investment Policy Determination, Review and Modification & Asset Allocation**

This activity will include:

20. Assist WCOC and Staff in confirming/establishing investment objectives and risk tolerance for both investment and operational risks.

21. Analysis of and recommendation for an asset allocation policy that captures the asset/liability relationship underlying BWC's investable funds and fully reflects the

actuarially projected stream of liabilities and the actuarial assumptions adopted for BWC's invested assets, on a stochastic basis (i.e., reflecting both expected outcomes and non-expected or tail events).

22. Integration of applicable legal parameters/restrictions under which BWC investment policies must be effected. BWC and/or AG-assigned counsel will provide a summary of the key legal restrictions.

23. Assist review and development of Investment Policy as supplied by BWC Investment staff relative to an appropriate statement fully expressing the supporting structure of BWC's objectives and strategies.

24. Development of comparative investment benchmarks against which the returns of the overall fund and individual investment advisors may be appraised in setting performance goals and monitoring performance.

25. Development of risk/return characteristics of the asset mix as a whole and of each asset category and manager style.

26. Insights into alternative portfolio structure issues, e.g., active vs. passive management, internal vs. external manufacturing.

27. Generation of appropriate proxy voting policies and procedures in consultation with BWC staff and counsel.

28. Participation with BWC staff in generating finalized investment policy document to be submitted to WCOC for approval.

29. Provide to the WCOC an independent assessment of major Staff recommendations and proposed actions.

30. Provide recommendations concerning long-term investment policy, investment objectives and strategy, including manager continuation policies and rebalancing policies.

31. Provide recommendations concerning risk management strategies

### 3.6 Service Requirements

32. **Meetings:** During an initial start-up transitional period, regular and frequent meetings (perhaps monthly) are anticipated. Subsequently, quarterly and annual meeting/presentations involving the WCOC will be required. Quarterly meeting with the Chief Executive Officer, Chief Investment Officer, and the Chief Financial Officer, and members of BWC's Investment Department is anticipated. Costs to attend such meetings are to be borne by the consulting firm at its own expense. The consulting firm should be aware that meetings required by unforeseen events may be required on occasion.

33. **Reports:** The preparation of detailed, timely and summary reports on all investment activity conducted on behalf of the BWC's investment portfolio, including reporting on each manager as well as the composite. In addition, monthly and quarterly reports will measure managers, and total fund results against an objective set forth in the approved investment policy. The format of such reports will have been mutually determined by the consulting firm and investment representative from WCOC.

34. **Coordination with WCOC and BWC legal counsel:** The selected firm will be expected to coordinate with Legal counsel selected by WCOC or BWC on a range of issues – e.g., Private Equity fiduciary legal work

35. **Standard of Care:** The selected consulting firm shall, in performing any work under a contract resulting from this RFP, exercise at all times the diligence and standard of care required of a fiduciary under applicable Ohio and federal law.

36. **Transferability of Data:** The consulting firm will maintain historical data on the Bureau in a format that can be easily transferred to the Bureau or another consulting firm upon termination of the consulting agreement.

### 3.7 Research, Educational Capabilities and Client Relations:

37. Provide WCOC with insight into a governance model that leverages the marketplace's thought leaders. This should include a review of internal vs. external management models, staffing, IT capabilities, accounting, custody, control systems and auditing structures.

38. Provide the WCOC with an independent perspective of Staff's key recommendations.

39. Provide investment education and training to the WCOC and Staff on a periodic basis, as requested.

40. Proactively advise the WCOC and Staff of new investment vehicles and techniques or major changes in existing practices within the industry and, upon request, prepare a comprehensive analysis and make recommendations.

41. Participate in annual planning session with Investment Staff.

42. Provide assistance on special projects, as needed.

43. Participate in ad hoc workshops on specific issues designated by the WCOC and Staff.

44. Take an active role in planning and conducting the annual investment strategy meeting.

45. Respond in an agreed-upon and timely manner to WCOC members and/or Staff inquiries between meetings.

46. Share all firm research, including white papers, and provide access to the research staff.

47. Report any significant changes in the consulting firm's organizational structure and staffing in timely manner to WCOC.

# 4.0 PROPOSAL FORMAT

## 4.1 General

The proposal should be concisely written with attention given to its readability, clarity, technical exposition, and completeness. When completing the firm's response to this proposal, it is necessary to comply with the following directions:

Please be as clear, accurate, and complete as possible. Providing incomplete or misleading data may lead to disqualification of the proposal and elimination of the firm from the search process.

If the firm has offices in more than one location, when completing responses to questions followed with an asterisk (*), please provide the requested information for each of the following: 1) the office location proposed to serve WCOC, and 2) all U.S. office locations in aggregate.

These instructions describe the required format for proposals and have been designed to ensure submission of information essential to timely evaluation and complete understanding of the content of proposals. Proposals which do not comply with all the requirements of this RFP shall be considered non-responsive. Proposals submitted shall follow the format described below.

## 4.2 Cover Letter

Please complete all questions in the order they are presented in this RFP and number your responses identically. A cover letter, which will be considered an integral part of the proposal, must be signed by the individual(s) who is/are authorized to bind the Proposer contractually. This cover letter must indicate the signer is so authorized and must indicate the title or position that the signer holds in the Proposer's firm. The cover letter must contain a statement that the firm acknowledges that all documents submitted pursuant to this request for proposal process will become a matter of public record.

Please note: The entire proposal, including any attachments, addenda, schedules, or other separate documents should NOT contain any information the proposer believes qualifies as confidential, proprietary or trade secret information, unless the proposer intends to waive such rights. Any claim, notes, captions, headers, or footers attempting to reserve confidentiality or proprietary rights will result in the disqualification of the proposal.

All proposals are subject to public records reviews and discussions or deliberations in meetings open to the public.

## 4.3 Consulting Firm Profile

1. List the owners of the firm (from largest to smallest with respect to ownership) and their ownership percentage. Please include individuals and all other entities. Identify the organizational structure, including the firm, parent company, any affiliated companies and joint ventures.

2. If the firm anticipates any near-term changes in its corporate structure, organizational structure, location, or professional staffing, please indicate the nature of such changes.

3. For calendar year ended December 31, 2004, please list all services provided by the firm, the nature thereof, and the dollar revenue or percentage of total income that such services represent. If the firm has an ultimate parent company, please list the percentage of total income that the firm's consulting services represent to the ultimate parent company.

4. Does the firm or does an affiliate serve as an investment manager for clients?

5. Does the firm or does an affiliate act as a securities broker-dealer? If yes, please provide the most recent "focus report" (X-17A5) the firm or the affiliate filed with the Securities and Exchange Commission.

6. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?

7. Does the firm and/or any affiliates accept soft dollars as a method of payment for services provided? If you allow plans to pay your consulting fees using the plan's brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees?

8. If you allow plans to pay your consulting fees using the plan's brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?

9. Please list the percentage of revenues the firm's ultimate parent company received in calendar year ended December 31, 2004 from the following sources: (Total must add to 100%.)

    i. Revenues from investment manager clients:

    ii. Revenues from brokerage activity:

    iii. Revenues from plan sponsor consulting clients:

    iv. Revenues from other clients (please specify):

10. Please list, separately, the total revenue the firm and the total revenue each of its affiliates received directly or indirectly from investment managers for auditing, actuarial, benefits, or any other management consulting work in the calendar year 2004.

11. Please list the dollar value of revenues, commissions or any other benefits the ultimate parent company received (or a brokerage affiliate received – please specify) as a result of any type of brokerage activity in calendar year 2004.

12. For 2004, please list the names of all investment management firms from which the firm, each of its affiliates, and the ultimate parent company of the firm has received any compensation or has any relationship. Please state the dollar amounts received from each entity and describe the relationships.

13. What percentage of your plan clients utilize money managers, investment funds, brokerage services or other service providers from whom you receive fees?

14. Would the firm be willing to disclose, annually or upon client request, the dollar amount and nature of all material beneficial relationships, that the firm or any affiliate of the firm, engages in with investment manager clients? If not, please explain.

15. Please describe the firm's conflict of interest policy. If the firm, its affiliates, or the ultimate parent company provides investment management services, brokerage services, or services to investment managers, please include an explanation of how this policy, and any other measures taken by the firm, limit the likelihood that the client could receive investment advice that is not completely objective.

16. Please explain in detail any potential conflicts of interest that would be created by the firm's representation of WCOC. Please include any activities of affiliated or parent organizations as well as other client relationships that may affect services to WCOC.

17. Are you registered with the SEC or a state securities regulator as an investment adviser? If so, have you provided us with all the disclosures required under those laws (including Part II of Form ADV)?

18. Do you consider yourself a fiduciary with respect to the recommendations you provide the plan?

19. Please acknowledge in writing the following:
    a. Our organization is a person, firm, or corporation registered as an investment advisor under the Investment Advisor Act of 1940, and functions as a fiduciary.
        **1. Yes/No**

### 4.4 Personnel Profile

20. Please provide the following contact information:
    Firm Name:
    Contact's Name:
    Contact's Title:
    Contact's Address:
    Contact's Email Address:
    Contact's Phone Number:
    Contact's Facsimile Number:
    Firm's Internet (www) address:

21. Does the firm have offices at other locations in addition to the location listed above? Yes/No

22. If yes, please list all other office locations and the number of individuals working in each office. If the firm has multiple offices, please state the office that will primarily serve the WCOC relationship.

23. Please list the total number of personnel in the firm in each of the following categories for the past five years. Each person should be assigned to only one category. For 2005, please list the names of all individuals currently employed by the firm, by category. * Please attach a resume for each consultant.

    *Please provide calendar year-end (December 31) data for each year:*

| | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|
| Lead Consultants | | | | | |
| Consultants | | | | | |
| Analysts | | | | | |
| Firm Management | | | | | |
| Economists | | | | | |
| Marketing | | | | | |
| Client Service | | | | | |
| Analytics/Systems | | | | | |
| Total Professional Staff (above) | | | | | |

24. Please list the number and names of personnel in the firm within each category that *your* firm generally uses for classification of professionals. For each category, please indicate the experience and or qualifications that are required. *

25. Please list the names and number of employees, acting in the role of Lead Consultant or Consultant that left the firm in 2004 and 2005

26. At December 31, 2004, how many professionals were assigned to investment manager research, selection, and monitoring? Please also state the name of each individual assigned.*

| | **Assigned Full-time** | **Assigned but not Full-time** |
|---|---|---|

| | | |
|---|---|---|
| Public US Equity | | |
| Public US Fixed Income | | |
| Non-US Equity | | |
| Non-US Fixed Income | | |
| Private Equity | | |
| Hedge Funds | | |
| Other (Please Specify) | | |

27. What is the average number and the maximum number (if any) of client relationships assigned to each of the firm's consultants?

28. Please provide a brief description of the firm's compensation arrangements for professional staff, including any incentive bonuses, sharing of profits and/or equity ownership. Specific compensation amounts need not be presented.

29. What specific incentives are employed to ensure key professionals do not leave the firm either as a group or individually?

30. When hiring consultants and analysts, what are the qualifications, skills, and experiences that your firm generally seeks?

31. Please identify the individual(s) who would perform the requested services for WCOC. For each person, please also provide a biography as well as the following information:

Name:

Title:

Certifications:

Expected role:

Total years of institutional investment experience:

Total years of insurance investment experience:

(Please provide above question in total as well as split into Life, P&C and Health)

Total years of investment consulting experience:

Total current number of assigned accounts:

Name, plan type, length of relationship, and size of each assigned client account:

32. Please explain how the team dedicated to the WCOC account would function, including lead consultant, back-up, quality control and support services. Is there one individual who will be responsible for quality control for all work done for WCOC?

33. Please describe the firm's procedures in the event the key personnel assigned to this account should leave the firm.

### 4.5 Investment Philosophy and Key Strengths

34. What key strengths or competitive advantages does the firm possess, that will generate superior performance and service to WCOC?

35. Are there common beliefs about the investment markets, which underpin your investment advice across clients? If yes, please describe them.

36. Please describe how the firm's experience in pension and/or insurance client engagements makes it a good fit for WCOC's needs. Please bifurcate your experience and approach to each of insurance (split into Life, P&C and Health) vs. other institutional clients.

### 4.6 Investment Process & Tools

37. Please list and describe the specific analytical tools and/or software programs used by the firm with regard to:
    A. General Market & Economic Research
    B. Asset/Liability Modeling and Asset Allocation
    C. Assessment of insurance liability and surplus characteristics
    D. Risk Management
    E. Public Market Investment Manager Oversight, Selection & Monitoring
    F. Private Markets/Real Estate Opportunities
    G. International asset classes
    H. Performance Measurement/Attribution
    I. Other (please specify)

38. For the year ended December 31, 2004, what percentage of the firm's revenues were reinvested into the following areas (do not include personnel costs):
    A. General Market & Economic Research
    B. Asset/Liability Modeling and Asset Allocation
    C. Assessment of insurance liability and surplus characteristics
    D. Risk Management
    E. Public Market Investment Manager Oversight, Selection & Monitoring
    F. Private Markets/Real Estate Research
    G. International asset classes

H. Performance Measurement/Attribution
I. Other Research or Technology (please specify)

39. Please describe how the firm monitors investment advisors. In 2004, how many in-person meetings did the firm hold with investment managers (do not include those meetings held at client conferences or educational forums.)?

40. Please describe the results of each investment manager search conducted by the firm for clients in 2004. Please provide the details in a chart as the following example demonstrates:

| **Client Description** | **Search Mandate** | **Account Size** | **Manager Selected** | **Date Hired** |
|---|---|---|---|---|
| Private pension plan – Midwest | Small cap value | $50 million | Sanford C. Bernstein & Co., Inc. | 01/31/05 |
| Public pension fund – West | Core Plus | $100 million | PIMCO | 02/28/05 |

41. In the event that BWC manages assets internally in the future, please describe specifically how the firm intends to monitor the BWC internally managed portfolios. Please describe the firm's experience in monitoring large, internally managed portfolios. How would the firm's reporting differ from the reporting the firm would provide to the WCOC concerning the externally managed accounts?

42. Please describe the firm's experience and capability for assessing an investment manager's total performance. Besides investment returns, what key criteria do you consider in your overall evaluation of an investment manager? At what point would your firm recommend terminating an investment manager? Please describe how you would handle any underperformance in the internally managed accounts.

43. Describe how benchmarks are chosen or developed and how performance is compared to similar portfolios. Can the firm provide custom benchmarks? Style benchmarks? Normal portfolios? Please indicate whether your firm has ever developed benchmarks, and if so, please provide a description of the benchmarks developed.

44. Please describe your firm's experience and capability for calculating performance. Describe differences, if any, in the way the firm would calculate performance among different asset

classes. How would the firm ensure accuracy in the performance calculations? How soon after receipt of settlement-date accounting data from the custodian would accurate performance reports be available to present to the WCOC? How do you measure performance for insurance clients?

45. Describe how performance measurement data would actually be presented at the WCOC meeting. To what extent will the data summarized or graphically represented? Would all report data provided to the WCOC? If not, why not?

### 4.7 Investment Policy Structure and Asset Allocation

46. Describe the process the consulting firm will utilize in recommending investment policies, objectives and guidelines for BWC's investment structure. Provide specific experience and approach in doing this with insurance clients. Do you have any experience representing clients to the rating agencies (e.g., AM Best) on the subject of investments? What degree of exposure and knowledge do you have of AM Best's rating criteria?
47. Describe the methodology used by the consulting firm in determining recommended asset allocation, including asset/liability modeling, determination of expected returns, standard deviations, correlation with other asset classes, etc. Provide specific experience and approach in doing this with insurance clients.
48. Describe specifically how the firm's experience would fit the BWC's insurance business, liability and surplus characteristics. How have you in the past, and how would you integrate this liability-side with development of policy and asset allocation targets and normal ranges?
49. Describe the consulting firm's policy for alterations to the fund's asset allocation reflecting changes in market environment; discuss review process for existing asset allocation and process for rebalancing, if applicable.
50. Describe the firms experience in and approach to risk management, specifically as integrated into policy development and Asset/Liability Management. How many insurance clients have you helped do this? For how long in each case? Which type of insurance client (Life, P&C, Health)?
51. Indicate the asset classes included for consideration in the consulting firm's asset allocation studies, including which subasset classes are employed.

### 4.8 Performance Measurements

52. Describe the consulting firm's performance measurement system. Indicate which asset categories are tracked in the consulting firm's performance measurement system; size of manager/advisor data base; duration of years of usable performance data. Is the utilized database generated internally or externally?
53. Describe any advantages the consulting firm perceives for its database relative to competitors.
54. Indicate the type of analysis normally provided with the consulting firm's performance measurement package. Can such reports be customized to better meet BWC fund needs?

55. Describe the firm's approach to measure risk-adjusted performance.
56. How does the consulting firm categorize a manager by style? How does the consulting firm monitor consistency of style? How large are the individual style databases?
57. Describe the consulting firm's methodology in calculating individual manager returns. Include the formula, the frequency of calculation, and the treatment of cash flows and fees. Are return calculations AIMR compliant?
58. Describe the methods and resources the consulting firm uses for customizing and tracking benchmarks in analyzing and evaluating portfolio performance.
59. What period of time is required to prepare reports?
60. Describe the process and data needed to input historical BWC performance data into the consulting firm's system.
61. Describe the consulting firm's process for monitoring managers and notifying clients of developments at management firms.

### 4.9 Research and Educational Capabilities

Information on specific topics of interest (e.g., alternative investments, index composition, current topics) may be requested by the WCOC or BWC Management. The consulting firm will be expected to participate in any roundtables or discussions arranged by or for WCOC.

62. Describe the consulting firm's research capabilities. If no separate department exists, describe how this function is performed. Indicate original research capabilities, research specialists, and breadth of research expertise and staff.

63. Describe the manner in which internal and external resources and sources of information are integrated in the research process.

64. Please describe the firm's research efforts both for the pension universe, the insurance universe and any others you care to identify.

65. Please describe the type, subject matter and frequency of research provided to clients. Can the information be delivered electronically or only by hard copy?

66. Describe the consulting firm's process for monitoring industry and market trends affecting large investment funds.

67. Does the consulting firm conduct educational programs for its clients? Please describe.

### 4.10 Client Information

68. Please provide the following information for calendar year ending 2003 and calendar year ending 2004. Please only include those clients for which the firm currently serves in a full-

retainer investment consulting relationship. (Performance evaluation services and/or project-based work alone are not considered full-retainer investment consulting relationships.)

- Totals assets served by the firm: *
- Total clients served by the firm: *
- Number of clients served by the firm (by size and by type): *
- Reasons for each client loss in 2003 and 2004. *

| | Less than $1 billion | $1 billion to $10 billion | $10 billion to $50 billion | Over $50 billion | Total AUM |
|---|---|---|---|---|---|
| Insurance comp. – Insurance funds | | | | | |
| Insurance comp. – Other (pension, foundation, etc.) | | | | | |
| Public Employees Retirement | | | | | |
| Union/Taft-Hartley | | | | | |
| Corporate Pension | | | | | |
| Endowment | | | | | |
| Foundation | | | | | |
| Hospital | | | | | |
| Other | | | | | |

## 4.11 References

69. Please provide a reference list of at least three current consulting clients with similarly-sized and structured investment plans; including the name, address and telephone number of the contact person. Additionally, please provide a list of your public sector clients and your insurance clients. The consulting firm recognizes that WCOC reserves the right to contact any or all of the references listed, and may consider the reference when evaluating the proposal.

## 4.12 Project Fees and Performance Measurement

70. Please provide a fee quote for the specific services requested. Please provide **one** fee for all services included in this RFP; and another fee for each of those services (e.g., retainer consulting, manager search, performance measurement/attribution, peer universe comparison, etc. If the firm provides private markets consulting, please indicate the estimated fee for private markets consulting services. We anticipate that the number of subadvisors will fall materially from current levels and respondents can assume a more normal number in the development of their proposals, or otherwise indicate how fees will vary as a function of the number of external subadvisors.

71. Will the firm confirm that it will not propose increases in the proposed fee structure for the next 3 years?

72. Please state how the firm – as a consultant – expects to add value to WCOC over the next 3-5 years. (For example, will it be through manager selection, asset allocation, cost containment, education, etc.)

73. Please suggest a methodology for measuring the firm's performance as an investment consultant.

**4.13 Litigation, Investigations and Convictions**

74. Please describe any litigation or investigation of the consulting firm or of a principal, by the SEC, a state or federal agency, or any governmental authority. If the consulting firm has ever been sued or has ever sued another party, please describe such suits.

75. If the consulting firm or a principal has ever been convicted of a felony or agreed to a sanction or penalty, please explain.

**4.14 Subcontracting**

If the consulting firm uses the services of a subcontractor, the consulting firm shall identify the subcontractor; describe the skills and qualifications of the subcontractor and its individual employees; describe what portions of the project will be assigned to the subcontractor; identify the cost associated with the portions of the project assigned to the subcontractor; and describe the inclusive periods and percentage of time the subcontractor will devote to the project. The consulting firm must describe the contractual arrangement contemplated with each subcontractor and describe generally the control/delegation of responsibilities anticipated in that arrangement.

WCOC reserves the right to review the credentials of the subcontractor and to approve the selection of such subcontractor.

The consulting firm's decision to use a subcontractor will not modify or abrogate the responsibility of the consulting firm for the acts, omissions, nonfeasance, malfeasance or misfeasance of any and all subcontractors.

**4.15 Conflicts of Interest**

The consulting firm shall present a statement at the time of the submission of a proposal that it presently has no interest and shall not acquire during the term of contract any interest, direct or indirect, which would conflict with the performance of services which are required to be performed under the RFP. The consulting firm shall affirm that no person having such interest shall be employed in the performance of the RFP. The consulting firm shall likewise advise WCOC immediately in writing in the event it acquires such interest during the course of the contract. Thereafter, such person shall not participate in any action affecting the work under the Agreement resulting from this RFP, unless the WCOC shall determine that, in light of the personal interest disclosed, such person's participation in any such action would not be contrary to the public interest.

The consulting firm shall disclose any existing or prior relationships with WCOC and describe in detail the nature of that relationship. The consulting firm must provide a disclosure statement concerning its organizational structure, including subsidiary or parent corporations and/or organization and ownership information. This statement should disclose any contractual or financial relationship, either direct or indirect, with any firm, business, company, or corporation. Any proposal that does not include these assurances will be deemed not responsive to the RFP.

The consulting firm agrees to adhere to all ethics laws contained in Chapters 102 and 2921 of the Ohio Revised Code governing ethical behavior, understands that such provisions apply to persons doing or seeking to do business with WCOC, and agrees to act in accordance with the requirements of such provisions. The consulting firm warrants that it has not paid and will not pay, has not given and will not give, any remuneration or thing of value directly or indirectly to WCOC or any of its board members, officers, employees, or agents, or any third party in any of the engagements of this contract or otherwise, including, but not limited to a finder's fee, cash solicitation fee, or a fee for consulting, lobbying or otherwise.

### 4.16 Workers' Compensation

The consulting firm shall submit as part of its proposal a copy of its current certificate of workers' compensation coverage.

### 4.17 Additional Requested Materials

- A corporate Organization Chart (showing the consulting firm, parent and all affiliates and subsidiaries).
- A current company Annual Report.
- Current firm policies related to conflicts of interest.
- Most recently filed Form ADV, Parts I and II.
- A copy of two recent quarterly client reports (including universe comparison reports).
- A detailed description of the composition of the peer universe to which BWC will be compared.
- A copy of your firm's standard marketing brochure that describes your processes and services.
- Any other information you feel would be necessary to gain a complete understanding of the firm or the services it provides.

## 5.0 EVALUATION AND SELECTION PROCESS

### 5.1 Evaluation Approach and Methodology

Evaluation of proposals submitted will be conducted by an evaluation committee. The Evaluation Committee (EC) shall consist of two (2) selected members of the WCOC and the BWC Chief Investment Officer. The EC will have the operational support of BWC staff to administer the search process

The WCOC intends to select the consulting firm that provides the best value and best accomplishes the requirements and objectives set forth in the RFP in a manner most advantageous to the WCOC and the BWC. Award will be made on the basis of the best overall proposal, taking into consideration in Phase I scoring as described below. In Phase II the assessment will reflect the firm's understanding of the project; its implementation of industry best practices toward objectivity in recommendations; and/or an interview assessment of capabilities for the finalists, or those firms amongst the highest scorers that, in the sole judgment of the WCOC best accomplish the objectives in this RFP. The WCOC reserves the right to award a contract to other than the lowest priced proposal after consideration of all factors.

Final award of the contract will be determined following the evaluation and scoring of the proposals and/or interviews with the finalists if that is judged necessary or valuable in making the final decision. WCOC reserves the right to reduce the scope of services required and to negotiate the price to reflect such change after award of the contract has been made.

All consulting firms will be notified by letter by email of the selection decision. No information will be released by WCOC after the proposal due date until an official announcement is made.

### 5.2 Scoring the Proposals

The proposals will initially be evaluated and scored (maximum score possible is 100 points) based upon the following criteria for selection:

1. Relevant knowledge and experience in similar consulting engagements; evidence of awareness of potential conflicts; and current organizational capacity to provide experienced staff for the engagement - 30%

2. Quality and depth of consulting firm capabilities - 40%
   a) Performance measurement, benchmarks, databases and style groups
   b) Manager search/selection
   c) Manager evaluation/oversight
   d) Investment policy; analysis, structuring, asset allocation, monitoring
   e) Research and educational capabilities

3. Demonstrated ability to meet service requirements, including communications with senior BWC staff and WCOC (minimum of one quarterly meeting) on both ongoing and specific issues, and to respond to concerns as they arise, including the operational plan for fulfilling its duties and the quality of the professional staff assigned to this project - 15%

4. Proposal fees and time commitments - 15%

Follow-up interviews may be conducted with the finalist candidates, at WCOC's invitation, based on initial scoring of the above criteria. After the interviews are completed, the scoring on the criteria described in this section will be re-calculated.

### 5.3 Basis for Award

Those proposals that earn the highest number of points after all points are added together will be selected as the top scorers. Notwithstanding the foregoing, WCOC reserves the right to award the contract to the proposal other than the one with the highest number of points if, in WCOC's sole determination, another proposal is determined to be the most advantageous to WCOC and the State of Ohio, taking into consideration the price and evaluation criteria of the RFP, pursuant to Ohio Revised Code Section 125.071(E). WCOC reserves the right to negotiate and to award contracts to more than one proposer, dividing the scope of services required and negotiating the price to reflect such division of service.

### 5.4 Validity of Offers

All offers tendered in response to this RFP shall remain open for a period of 180 days from the date upon which proposals submitted in response hereto are due.

### 5.5 Rejection of Proposals

Proposals that have been determined not to have met one or more of the mandatory requirements will be excluded from any further consideration or scoring.

## Selected Submission Requirements

The following details some of the most common submission errors that shall be grounds for rejection of proposal. This is not a complete list.

- Failure to sign all copies of the Proposal
- Failure to identify RFP Bid Number on the outside of envelope
- Failure to submit Seven (7) copies for evaluation purposes
- Failure to meet deadline for submission
- Claiming that the entire contents of a proposal qualifies for an exception to Ohio public records law
- Mailing proposal with insufficient postage
- Taking exception to mandatory technical terms, conditions, and requirements of the contract

# 6.0 TERMS AND CONDITIONS

## 6.1 General

BY SUBMITTING A PROPOSAL, THE CONSULTING FIRM ACKNOWLEDGES THAT IT HAS READ THE RFP, UNDERSTANDS IT, AND AGREES TO BE BOUND BY ITS REQUIREMENTS, TERMS AND CONDITIONS. WCOC RESERVES THE RIGHT TO REJECT ANY AND ALL PROPOSALS THAT TAKE EXCEPTION TO THE TERMS AND CONDITIONS OF THE RFP OR THAT FAIL TO MEET THE TERMS AND CONDITIONS, INCLUDING BUT NOT LIMITED TO, STANDARDS, SPECIFICATIONS AND REQUIREMENTS AS SPECIFIED IN THE RFP. FURTHERMORE, WCOC RESERVES THE RIGHT TO REFUSE ANY PROPOSAL NOT PROPERLY SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS OF THIS RFP. WCOC RESERVES THE RIGHT TO REJECT THE SELECTED PROPOSAL AT ANY TIME PRIOR TO EXECUTION OF A CONTRACT.

The evaluation committee may waive minor defects which are not material when no prejudice will result to the rights of any other consulting firm, the public, or WCOC. WCOC shall not pay for information solicited prior to entering into a contract with the selected consulting firm.

Headings in this RFP are for convenience only and shall not affect the interpretation of any of the terms and conditions contained in the RFP.

## 6.2 Travel Expenses

Any travel or per diem required by the selected consulting firm to carry out its obligations under the contract shall be at the consulting firm's expense. Any additional travel, requested by WCOC after award of the contract, shall be paid by WCOC only with prior written approval. All additional travel and per diem shall be paid in accordance with the Office of Budget and Management's Travel Rules as set forth in Section 126.31 of the ORC and the rules promulgated thereunder.

## 6.3 Resulting Contract

Any contract resulting from the RFP shall consist of this RFP and any written addenda issues by WCOC, the proposal and the executed contract.

WCOC will provide the successful Vendor a contract for execution based on the draft attached to this RFP. If Vendor fails to execute such contract within a reasonable time, WCOC reserves the right to reject the proposal and award the contract to the next highest scoring Vendor until a contract is negotiated, or WCOC decides not to contract. The draft of the contract attached hereto shall only be modified by WCOC and respondents may not modify it.

The term of the contract shall be for the period of one (1) year, renewable at the WCOC’s sole discretion for no more than two (2) subsequent one (1) year periods. The contract with selected consulting firms may be terminated if any changes are made to the WCOC or to the authority of the WCOC over BWC’s investment activities.

## 6.4 Contract Compliance

During the term of this contract, the WCOC shall be responsible for monitoring the consulting firm's performance and compliance with the terms and conditions of the contract. It is specifically understood that the nature of the services to be rendered pursuant to any contract resulting from this RFP are of such a nature that WCOC is the sole judge of the adequacy of such services.

### 6.5 Contract Termination

If for any reason the consulting firm fails to fulfill its obligations under the contract in a timely and professional manner, or if the consulting firm violates any of the covenants, agreements, or stipulations of the contract or applicable Ohio statutes, WCOC shall have the right to terminate the contract by giving one (1) day written notice to the consulting firm for defaults not subject to cure, and fifteen (15) days written notice to the consulting firm for defaults subject to cure. Failure to maintain commercial general liability coverage, or workers' compensation coverage will immediately terminate any agreement made pursuant to this RFP. Notification of such termination will be by Certified U.S. Mail. If WCOC's representative observes any infraction(s), such shall be documented and conveyed to the consulting firm for immediate correction. Continued failure on the consulting firm's part to comply with the terms and conditions of the ensuing contract may result in the immediate termination of the consulting firm from the contract by WCOC. In the event that WCOC executes its right to terminate the contract, the consulting firm shall not be relieved of any liability for damages sustained by WCOC by virtue of any breach by the consulting firm, and WCOC may withhold any payment due to the consulting firm, whether the payment is due to the consulting firm under the contract or otherwise, for the purpose of set off until such time as damages to WCOC are determined.

### 6.6 Termination for Convenience

Notwithstanding section 6.5, above, WCOC, in its sole determination, may terminate the contract with the consulting firm for convenience by giving not less than thirty (30) days notice in writing to the consulting firm of its intent to so terminate for convenience and the effective date of such termination. In the event that termination under this provision is elected, the contractor shall receive payment for work satisfactorily performed as determined by WCOC to the date of termination.

### 6.7 Governing Law - Severability

The validity, construction and performance of any contract resulting from this RFP and the legal relations among the parties to any contract shall be governed by and construed in accordance with the laws of the State of Ohio. If any provision of any contract resulting from this RFP or the application of any such provision shall be held by an Ohio court of competent jurisdiction to be contrary to law, the remaining provisions of the contract shall remain in full force and effect. The parties agree to submit irrevocably to the jurisdiction of Ohio courts.

### 6.8 Compliance with Applicable Laws and Acknowledgment of Fiduciary Status

The consulting firm agrees to comply with all applicable federal, state, and local laws in the conduct of the work hereunder. The Vendor accepts full responsibility for payment of all taxes and insurance including workers' compensation insurance premiums, unemployment compensation insurance premiums, all income tax deductions, social security deductions, and any and all other taxes or payroll deductions required for all employees engaged by the Vendor in the performance of the work authorized by this contract. WCOC does not agree to pay any taxes. Failure to have workers' compensation or other required insurance in accordance with the RFP shall deem any resulting contract voidable at WCOC's sole discretion.

The consulting firm acknowledges that the funds subject to a contract under this RFP are a public trust fund governed by the provisions of Chapters 4121 and 4123 of the Ohio Revised Code. The consulting firm agrees to adhere to the standard of care and conduct required of a fiduciary under the WCOC Statement of Investment Policy and Guidelines, as may be amended, Chapters 4121 and 4123 of the Ohio Revised Code, and any applicable federal and state law.

### 6.9 Publicity

Any use or reference to this RFP by the consulting firm to promote, solicit, or disseminate information regarding the scope of the contract is prohibited, unless otherwise agreed to in writing by WCOC. WCOC agrees to be used as a reference by the selected consulting firm in other State of Ohio competitive bid situations.

### 6.10 Equal Opportunity

In fulfilling the obligations and duties of any contract resulting from this RFP, the Consultant shall not discriminate against any employee or applicant for employment on the basis of race, religion, national origin, color, gender, sexual orientation, age, Vietnam-era Veteran status, or disability as defined in the Americans with Disabilities Act.

The Consultant shall ensure that applicants are hired and that employees are treated during employment without regard to any of the listed factors. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship.

The Consultant agrees to post in conspicuous places, available to employees and applicants for employment, notices stating that the Consultant complies with all applicable federal and state non-discrimination laws. The Consultant shall incorporate the foregoing requirements of this section in all of its contracts for any of the work prescribed herein (other than subcontractors for standard commercial supplies or chemical supplies), and shall require all of its subcontractors for any part of such work to incorporate such requirements in all subcontracts for such work.

### 6.11 Consulting Firm's Liability

The consulting firm shall hold BWC harmless and indemnify BWC from and against any claims, demands, losses, and causes of action asserted against or incurred by BWC with regard to personal injury or property damage which result from or arise out of negligent conduct or intentional acts of the consulting firm, its agents, employees and subcontractors. The consulting firm shall be liable for and shall indemnify the Bureau against any and all losses, damages, costs, expenses (including reasonable attorney fees), liabilities, claims and demands for any action, omission, information or recommendation in connection with this Agreement constituting a breach or violation of its fiduciary duties under applicable law, or a material breach of any agreement, representation, warranty or covenant made herein by the consulting firm or its agents, except that the consulting firms shall have no liability hereunder in the absence of negligence or reckless or willful misconduct on the part of itself or its agents.

### 6.12 Conditions Precedent

It is expressly understood by the parties that the contract is not binding on WCOC until such time as all necessary funds are made available and forthcoming from the appropriate State agencies, and such expenditure of funds is approved by the Administrator after execution of the contract by the Vendor but before execution by WCOC. No contract shall be binding upon either party until receipt by the contracting Vendor of a copy of a fully executed contract, and compliance with any and all conditions precedent.

### 6.13 Method of Remuneration and Billing Procedures

Project fees will be paid quarterly in arrears upon submission and review of an invoice. Upon delivery of performance of services, as described on any purchase order placed against the contract awarded, the consulting firm shall submit hard copy (in duplicate) invoices directly to:

C. Lee Damsel
Interim Chief Investment Officer
Bureau of Workers' Compensation
William Green Building
30 West Spring Street, Level 27
Columbus, Ohio 43215-2256

A proper invoice is defined as being free from defects, discrepancies, errors, or other improprieties and shall include, but may not be limited to:

- consulting firm's name and address as designated in the RFP;
- consulting firm's federal employer identification (E.I.) number;
- description, including time period (date received and date reported), of services delivered or rendered as specified in the Purchase Order.

Defective invoices shall be returned to the consulting firm noting areas for correction. When such notification of defect is sent, the required payment date shall be thirty (30) days after receipt of the corrected invoice.

Section 126.30 of the Ohio Revised Code, and any applicable rules thereto, are applicable to any resulting contract and requires payment of interest if, upon receipt of a proper invoice, payment is not made within thirty (30) calendar days, unless otherwise agreed in writing. The interest charge shall be at the rate per calendar month which equals one-twelfth of the rate per annum prescribed by Section 5703.47 of the Ohio Revised Code. In the event that WCOC does fail to make prompt payment, the consulting firm is entitled to the interest allowed by law. In no event shall such failure to make prompt payment be deemed a default or breach of contract on the part of WCOC.

Further, payment shall be made to the consulting firm, in the Firm's Federal E.I. number, and only as provided for in the response to the RFP. Any changes regarding payment after contract award will not be permitted. The date of the warrant issued in payment shall be considered the date payment is made. The consulting firm's payment shall not be initiated before a proper invoice is received by WCOC.

### 6.14 Workers' Compensation

The consulting firm shall submit with its proposal a copy of the certificate proving that the consulting firm and its agents are covered by Workers' Compensation, Employees' Liability and/or consulting firm's insurance in amounts sufficient to satisfy all claims that might arise from its acts or those of the employees and agents. The consulting firm is responsible for ensuring contractually that any subcontractors maintain workers' compensation insurance at all times during the term of the resulting contract. Failure to maintain coverage at any time during the term of any contract shall be deemed a material breach of the contract. Such failure may cause WCOC to terminate the contract at the WCOC’s sole discretion.

### 6.15 Commercial General Liability

The consulting firm shall carry commercial general liability insurance with limits of not less than twenty five million dollars ($25,000,000.00) from an insurance carrier authorized to do business in Ohio. A minimum of fifty million dollars ($50,000,000.00) is preferred. Please indicate your level of coverage. Failure to maintain coverage at any time during the term of any contract may be deemed a default. Upon any such failure, the contract may be deemed void in its entirety.

### 6.16 Default by Consulting Firm

WCOC declares and the consulting firm acknowledges that WCOC may suffer damages due to the failure of the consulting firm to act in accordance with the requirements, terms, and conditions of the contract. WCOC declares and the consulting firm agrees that such failure shall constitute an event of default on the part of the consulting firm. The consulting firm agrees that if WCOC does not give prompt notice of such a failure, that WCOC has not waived any of its rights or remedies concerning the failure by the consulting firm.

### 6.17 Inspection of Time Records and Work-papers

WCOC reserves the right to inspect the records and work-papers of the consulting firm or any of its subcontractors to determine the validity of billings for work performed. Adequate records to support these charges must be maintained. Documentation must be retained for review for at least three (3) years subsequent to final payment.

### 6.18 Ohio Elections Law

By signing a contract, the consulting firm affirms that, as applicable to the selected consulting firm, no party listed in Division (I) or (J), (Y), or (Z) of Section 3517.13 of the Ohio Revised Code or spouse of such party has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of $1,000.00 to the Governor of Ohio or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

### 6.19 Drug-Free Workplace

The consulting firm agrees to comply with all applicable state and federal laws regarding drug-free workplace. The consulting firm shall make a good faith effort to ensure that all of its employees, if working on state property, will not purchase, use or possess illegal drugs or alcohol or abuse prescription drugs in any way.

### 6.20 Intellectual Property & Confidentiality

All materials, surveys, analysis and reports developed or used by the consulting firm shall become the property of WCOC as a work-made-for hire. WCOC shall have an unrestricted right to reproduce, distribute, modify, maintain and use the materials, surveys, analysis and reports, and the consulting firm shall not obtain copyright, patent or other proprietary protection for these items. The consulting firm relinquishes any and all copyrights, privileges and proprietary rights to these items. The consulting firm shall not include in the materials, surveys, analysis and reports any copyrighted matter, unless the copyright owner gives prior written approval to such copyrighted matter provided herein.

The consulting firm agrees to keep all data, information and documents furnished by the WCOC or by BWC under this Agreement in strict confidence. The consulting firm agrees to use any confidential information to which it has access during the work under this Agreement only for the purpose of completing work under this Agreement. Further, the consulting firm agrees to use the same degree of care that it uses to protect its own confidential, trade secret or proprietary information from unauthorized disclosure, but in no event less than a reasonable degree of care.

### 6.21 Assignment and Consulting Firm's Reorganization

Neither the contract nor any rights, duties or obligations described herein shall be assigned by either party hereto without prior, express and written consent of the other party.

If the consulting firm changes its business organization or identity from that described in its proposal before the contract is signed by both parties or before work pursuant to the contract commences, that change may be deemed a material change by the WCOC, if the contractor was selected based in part on its experience, corporate structure, responsibility or conflicts of interest, which factors have changed. The WCOC may withdraw the contract award or it may declare the contract void ab initio and may select another finalist for a contract under this RFP.

If the consulting firm changes its business organization or identity from that described in its proposal at any time after work pursuant to the contract commences, the consulting firm must immediately notify the WCOC of the change and that change may be deemed a material change by the WCOC, and may be deemed grounds for terminating the contract under this RFP.

### 6.22 Subcontracting

No subcontracting will be permitted without prior written approval by the WCOC or its designee. However, the WCOC's approval will not serve to modify or abrogate the responsibility of the Vendor for the acts, omissions, nonfeasance, malfeasance, or misfeasance of any and all subcontractors.

### 6.23 Unresolved Finding for Recovery

The vendor warrants that it is not subject to any unresolved finding for recovery issued by the Auditor of State within the meaning of Ohio Revised Code Section 9.24; provided, however that if the vendor is subject to a finding for recovery pursuant to Section 9.24 (A) and the vendor qualifies for and has taken the necessary steps to resolve the finding for recovery pursuant to Section 9.24 (B), the vendor must provide WCOC with specific documentation regarding the resolution prior to the award of the contract under this Request for Proposals. If it is discovered after the contract has been awarded that the vendor was subject to an unresolved finding for recovery on the date the contract was awarded, the contract will be declared "void ab initio", and WCOC will not pay for any services rendered or goods delivered under the contract.

### 6.24 No Secondary Interests

The consulting firm represents and warrants that in the event of any consulting firm's referral to WCOC to any third party to sell, license, or furnish hardware, software, services, or other items to WCOC, such referral shall not result in any such third party's payment to the consulting firm (or to any partner, director, principal or affiliate thereof) of any monetary consideration, referral fee, finder's fee or anything else of value. For breach of the above warranty, the consulting firm shall promptly pay to WCOC the full amount (or cash equivalent) of the consideration received from the third party for the referral.

The consulting firm represents and warrants that the work to be performed under this RFP will be a complete work product, not requiring any subsequent, additional purchase from the consulting firm.

### 6.25 Key Employee Credentials

It is expressly understood that the consulting firm's selection is based in part on the credentials of the consultants proposed in the Contractor's proposal. Any substitution for key personnel during the course of the contract shall be deemed a material breach unless substituted employee's credentials are submitted to the WCOC and approved by the WCOC prior to substitution.

*rfpcons85g.doc*
**August 31, 2005**

# 7.0 DRAFT CONTRACT

**DRAFT**
**AGREEMENT**
**between**
**OHIO BUREAU OF WORKERS' COMPENSATION**
**and**
**CONSULTING FIRM'S NAME**

This is an Agreement by and between Consulting Firm's Name, (hereinafter referred to as the "Consulting Firm"), having offices at Address from W-9 Form, and the State of Ohio, Bureau of Workers' Compensation (hereinafter referred to as the "Bureau"), on behalf of the Workers' Compensation Oversight Commission, having offices at 30 W. Spring Street, Columbus, Ohio 43215-2256, entered into the day, month and year set out below.

**Whereas,** the Workers' Compensation Oversight Commission issued a Request for Proposals B#06005 for SERVICES OF A FULL SERVICE INVESTMENT CONSULTANT, and the Consulting Firm submitted a proposal determined by the Workers' Compensation Oversight Commission to be the best responsive and responsible response to the Request for Proposals;

**Now, therefore,** the parties hereto mutually agree to perform the contract in accordance with the Request for Proposals and the Consulting Firm's Proposal, which are hereby incorporated by reference as if fully rewritten herein. Furthermore the parties agree that if there is any conflict between the Request for Proposals and the Consulting Firm's Proposal, the Request for Proposals controls.

**SCOPE OF SERVICES.** The Consulting Firm agrees to perform the services described in the RFP under Scope of Services, Section 3.2, Paragraphs 1 through and including 10; Section 3.3, Paragraphs 11 through and including 13; Section 3.4, Paragraphs 14 through and including 19; Section 3.5 Paragraphs 20 through and including 31; Section 3.6 Paragraphs 32 through and including 36; and Section 3.7, Paragraphs 37 through and including 47. *(Please note: If multiple consulting firms are selected, this Scope of Services provision will detail only those services to be provided by the contracting consulting firm for each contract.)*

**CONDITIONS PRECEDENT.** The parties agree that as a condition precedent, any applicable approvals of the Office of Budget and Management must be given before obligations under this Agreement commence.

**FEES.** The parties agree that the Consulting Firm shall submit monthly invoices for services rendered not to exceed *(method and rate of billing-may be separate provisions for individual services described in Scope of Services)*. Total costs for Fiscal Year 2006 shall not exceed the amount of X dollars ($X).

**TERM.** The parties agree that services under this contract shall commence on *starting date*, 2005, and shall continue until *ending date*. At the sole discretion of the Workers' Compensation Oversight Commission, this contract can be renewed for no more than two (2) additional one (1) year terms.

**In witness whereof**, the parties hereunto affix their signatures this ____day of _________, 2005.

**CONSULTING FIRM'S NAME**
**TAX ID: _______________________**

______________________________
Printed Name: __________________
Title: _________________________

**On Behalf of the WORKERS' COMPENSATION OVERSIGHT COMMISSION, STATE OF OHIO, BUREAU OF WORKERS' COMPENSATION**

__________________________
Tina Kielmeyer, Administrator
Administrator

Filename.doc
Date Contract Offered

# Pooled Trusts Discussion

There are two basic ways to “pool” the BWC investments.  The first is to hold the investments in a separate account.  The second is to combine (“pool”) them with other similar investments.  This combination is referred to as commingled accounts or pooled trusts.

Currently, BWC investments are held in separate accounts.  The investment staff is asking the Board to give permission to hold the funds in commingled (pooled) accounts.

The following pages detail the financial impact of this change (a savings of $1.7 million in fees) and the characteristics of commingled compared to separate accounts in terms of cost, safety, revenue enhancement and best industry practice.

| | |
|---|---|
| To: | **The Ohio Bureau of Workers' Compensation Investment Committee** |
| Cc: | Bruce Dunn |
| From: | Mark E. Brubaker, CFA and Michael D. Patalsky, CFA |
| Phone: | (412) 434-1580 |
| Date: | September 17, 2007 |
| Subject: | ***Analysis of Managing Assets to a Standard Benchmark or a Customized Benchmark*** |

---

***Background:***

The Ohio Bureau of Workers' Compensation currently utilizes a customized version of the Lehman Long Government/Credit index for its Long Duration Passive Fixed Income investments managed by State Street and BGI. The customized index is similar to the standard Lehman Long Government/Credit index; however, it includes constraints that prohibit non-U.S. (foreign) government issues and also limits the position size of certain benchmark issues (currently a total of 5) in the standard index to meet the restrictions (based on credit quality) imposed on the mandate by the OBWC investment policy statement.

While most Wilshire clients invest in passive fund investments that are managed against the standard version of the benchmark index, many clients, particularly public funds, have adopted and invested in custom indices. These custom indices usually reflect the elimination of some type of investment (tobacco, firearms, Sudan, terrorism) that the entity deems to be undesirable. These restrictions are usually for political and/or public policy reasons rather than to control investment risk.

In the case of the Ohio BWC, the investment restrictions that were imposed on the custom benchmark were not for public policy purposes, but to control issuer specific risk. Thus, bonds issued by foreign entities were restricted and the maximum position size in issuers of a certain credit quality was limited. In the aggregate, these restrictions impacted less than 5% of the portfolio - not a large enough percentage to result in a meaningful reduction in the risk of the portfolio, but given the turmoil surrounding the fund at the time, the Oversight Commission believed that these restrictions were prudent. Wilshire concurred with this view and it was agreed that the use of a standard benchmark would be addressed at some point in the future.

***Wilshire Recommendation***

Wilshire believes that the main benefit of indexing is to provide investors with efficient, low-cost exposure to an entire asset class or market segment. At the margin, this benefit is diminished when custom guidelines are imposed. Wilshire recommends that the OBWC Board consider adopting the Lehman Long Government/Credit Index, without custom restrictions, for the following reasons:

- Allows for use of commingled fund vehicle, if desired by the Board
- Provides exposure to the entire long-duration, investment grade fixed income market (as defined by Lehman)
- Does not increase the total portfolio risk (although specific issuer risk may increase)
- Eliminates the need for a custom benchmark and facilitates staff monitoring and oversight
- Potentially reduces direct and indirect management costs

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

DATE: September 18, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Long Duration Fixed Income Benchmark Revision**
**Investment Policy Implications**

A change in the Long Duration Fixed Income benchmark to the widely accepted and utilized Lehman Long Government/Credit (LLGC) Index would result in several inconsistencies between the current BWC Investment Policy Statement (IPS) dated July 26, 2007 and the composition of the LLGC Index.

## Foreign Government Bond Ownership

Section IV.C.ii of the IPS prohibits the ownership of Foreign (non-U.S.) Government bonds. The LLGC index has a 3.71% market value representation in 17 different Non-U.S. Government issuers as of 8/31/07.

## Yankee Bond Ownership

Section IV.C.ii of the IPS limits the ownership of Yankee bonds to a maximum of 10% of the total fixed income assets owned by BWC. The LLGC index has a 11.68% market value representation in Yankee bonds as of 8/31/07. The accepted Wall Street definition of Yankee Bonds (represented in certain popular Lehman fixed income benchmarks) are SEC-registered U.S. dollar denominated bonds issued by foreign governments, foreign financial institutions and foreign corporations that trade in U.S. securities markets. All non-U.S. corporate debt represented in the LLGC index, having a 7.97% market value representation as of 8/31/07, is a permitted ownership class in the IPS. The remaining three sector classes of Yankee bonds (Sovereigns, Supranationals, Local Government/Agencies), represented in the LLGC index with a 3.71% weighting on 8/31/07, are not permitted investments in the IPS.

## Credit Issuer Ownership Limits

Section IV.C.ii of the IPS limits the ownership of a specific credit issuer to a maximum percentage of total fixed income assets owned by BWC. The purpose of this restriction is to assure proper diversification of credit issuers in the BWC fixed income portfolio of assets. There are currently five bond issuers represented in the LLGC index as of 8/31/07 that exceed these per issuer ownership limits as follows:

| **Issuer** | **LLGC Uncapped Weight** | **BWC Capped Weight** | **Issuer Rating** |
|---|---|---|---|
| AT&T | 1.87% | 0.90% | A |
| Time Warner | 0.87% | 0.60% | BBB |
| Mexico | 1.10% | *0.60% | BBB |
| Comcast | 1.00% | 0.60% | BBB |
| Sprint | 0.62% | 0.60% | BBB |

*currently 0.00% since ineligible

The BWC Capped Weight reflected in this table is correlated with the current Customized Lehman Long Duration Fixed Income benchmark employed. The capped weight of the customized benchmark is higher than the IPS stated maximum weight because U.S. Treasury TIPS represent a targeted 25% of the BWC total fixed income portfolio. This strategy allows these respective capped weight percentages to be adjusted higher than the percentages reflected in the IPS, yet still satisfy the overall per issuer IPS restrictions to assure overall compliance.

If the recommended revision in the Long Duration Fixed Income benchmark index is approved at the September, 2007 Investment Committee meeting, it is the intention of the BWC Chief Investment Officer in consultation with Wilshire Associates to present recommended revisions to the IPS at the October, 2007 meetings of the BWC that will address each of these conflicts represented herein.

# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the WCOC: July 26, 2007

# Table of Contents

# 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 State Insurance Fund

## Asset-Liability Valuation

July 26, 2007

Mark E. Brubaker, CFA
Managing Director

Michael D. Patalsky, CFA
Senior Associate

# Agenda





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# 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

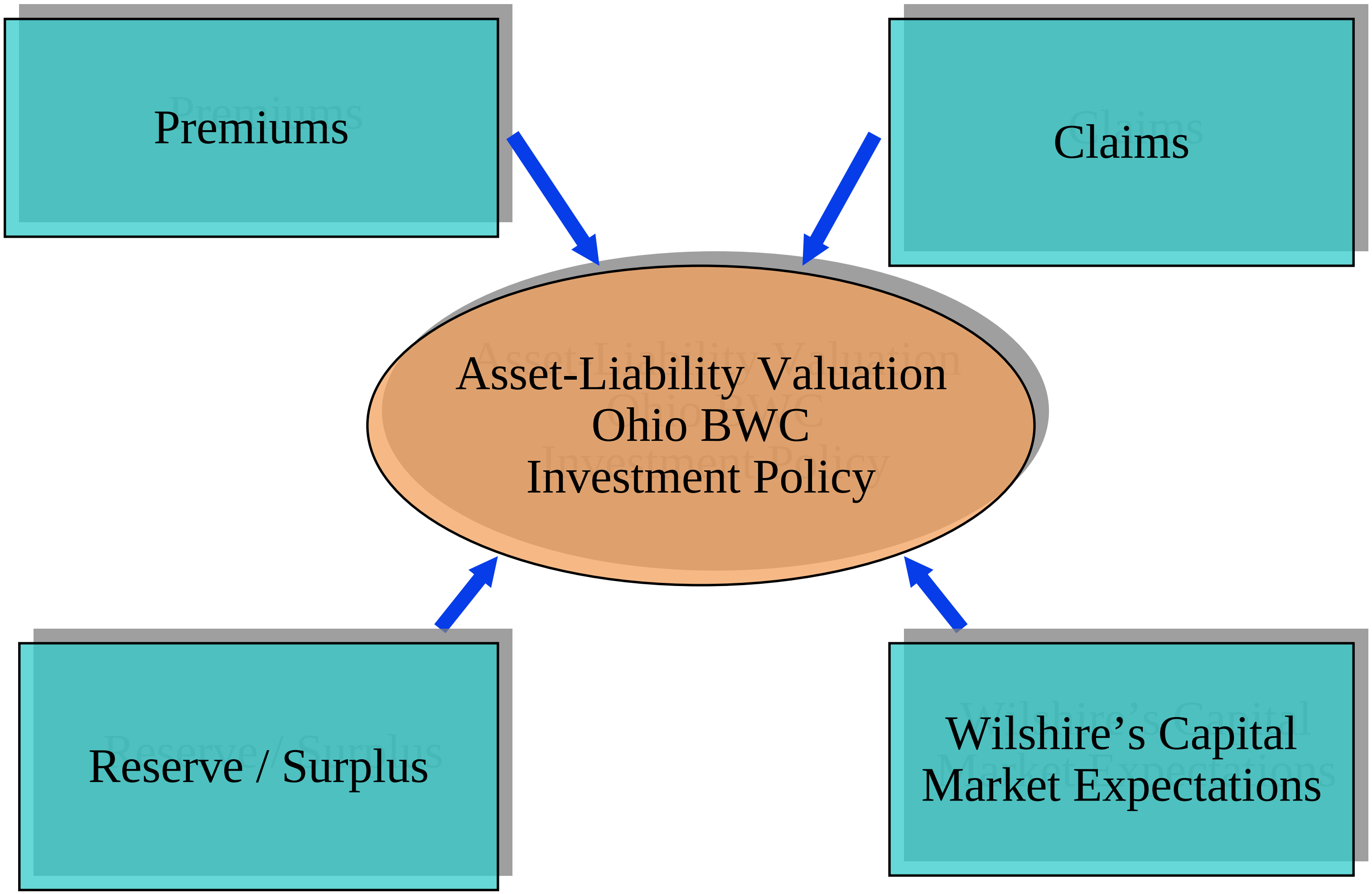
# II. Asset-Liability Valuation Background

## 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

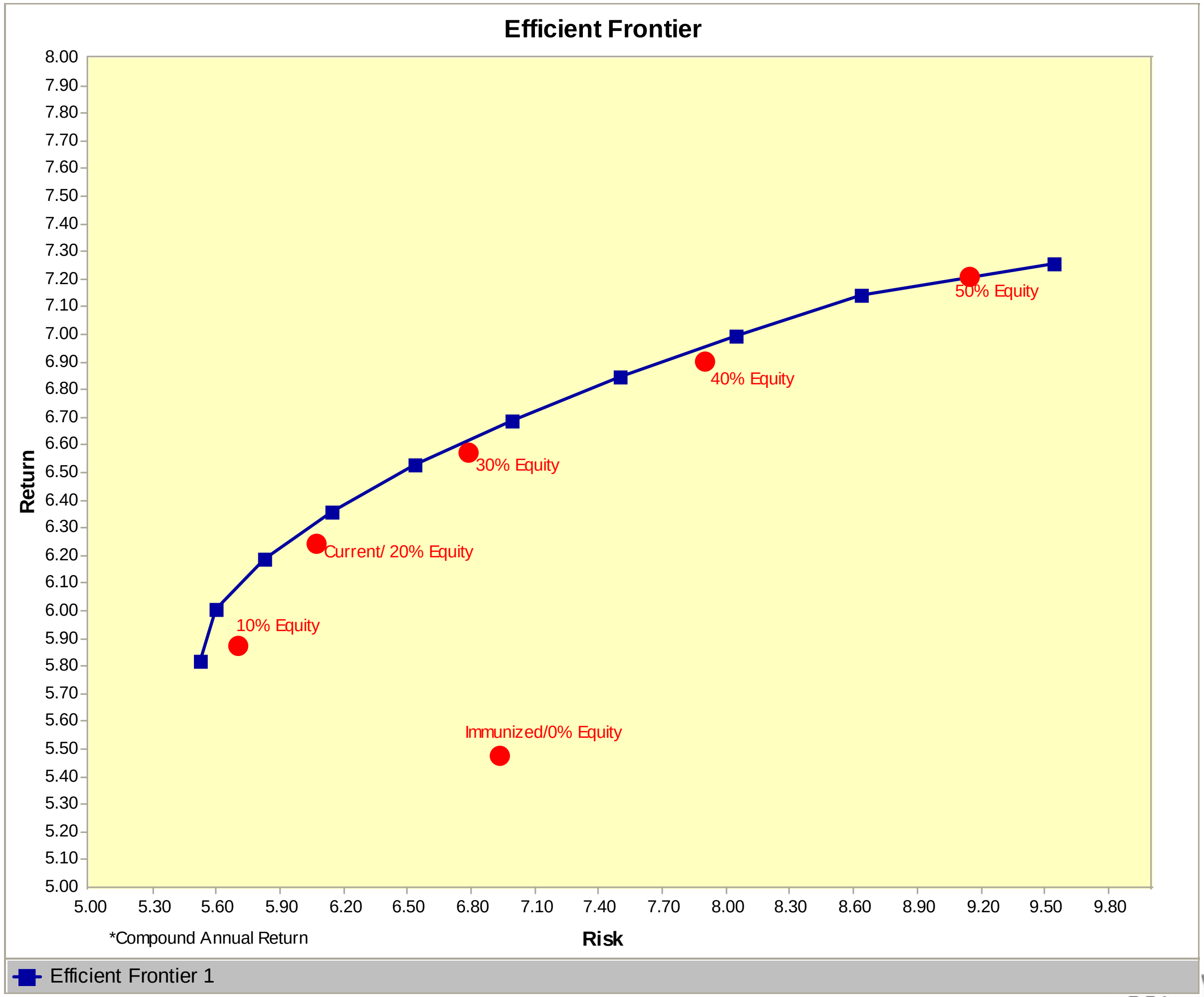
| Asset Class | U.S. Equity | Non-U.S. Equity | Fixed Income - Core | Fixed Income - Long Duration/Dedicated | Fixed Income - High Yield | Fixed Income - Inflation Protected | Cash Equivalents |
|---|---|---|---|---|---|---|---|
| **Return** | 8.25 | 8.25 | 5.25 | 5.50 | 6.75 | 5.00 | 3.00 |
| **Risk** | 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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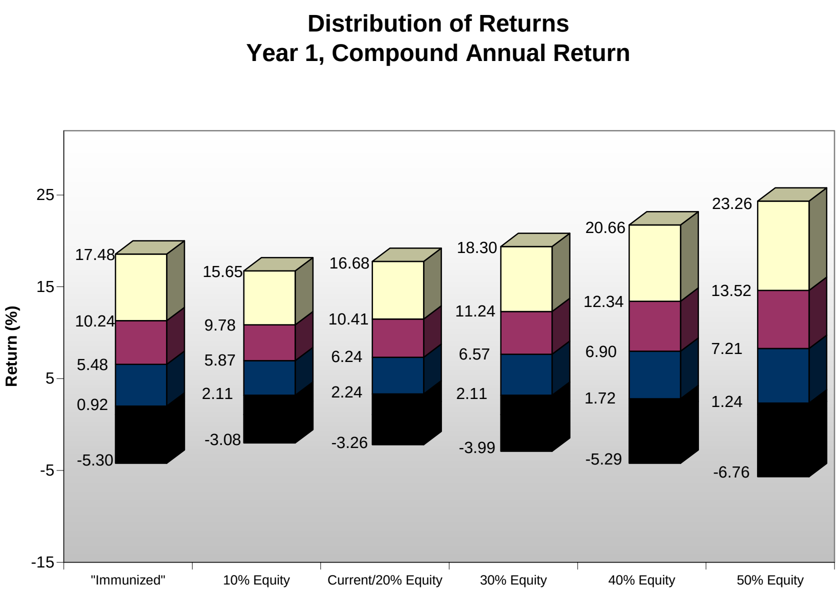
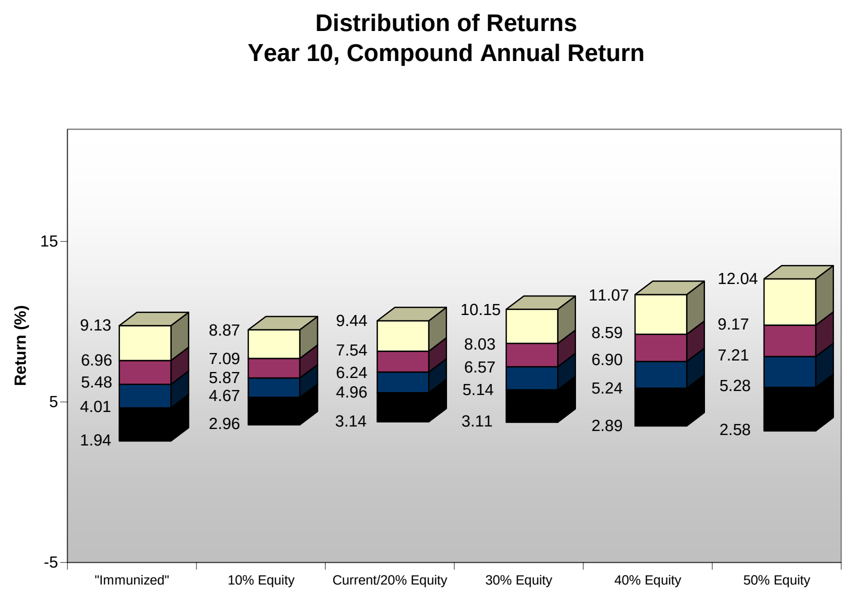
# Efficient Portfolios

| | 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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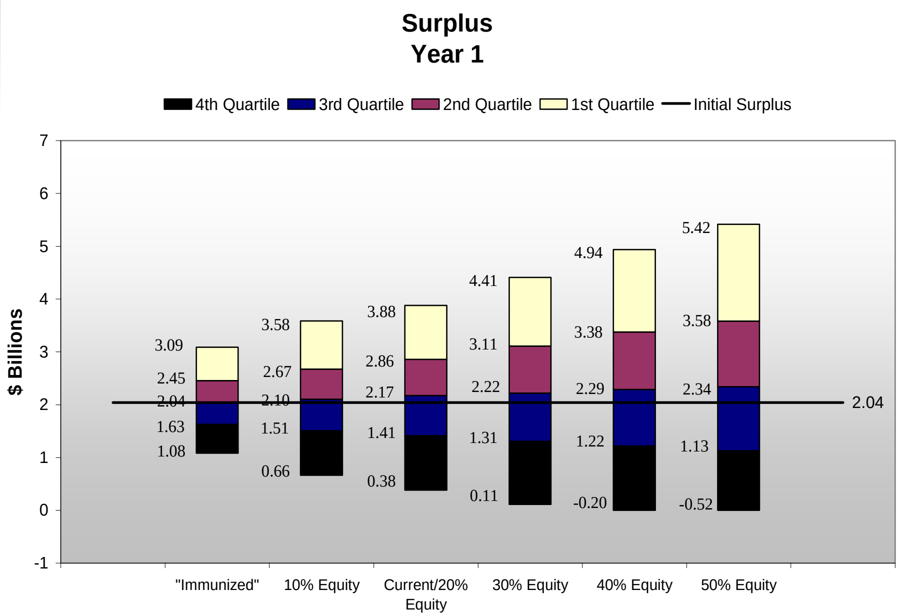
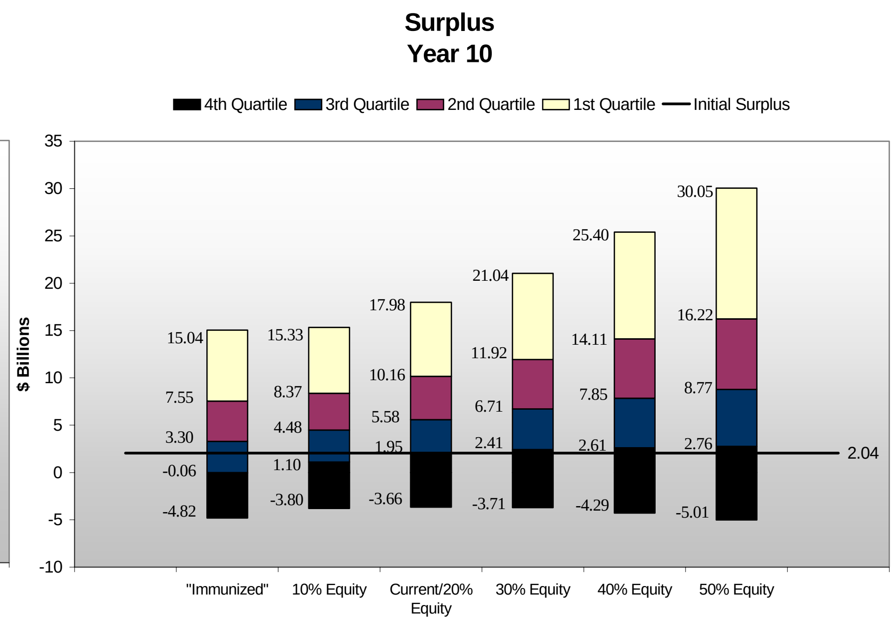
# IV. Asset-Liability Modeling

# 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

# 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 |

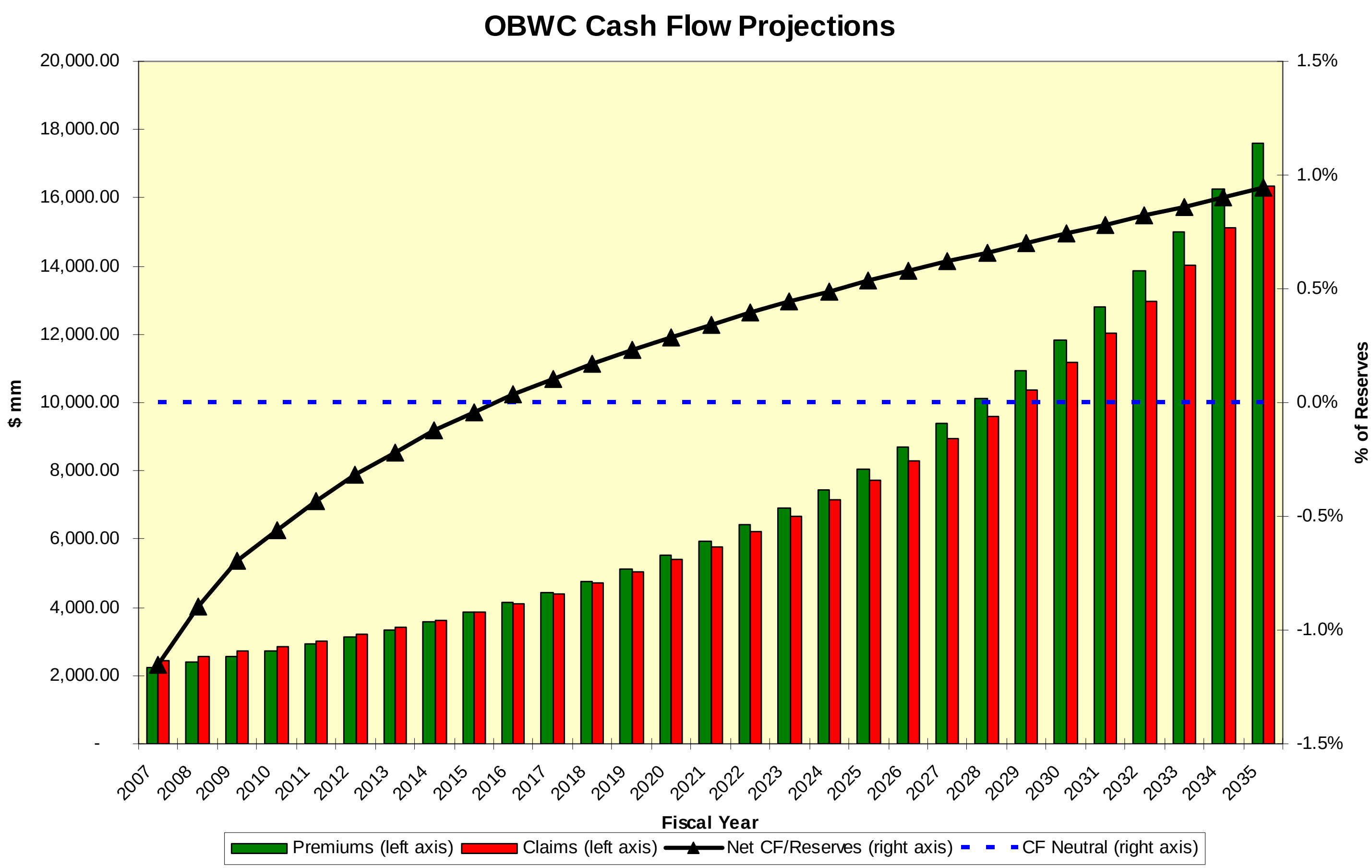
| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 3 | Bottom 5% | 0.37 | -0.13 | -0.48 | -0.94 | -1.39 | -1.78 |
| | Bottom Quartile | 1.42 | 1.46 | 1.43 | 1.36 | 1.20 | 1.04 |
| | Median | 2.35 | 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 |

# 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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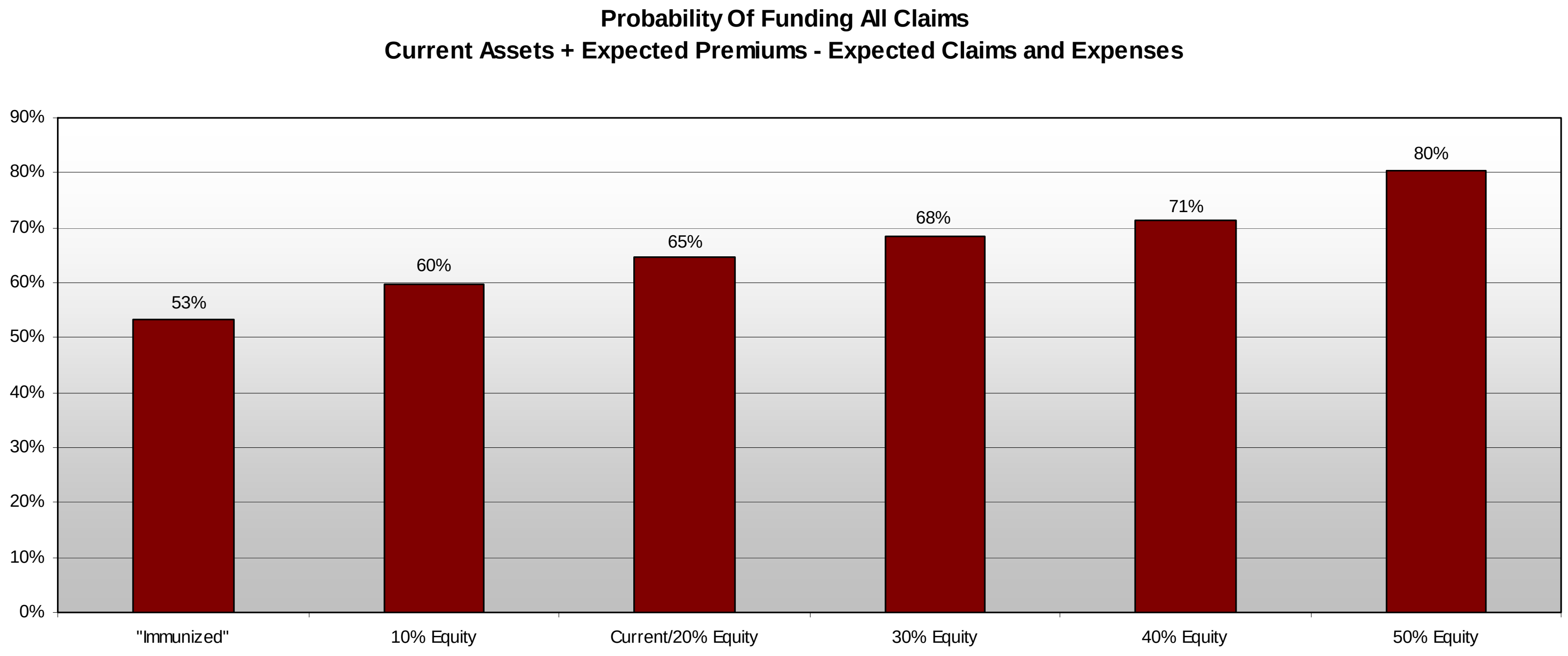
# Probability of Success

- 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

# 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 (80%) | 5 | 833 | |
| Passsive (20%) | 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** |



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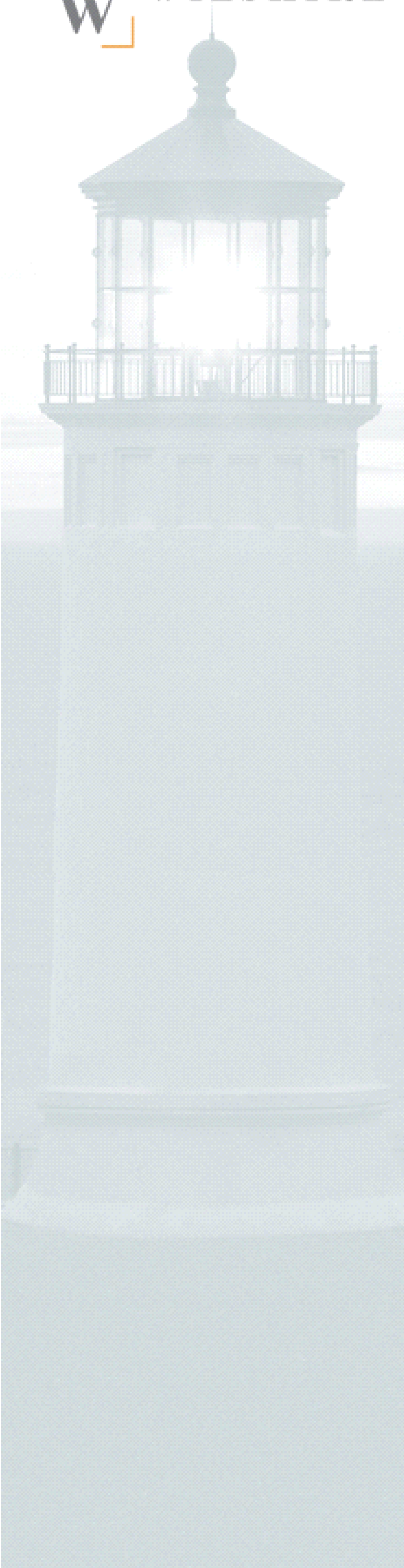
# Appendix – Wilshire's 2007 Asset Allocation Report



# Wilshire Consulting

## 2007 Asset Allocation Return and Risk Assumptions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**January 29, 2007**

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## Introduction

This report is Wilshire Consulting's annual study on asset allocation for institutional portfolios. The return and risk assumptions contained within the report should be used for asset-liability and asset allocation studies conducted in 2007. Unless otherwise noted, all return assumptions represent median geometric returns based on a log-normal distribution.

The asset allocation process is comprised of four steps. The initial step requires forecasting return, risk, and correlation for all asset classes. The second step is client specific and involves a review of a fund's unique financial commitments. Next, using inputs from the first two steps, an efficient frontier of diversified portfolios is constructed. The portfolios residing on this frontier are specific to each client's liabilities, or spending objectives, and represent varying tradeoffs between expected risk and funding cost or expected risk and real return. The final step is to select an asset mix from the efficient frontier that matches the institutions' attitude toward risk. The research presented here aids in completing the first step of the asset allocation process. Wilshire Consulting works with funds individually to complete the remaining steps and to select the optimal portfolio which best reflects the risk tolerance and environment for that institution.

### *Expected Future Returns*

At the beginning of each year, Wilshire reviews its long-term return and risk assumptions for the major asset classes. We define 'long-term' as forecasts that span at least the next ten years. This extended time horizon is consistent with the benefit/spending obligations of institutional investors, which generally average at least ten years. Wilshire's forecasting methodology has a strong degree of accuracy, which will be illustrated in exhibits throughout the paper, over intervals of ten or more years and is superior to short-term estimates that are notoriously error prone.

Because of their long-term horizon, Wilshire's assumptions typically change very little from year to year. One would only expect significant changes following a period of volatile directional swings in asset markets or valuations. It is routine practice for us to alter our return assumptions up or down to better fit changing market levels. This year is no exception. Though our inflation and equity return forecasts have remained unchanged since last year, Wilshire's return assumptions for most fixed income classes have been increased by 25 basis points. Conversely, we trimmed our return forecast for real estate securities by 50 basis points, from 6.25% to 5.75%, due in large part to a continuing decline in dividend yields. Finally, as we discuss within the report, we have trimmed our commodity futures return by 100 basis points in light of the massive volume of long-only capital flows into these derivative instruments.

Building on research Wilshire conducted in 2006, we have made two important modifications to the list of real estate asset classes included in this year's report. First, as a result of our recent research on global real estate securities[1], this year's report is Wilshire's first to include asset class assumptions for global real estate investments. Next, leveraging on our continued work in

[1] Wilshire Associates, Inc. (2006). *Global Real Estate Securities: Location, Ubicación, 地点*.: Foresti and Dashtara.

private real estate investing[2], we have developed a private real estate basket assumption that combines our core, value-added, and opportunistic real estate sub-class forecasts in a 70%, 15%, and 15% allocation, respectively. This approach is similar to our practice within private equity and provides a standard starting point within private real estate, while still allowing full customization of sub-asset class weights for clients interested in constructing private real estate baskets with unique risk and return profiles.

Long-term return forecasts play an important role in the institutional investment process. Actuarial interest rate assumptions, which are essentially portfolio return forecasts, are increasingly scrutinized because of their potential impact on plan contributions in the current environment. Wilshire has been forecasting asset class returns using forward looking assumptions since 1981 with a strong record of success over 10-year periods. We believe the methods used in this report are both intuitive and robust.

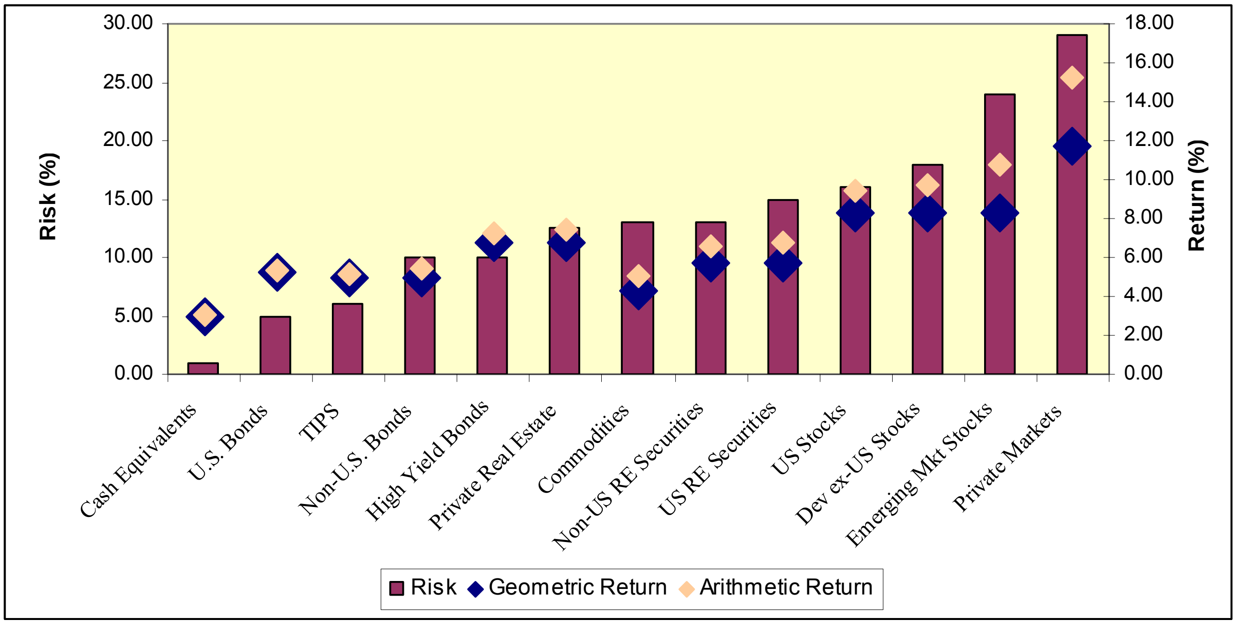
Exhibit 1 presents Wilshire's 2007 return forecasts and contrasts them with our 2006 assumptions; while Exhibit 2 displays our 2007 projections in graphical form.

**Exhibit 1**
**Wilshire's Expected Return Assumptions**

| | Total Return | | | |
|---|---|---|---|---|
| | 2006 | **2007** | Change | Risk |
| Investment Categories: | | | | |
| US Stocks | 8.25 % | **8.25 %** | 0.00 % | 16.00 % |
| Dev ex-US Stocks | 8.25 | **8.25** | 0.00 | 18.00 |
| Emerging Mkt Stocks | 8.25 | **8.25** | 0.00 | 24.00 |
| Cash Equivalents | 3.00 | **3.00** | 0.00 | 1.00 |
| U.S. Bonds | 5.00 | **5.25** | 0.25 | 5.00 |
| High Yield Bonds | 6.50 | **6.75** | 0.25 | 10.00 |
| TIPS | 4.75 | **5.00** | 0.25 | 6.00 |
| Non-U.S. Bonds | 4.75 | **5.00** | 0.25 | 10.00 |
| US RE Securities | 6.25 | **5.75** | -0.50 | 15.00 |
| Private Real Estate | n.a. | **6.75** | n.a. | 12.50 |
| Non-US RE Securities | n.a. | **5.75** | n.a. | 13.00 |
| Private Markets | 11.75 | **11.75** | 0.00 | 29.00 |
| Commodities | 5.25 | **4.25** | -1.00 | 13.00 |
| Inflation: | 2.25 | **2.25** | 0.00 | 1.00 |
| Total Returns minus Inflation: | | | | |
| U.S. Stocks | 6.00 | **6.00** | 0.00 | |
| U.S. Bonds | 2.75 | **3.00** | 0.25 | |
| Cash Equivalents | 0.75 | **0.75** | 0.00 | |
| Stocks minus Bonds: | 3.25 | **3.00** | -0.25 | |
| Bonds minus Cash: | 2.00 | **2.25** | 0.25 | |

[2] Wilshire Associates, Inc. (2006) *Private Real Estate Investing*.: Foresti and Toth.

**Exhibit 2**
**Wilshire's Expected Return and Risk Assumptions**




These return forecasts are more fully explained in subsequent sections dedicated to each asset class.

## *Historical Returns*

A key check on the reasonableness of Wilshire's assumptions is their relationship to historical returns. Exhibit 3 contrasts Wilshire return assumptions with historical returns over various periods of time and market scenarios.

**Exhibit 3**
**Historical Returns vs. Wilshire Forward-Looking Assumptions**

| | Historical Returns 1802-2006 * | Historical Returns 1926-2006 | Historical Returns High Inflation 1970-1979 | Historical Returns Bull Market 1980-1999 | Wilshire Forecast |
|---|---|---|---|---|---|
| Total Returns: | | | | | |
| Stocks | 8.2 % | 10.4 % | 5.9 % | 17.8 % | 8.3 % |
| Bonds | 4.9 | 5.6 | 7.2 | 10.0 | 5.3 |
| T-bills | 4.3 | 3.8 | 6.4 | 7.2 | 3.0 |
| Inflation: | 1.4 | 3.0 | 7.4 | 4.0 | 2.3 |
| Total Returns minus Inflation: | | | | | |
| Stocks | 6.8 | 7.4 | -1.5 | 13.8 | 6.0 |
| Bonds | 3.5 | 2.6 | -0.2 | 6.0 | 3.0 |
| T-bills | 2.8 | 0.8 | -1.0 | 3.1 | 0.8 |
| Stocks minus Bonds: | 3.3 | 4.8 | -1.3 | 7.8 | 3.0 |

** Jeremy Siegel return history from 1802-2001 ("Stocks for the Long Run" McGraw-Hill 2002) updated to 2006 using S&P 500 Index and Lehman Aggregate Bond Index*

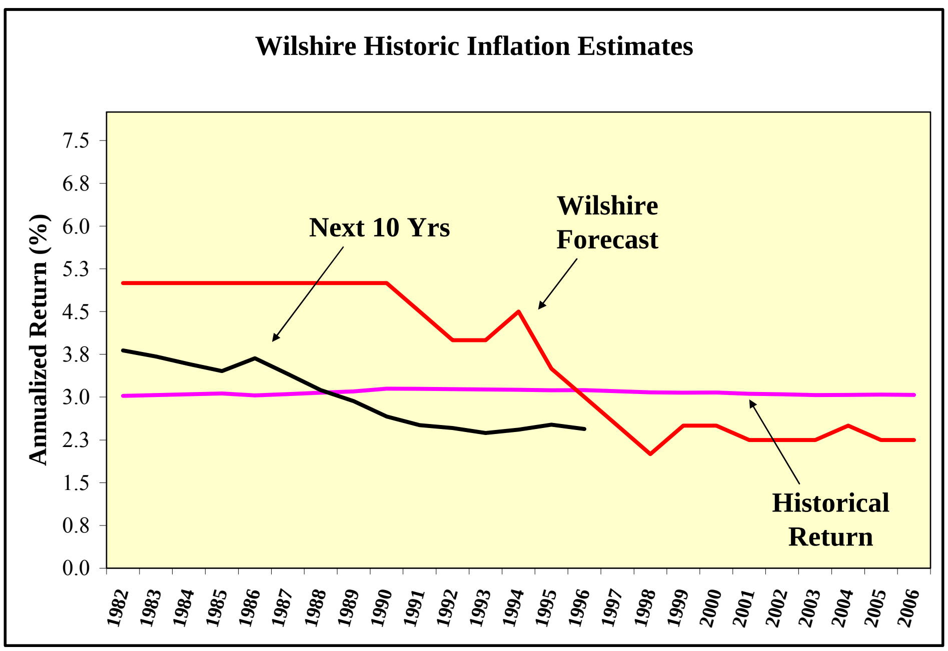
There are several relationships worth noting. Wilshire's stock and bond return forecasts, 8.3% and 5.3%, respectively, are close to the actual returns achieved over the 205-year period ending 2006. However, the relative return forecasts for stocks versus both inflation and bonds of 6.0% and 3.0% fall below their 205-year historical averages of 6.8% and 3.3%, respectively.

The remainder of the report explains the methodologies behind Wilshire's return forecasts.

## Inflation

Wilshire's long-term inflation forecast is 2.25%, which is unchanged from a year ago. To estimate long-term inflation, Wilshire derives a market-based inflation forecast by subtracting the yield of a TIPS bond from the yield of a traditional Treasury bond of the same maturity. For example, on December 29th, 2006, the 10-year Treasury had a yield of 4.71% while the yield on the 10-year TIPS was 2.41%. The 2.30% difference in yields is the bond market's estimate for inflation over the next ten years, which is also referred to as the 10-year breakeven inflation rate. Wilshire's practice is to select a return forecast rounded to the nearest 0.25%. Consequently, we round the 2.30% breakeven inflation rate to arrive at our current inflation rate forecast of 2.25%.

**Exhibit 4**
**Wilshire's Inflation Forecast and Historical CPI 1982-2006**

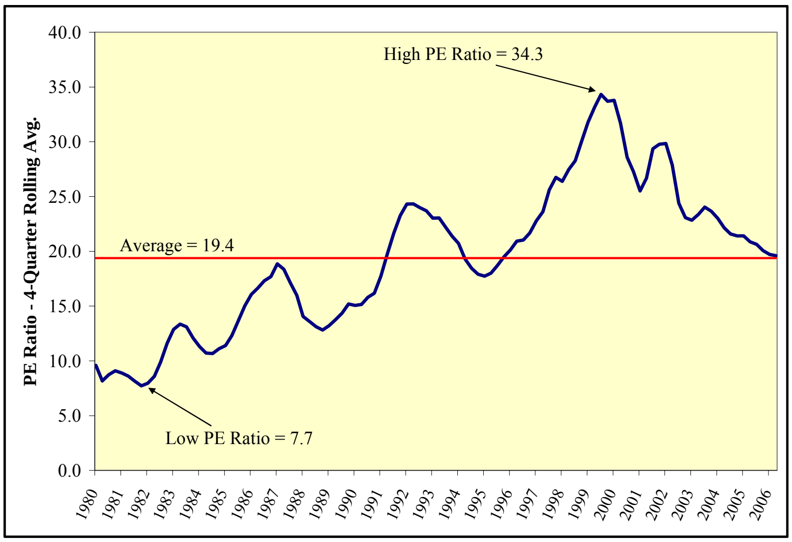


# Equity

## *U.S. Stocks*

Wilshire's long-term expected return for U.S. stocks is 8.25%, unchanged from one year ago. Since reaching a record high in the first quarter of 2000, the price-to-earnings ratio (PE ratio) has experienced some notable compression over the last six years with earnings growth outpacing stock price appreciation. The last several years of strong earnings growth have been fueled by a combination of decreasing borrowing costs, rising productivity, and rebounding economic activity from the mild recession in the early part of the decade. On a trailing four quarter average basis, we can see in exhibit 5 that the recent surge in earnings relative to stock price appreciation has compressed PE ratios but based on historical valuations, hasn't caused the market to become undervalued. Instead, the U.S. equity market trades at a multiple very close to its long term average as illustrated in exhibit 5.

**Exhibit 5**
**Dow Jones Wilshire 5000sm Price-to-Earnings Ratio (4 Quarter Average)**




It is Wilshire's practice to employ a dividend-discount model ("DDM") to forecast long-term U.S. stock returns.

Wilshire's current expected return for stocks incorporates the following assumptions:

- A year-end 2006 S&P 500 Index price of 1,418, up from 1,248 a year earlier;
- A base earnings level of $88 per share, up from $76 per share a year earlier;
- Earnings-per-share growth of 8.5% over the next five years, dropping incrementally to 4.8% from years six through 15;
- A 33% dividend payout ratio over the next five years, increasing incrementally from years six through 15 to 45% - its historical average over the past quarter-century;
- Long-term earnings and dividend growth of 4.8% after 15 years, equal to a 2.25% inflation rate and a 2.50% real growth rate.

When establishing long-term return projections, it is helpful to identify the model's sensitivity to each of the assumptions which are used as inputs. This echelon of understanding is vital in forecasting returns that can be used with a high level of confidence. Exhibit 6 demonstrates the model's sensitivity to changes in 5-year earnings growth estimates and dividend payout ratios.

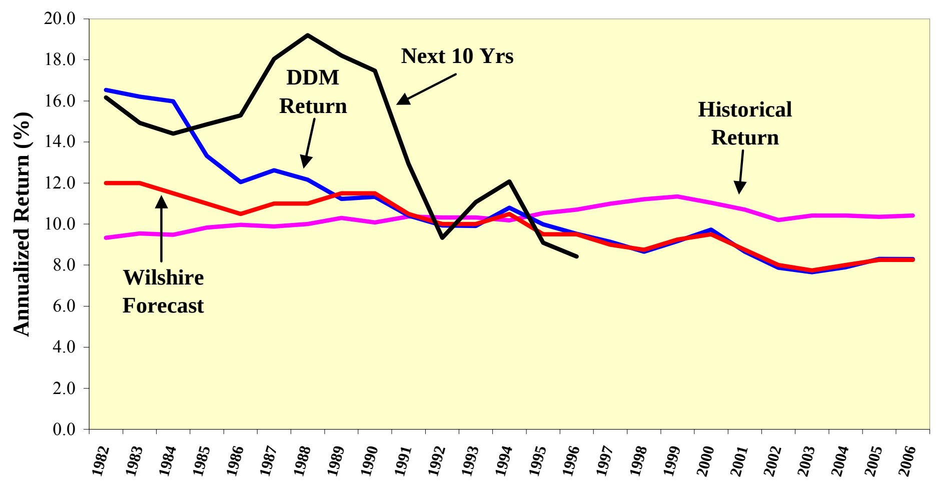
**Exhibit 6**
**DDM Forecast Sensitivity to Inputs**

| 5-Year EPS Growth (%) | Dividend Payout Ratio (Long Term) 25 | 30 | 35 | 40 | 45 | 50 |
|---|---|---|---|---|---|---|
| **7.0** | 6.73 | 7.04 | 7.34 | 7.63 | 7.90 | 8.16 |
| **7.5** | 6.82 | 7.14 | 7.45 | 7.75 | 8.03 | 8.29 |
| **8.0** | 6.90 | 7.24 | 7.56 | 7.87 | 8.15 | 8.43 |
| **8.5** | 7.00 | 7.35 | 7.68 | 7.99 | 8.29 | 8.57 |
| **9.0** | 7.09 | 7.45 | 7.80 | 8.12 | 8.42 | 8.71 |
| **9.5** | 7.19 | 7.57 | 7.92 | 8.25 | 8.56 | 8.86 |
| **10.0** | 7.30 | 7.68 | 8.04 | 8.38 | 8.71 | 9.01 |
| **10.5** | 7.40 | 7.80 | 8.17 | 8.52 | 8.85 | 9.17 |
| **11.0** | 7.51 | 7.92 | 8.30 | 8.66 | 9.00 | 9.33 |
| **11.5** | 7.62 | 8.05 | 8.44 | 8.81 | 9.16 | 9.49 |
| **12.0** | 7.74 | 8.17 | 8.58 | 8.96 | 9.32 | 9.66 |

Wilshire's assumption of 8.5% earnings growth over the next five years is calculated by observing the historical relationship between the I/B/E/S 'bottom-up' security level median 5-year earnings per share (EPS) growth rate and the actual 5-year EPS growth rate following the forecast. The historical relationship between these two suggest the 'bottom-up' estimate is consistently overly optimistic and prone to 'over shoot' error by an average of 42%. Put differently, actual EPS growth has historically averaged 70% of the bottom-up EPS estimate. In light of a year end bottom-up EPS estimate of 12.0%, we expect the EPS growth rate over the next five years to be 8.5% (12.0% x 70% ≈ 8.5%). We expect dividend payout ratios to move towards their historical average of 45% over the next 15 years.

Exhibit 7 details the history of Wilshire's stock return forecasts together with the dividend-discount model return forecasts, historical returns, and the rolling returns for the 10-year period following each estimate. Beginning in the mid-1980s, Wilshire chose to base its stock return forecast on its DDM whereas previously our forecast blended the model return with historical stock returns. With the exception of periods beginning in the late 1980s and early 1990s, Wilshire's DDM forecast has been a very good predictor of the S&P 500's return over the following ten-year period. Actual 10-year returns that began in those years included the technology bubble of the late 1990s, something we would not expect our methodology to predict. Equity returns have subsequently deflated and Wilshire's forecasts from 1992 through 1996 (the last estimates with ten years of subsequent actual returns) are once again consistent with actual S&P 500 returns for the subsequent ten years.

## Exhibit 7
## Wilshire Stock Return Forecast vs.
## DDM Return, Historical Return, & Actual 10-Year Return Following Forecast




| Year | S&P 500 1926 to | DDM at 12/31 | Wilshire's Forecast | S&P 500 Next 10 Yrs |
|---|---|---|---|---|
| 1982 | 9.33 % | 16.53 % | 12.00 % | 16.17 % |
| 1983 | 9.54 | 16.20 | 12.00 | 14.93 |
| 1984 | 9.48 | 15.98 | 11.50 | 14.40 |
| 1985 | 9.83 | 13.33 | 11.00 | 14.86 |
| 1986 | 9.96 | 12.05 | 10.50 | 15.29 |
| 1987 | 9.89 | 12.62 | 11.00 | 18.05 |
| 1988 | 9.99 | 12.17 | 11.00 | 19.20 |
| 1989 | 10.30 | 11.23 | 11.50 | 18.21 |
| 1990 | 10.08 | 11.33 | 11.50 | 17.46 |
| 1991 | 10.37 | 10.42 | 10.50 | 12.94 |
| 1992 | 10.32 | 9.93 | 10.00 | 9.34 |
| 1993 | 10.32 | 9.91 | 10.00 | 11.06 |
| 1994 | 10.18 | 10.80 | 10.50 | 12.07 |
| 1995 | 10.53 | 9.99 | 9.50 | 9.08 |
| 1996 | 10.70 | 9.53 | 9.50 | 8.42 |
| 1997 | 10.99 | 9.14 | 9.00 | |
| 1998 | 11.21 | 8.66 | 8.75 | |
| 1999 | 11.34 | 9.17 | 9.25 | |
| 2000 | 11.04 | 9.72 | 9.50 | |
| 2001 | 10.70 | 8.66 | 8.75 | |
| 2002 | 10.20 | 7.88 | 8.00 | |
| 2003 | 10.42 | 7.65 | 7.75 | |
| 2004 | 10.42 | 7.90 | 8.00 | |
| 2005 | 10.35 | 8.31 | 8.25 | |
| 2006 | 10.42 | 8.29 | 8.25 | |

## *Non-U.S. Stocks*

Wilshire uses the same 8.25% expected return for non-U.S. stocks of developed markets as it does for U.S. stocks. While this view has gained wider acceptance in recent years, some institutional investors and their money managers assume that the non-U.S. developed stock market will average somewhat higher returns than U.S. stocks. As demonstrated in Exhibit 8, the historical record does not support a non-U.S. return premium.

**Exhibit 8**
**Historical Returns (through 2006)**

| | U.S. Dollar | | Local Currency | |
|---|---|---|---|---|
| | **Return** | **Risk** | **Return** | **Risk** |
| **S&P 500 Index** | 11.2 % | 15.2 % | 11.2 % | 15.2 % |
| **MSCI EAFE Index** | 10.9 | 16.4 | 9.0 | 14.2 |
| **Europe** | 11.3 | 16.5 | 10.5 | 15.1 |
| **Pacific** | 10.8 | 20.5 | 8.3 | 17.0 |

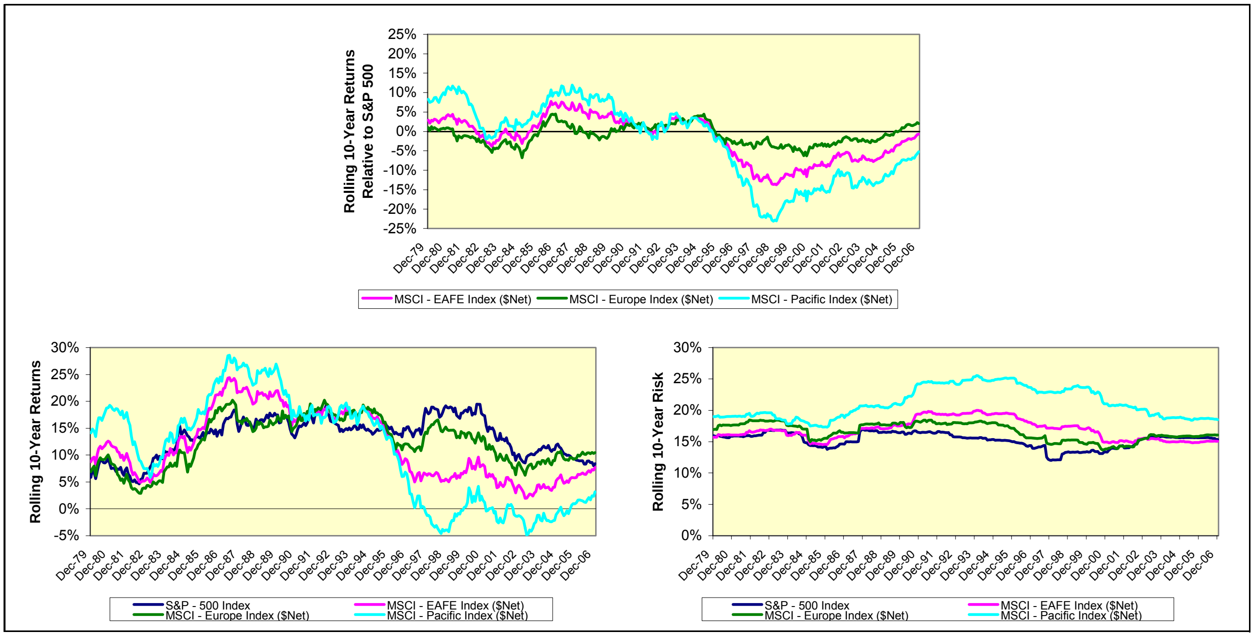
Reliable returns for non-U.S. stocks are available beginning 1970. Since that time U.S. stocks, as represented by the S&P 500 Index, have returned 11.2% per year, versus 10.9% for non-U.S. stocks as measured by Morgan Stanley Capital International's ("MSCI") EAFE Index in U.S. dollars.

When the two chief components of the EAFE Index are examined, we see support for the same conclusion. Since December 31, 1969, European stocks have returned 11.3% per year, or 10 basis points above U.S. stocks. Given this long-term performance record, similar risk levels, and common financial attitudes toward risk-taking, it would seem reasonable to forecast similar long-term returns for the U.S. and Europe. In fact, evidence might suggest slightly lower expected returns on European stocks due to higher costs (transaction costs, taxes and dividend withholding) of investing in the European stock markets.

The Pacific component of EAFE tells a similar story. Actual Asian returns have been comparable to the U.S., averaging 10.8% over the past 37 years. Japan, the largest country within the Pacific, returned 11.2% during the same period.

Exhibit 9 shows a long stretch of time (roughly 1985 to 1995) over which the MSCI EAFE Index outperformed the S&P 500 Index due to the then robust Japanese market. However, we believe the subsequent nearly 10-year out-performance of U.S. stocks versus non-U.S. stocks supports our assumption that the economic theories of Purchasing Power Parity ("PPP") and Interest Rate Parity ("IRP") prevail over long time periods and justify the selection of a single return assumption for both asset classes.

**Exhibit 9**
**Rolling 10-Year Return & Risk Comparisons**




With the deficiency of concrete evidence that supports a non-U.S. equity return premium, Wilshire forecasts an 8.25% return for non-U.S. stocks of developed nations, the same as for U.S. stocks.

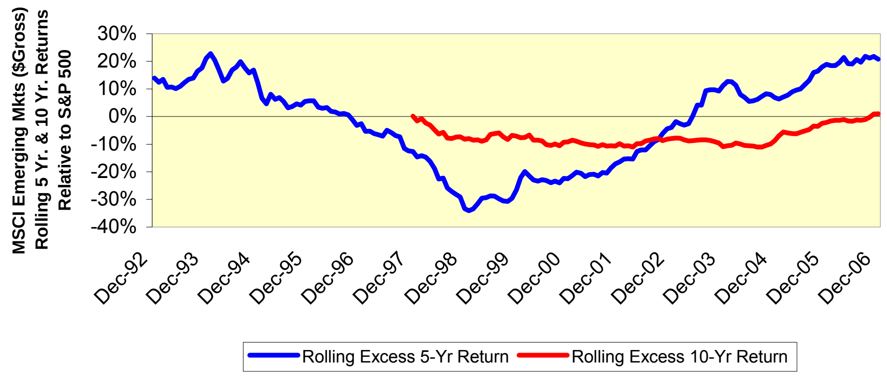
## *Emerging Markets*

Money managers have long supported the view that emerging markets should produce returns above the developed EAFE markets. Poor returns in the late 1990s combined with emerging markets' high volatility have however, caused some managers to re-evaluate their position. In fact, it is important to understand that the historical record on emerging market performance is short and shows mixed results. This gives us little confidence in predicting a return premium to emerging markets above our return forecast for the developed stock markets. For example, prior to 2004, the historical return of the MSCI Emerging Markets Index was 12.4%, almost directly in line with the return on the S&P 500. Exhibit 10 illustrates this point.

The last three years, however, have seen emerging markets outperform developed equity markets by a wide margin, as measured from the start of the MSCI Emerging Markets Index. This has caused the relative returns for emerging markets to again be superior to those of the developed markets in a similar fashion to that seen in the early 1990's. As shown by the rolling 5-year relative return line in Exhibit 10, this appears to be a cyclical phenomenon and as such, is not a sufficient reason to justify a long-term return premium. The rolling 10-year relative return line demonstrates the questionability of anticipating a return premium for emerging stocks.

**Exhibit 10**
**Emerging Market Returns (1988 through 2006)**

| | U.S. Dollar Return | U.S. Dollar Risk |
|---|---|---|
| **S&P 500 Index** | 12.2 % | 13.7 % |
| **MSCI Emerging Markets** | 15.1 | 22.8 |




Wilshire recommends an emerging market expected return equal to the return for developed markets, rather than assuming a small return premium to emerging markets. This approach is consistent with Wilshire's treatment of the U.S. stock market where large stocks are not separated from small stocks and value stocks are not separated from growth stocks in the asset allocation process. Wilshire believes that emerging markets have become sufficiently integrated into the fabric of institutional money management that market capitalization weighting will give most investors a near optimal return/risk tradeoff.

Wilshire's asset allocation work – unless otherwise directed by client circumstances – will implicitly assume an emerging markets component within the non-U.S. equity asset class. The emerging markets component will be market-weighted, which, as of 2006 end of year market values, represents 14% of total non-U.S. equity. Our research shows that efficient portfolios include a small allocation to emerging markets, consistent with a market-weighting, even with a level of return equal to the developed equity markets. In this framework, emerging stock markets become a risk management or diversification vehicle rather than an asset class that is expected to generate higher long-term returns. Some clients, including most non-U.S. fund sponsors, may prefer to treat emerging markets as a separate asset class. Such an approach is easily accommodated and is well supported by our practice of deriving separate assumptions for the developed and emerging markets.

# Fixed Income

## *U.S. Bonds*

Bond market yields provide the most reliable forecast of long-term future bond returns. On December 29, 2006, the yield-to-maturity on the Lehman Aggregate Bond Index was 5.34%, 26 basis points higher than its 5.08% yield-to-maturity one year earlier. Wilshire's practice is to use the current yield-to-maturity as the predictor of future bond returns, as such we round the 5.34% yield-to-maturity of the Lehman Aggregate to arrive at our Core Bond forecast of 5.25%.

The U.S. yield curve is currently displaying an inverted term structure where short-term rates are higher than long term rates. The curve's inverted or downward sloping shape relative to a more "normal" upward sloping curve, does not however, materially impact Wilshire's return forecasts for bonds. Instead, as will be explained in the discussion of our Treasury and TIPS forecasts, subtle rounding adjustments have been made in consideration of the inverted yield curve. Exhibit 11 illustrates the change in treasury yield spreads during 2006 along with their historical 10- and 20-year averages.

**Exhibit 11**
**Historical Treasury Yield Spreads**

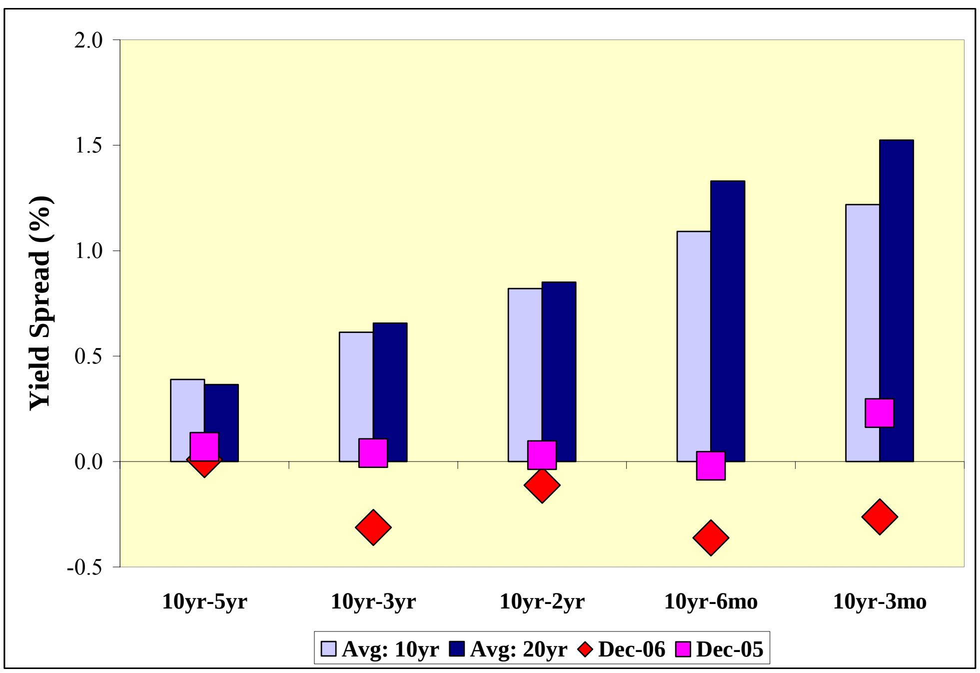
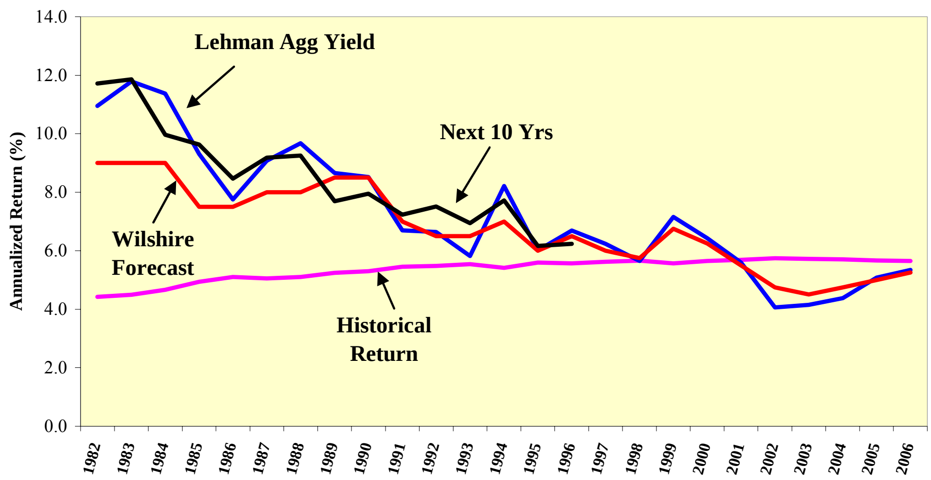



Exhibit 12 below compares Wilshire's past bond return assumptions with historical returns, yields, and the rolling returns for the ten year period following each forecast. The accuracy of Wilshire's forecast methodology of future long-term returns is confirmed by the tight relationship between the forecast line and the rolling 10yr historical return line depicted below.

## Exhibit 12
## Wilshire Bond Return Forecast vs.
## Current Yield, Historical Return, & Actual 10-Year Return Following Forecast




| Year End | Lehman Agg 1926 to | Lehman Agg Yield at 12/31 | Wilshire Forecast | Lehman Agg Next 10 Yrs |
|---|---|---|---|---|
| 1982 | 4.43 % | 10.95 % | 9.00 % | 11.72 % |
| 1983 | 4.49 | 11.79 | 9.00 | 11.86 |
| 1984 | 4.67 | 11.37 | 9.00 | 9.96 |
| 1985 | 4.93 | 9.31 | 7.50 | 9.63 |
| 1986 | 5.10 | 7.75 | 7.50 | 8.47 |
| 1987 | 5.06 | 9.08 | 8.00 | 9.18 |
| 1988 | 5.10 | 9.68 | 8.00 | 9.26 |
| 1989 | 5.24 | 8.66 | 8.50 | 7.69 |
| 1990 | 5.30 | 8.52 | 8.50 | 7.96 |
| 1991 | 5.45 | 6.70 | 7.00 | 7.23 |
| 1992 | 5.48 | 6.64 | 6.50 | 7.51 |
| 1993 | 5.54 | 5.82 | 6.50 | 6.95 |
| 1994 | 5.42 | 8.21 | 7.00 | 7.72 |
| 1995 | 5.59 | 6.01 | 6.00 | 6.16 |
| 1996 | 5.56 | 6.69 | 6.50 | 6.24 |
| 1997 | 5.62 | 6.24 | 6.00 | |
| 1998 | 5.66 | 5.65 | 5.75 | |
| 1999 | 5.57 | 7.16 | 6.75 | |
| 2000 | 5.65 | 6.43 | 6.25 | |
| 2001 | 5.69 | 5.60 | 5.50 | |
| 2002 | 5.74 | 4.06 | 4.75 | |
| 2003 | 5.72 | 4.15 | 4.50 | |
| 2004 | 5.71 | 4.38 | 4.75 | |
| 2005 | 5.66 | 5.08 | 5.00 | |
| 2006 | 5.65 | 5.34 | 5.25 | |

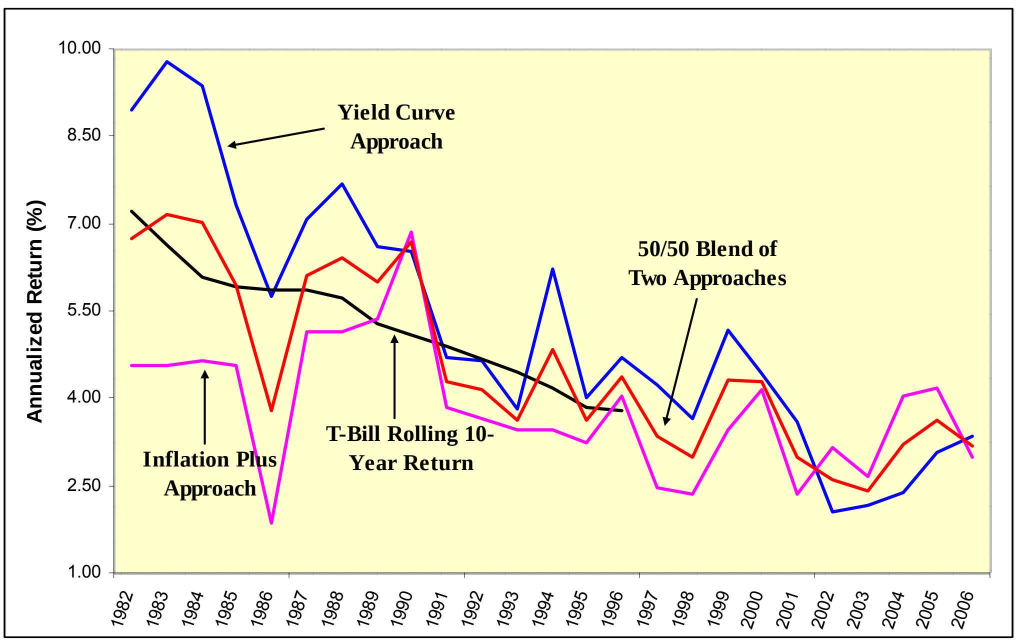
## *Cash Equivalents*

Wilshire blends two methodologies in forecasting returns for cash equivalents: the "Yield Curve Approach" and the "Inflation-plus Approach."

The Yield Curve Approach starts with the yield-to-maturity on Core Bonds and subtracts the average yield premium between short and long bond yields. Since 1979, the yield curve premium has averaged 2%. Subtracting 2% from our 5.25% core bond return forecast gives a 3.25% cash return forecast. Alternatively, the Inflation-plus Approach adds a short-term real return component to our inflation rate forecast. Over the past half-century, real returns for Treasury bills have averaged 0.75% that, when added to our 2.25% inflation rate assumption, equals a 3.00% cash return forecast.

Exhibit 13 compares Wilshire's yield curve approach, inflation-plus approach, and a 50/50 blend of the two approaches with the Treasury bill return for the rolling ten year period following each estimate. Focusing on the red line depicting a 50/50 Blend of the two approaches and the black line depicting the T-Bill Rolling 10-Year Return, it appears that the 50/50 Blend serves as an accurate predictor of Cash Equivalents for the forward 10yr period. Wilshire's measurement practice however, is to select a return forecast rounded to the nearest 0.25%. Given the current inverted yield curve, our Cash Equivalent forecast favors the Inflation-plus Approach forecast of 3.00%.

**Exhibit 13**
**Wilshire's Cash Equivalents Forecast vs. Actual 10-Year Return**



## *Non-U.S. Bonds*

Investment theory suggests that Non-U.S. Bond yields will be equivalent to Core U.S. Bond yields when currency adjustments are taken into account. This would imply using the same 5.25% Core U.S. Bond return forecast for non-U.S. Bonds. Our experience, however, shows that custodial costs, taxes, transaction fees, and a higher credit quality versus the U.S. bond market, due to the large proportion of government debt in Non-U.S. Bond indexes, reduce the Non-U.S Bonds return by 25 basis points. Thus, our methodology results in a 5.00% expected return for Non-U.S. Bonds. Exhibit 14 compares historical Core U.S. Bond return and risk values[3] with hedged and unhedged values of the Citigroup Non-U.S. Government Bond indices.

**Exhibit 14**
**U.S. vs. Non-U.S. Bond Returns (1985 through 2006)**

| | U.S. Dollar | | Local Currency | |
|---|---|---|---|---|
| | **Return** | **Risk** | **Return** | **Risk** |
| **Core U.S. Bonds** | 8.3% | 4.8% | 8.3% | 4.8% |
| **Citigroup Non-U.S. Govt.** | 9.9% | 11.6% | 7.6% | 4.1% |

Unhedged Non-U.S. Bonds offered better returns over the 22-year period thanks to a net fall in the dollar for the entire time period. Hedged Non-U.S. Bond returns take out expected and unexpected currency movements and show returns 70 basis points below Core U.S. Bonds at less risk. A long-term forecast for Non-U.S. Bonds should not include a currency return, positive or negative, and should rely upon historical hedged returns. Risk forecasts, however, should come from the experience of the unhedged indexes unless a hedged strategy is employed.

In summary, Wilshire is using a 5.00% expected return for Unhedged Non-U.S. Bonds and a 4.90% expected return for Hedged Non-U.S. Bonds, with a ten basis point deduction in return for Hedged Non-U.S. Bonds the result of expected additional hedging costs.

## *Treasury Bonds and Treasury Inflation Protected Securities (TIPS)*

Wilshire's return assumption for Treasuries is derived from the yield-to-maturity of the Lehman Treasury Index. Our return forecast for Treasuries is 4.75%, which is based on the index's December 29, 2006 yield-to-maturity of 4.79%. As mentioned earlier, the yield curve's current inverted shape has a subtle impact on our expectation for Long-Term Treasury Bonds. Therefore, rather than round the yield-to-maturity of the Lehman Long-Term Treasury Index down six basis points, from 4.81% to 4.75%, we round our forecast up 19 basis points to 5.00% to reflect the added return premium that is expected from a yield curve with a more normal shape consistent with historical observations.

Wilshire recommends using an expected return for Treasury Inflation Protection Securities (TIPS) equal to the expected return for similar maturity, nominal Treasury bonds. Our return forecast for TIPS is 5.00%, 25 basis points higher than our forecast for Treasuries and equal to

[3] Wilshire uses the Lehman Aggregate U.S. Bond Index as the principal benchmark for U.S. Core Bonds.

our long-term Treasury assumption. This forecast reflects a TIPS portfolio that mirrors the Lehman U.S. TIPS Index, which has a longer average maturity than the Lehman Treasury Index. For the reasons discussed above with respect to our long-term Treasury assumption, we add a 25 basis point premium to our 4.75% Treasury forecast, resulting in an expected TIPS return of 5.00%.

## *High Yield Bonds*

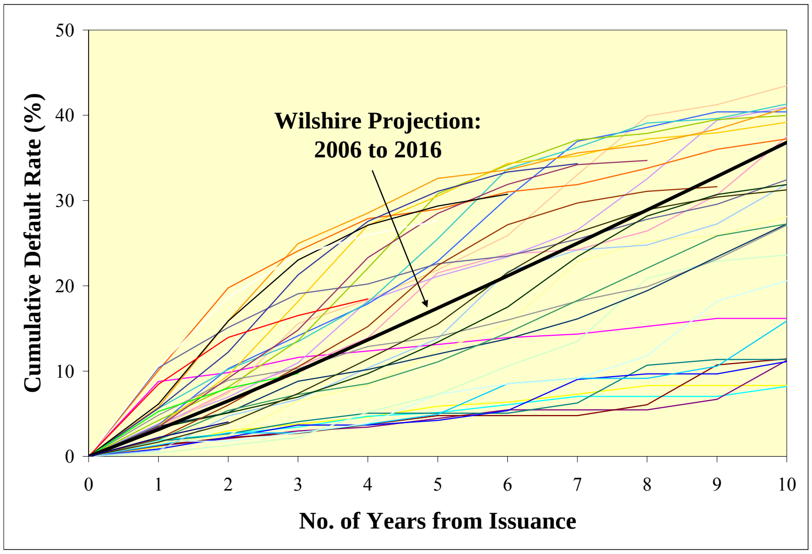
Wilshire's return forecast for high yield bonds is 6.75%. This return forecast is based upon our high yield bond model that accounts for the dynamic nature of credit yield spreads, defaults and recoveries.

Wilshire's 6.75% high yield expected return incorporates the following assumptions:

- An initial yield spread of 2.91%, down from 3.75% one year prior
- An initial default rate of 3.0%, increasing incrementally over a 10 year explicit period to an historical 4.0% average.
- A 10-year cumulative annual default rate of 36.8%
- A constant 40% recovery rate, equal to the historical average recovery rate
- A 10-year cumulative annual loss rate – defaults minus recoveries – equal to 22.1% versus 21.3% last year.

Wilshire's high yield bond model incorporates the ability to input variable default rates. In Exhibit 15 we graph Wilshire's expected future default rates against all historical cumulative default rates from 1970 through 2005. Each line represents the historical cumulative default rates for high yield bonds issued in a single vintage year. The dark solid line is Wilshire's forward-looking default rate that is used in our expected return model for high yield bonds. Wilshire's default forecast line represents default expectations for a market portfolio holding bonds issued across various years. While it differs in nature from the vintage year default lines, which represent cumulative default rates specific to each single year of issue, the chart is useful in comparing our projection to historical default rate paths.

**Exhibit 15**
**Historical Cumulative Default Paths - 1970 to 2005**

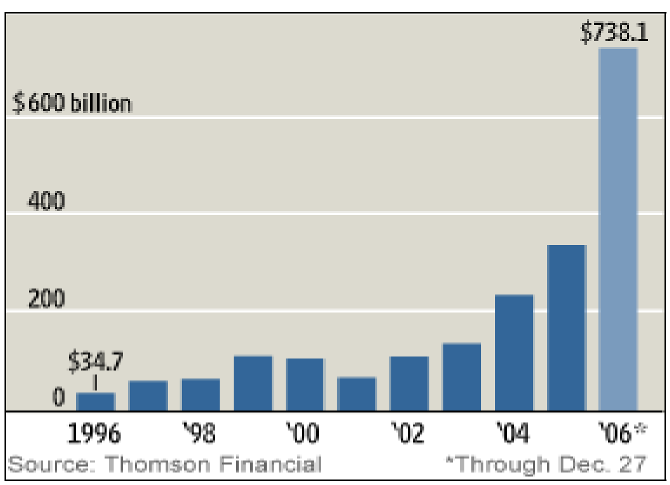



Our previous research on high yield bonds[4] explains the rationale behind Wilshire's long-term return forecasting methodology in greater detail.

## Private Market Investments

In 2006, a remarkable $738 billion in private equity transactions took place of which $19.2 billion through Q3 2006 went towards venture capital deals. Among some of the largest deals were hallmark names of industry giants HCA Healthcare, Clear Channel Communications, and Harrah's Entertainment. Exhibit 16 illustrates the growth of U.S. private equity transactions over the last ten years.

**Exhibit 16**
**1996-2006 U.S. Private Equity Transactions**




[4] Wilshire Associates, Inc. (2005). *High Yield Market Update*.: Yang.

Wilshire's assumptions for individual private market asset classes are contained in Appendix B together with risk and return comparisons to some of the major public asset classes. Our private market return expectations are based upon drawing parallels to the public markets where appropriate. Further detail on Wilshire's methodology is available in part two of our three part series on private equity investing.[5] Additionally, we have studied actual returns earned by large institutional private market portfolios covering a 15 year time period. We source our data from our in-house database and then check the resulting estimates against those published by *Venture Economics*, a firm specializing in measuring private equity returns. Return forecasts are shown in the first row of Appendix B.

Wilshire's risk forecasts, which are expressed as standard deviations of annual returns, are reported in row two of Appendix B. Risk estimates for the Private Market asset class pose a unique challenge because infrequent private market investment valuations preclude the calculation of short-term periodic returns. As a result, projections of risk based on accounting data consistently understate risk. Wilshire's approach has thus been to estimate risk by drawing parallels to the public markets and adjusting for any added risk contributed by financial leverage, the absence of liquidity, or greater business risk.

The remaining rows in Appendix B contain correlation forecasts. Again, these estimates come from parallels to the public markets and are useful in assessing the diversification benefits of private markets. In general, Wilshire views the use of private equity as a type of super-charged equity return rather than a diversification tool. The linkage between these markets is quite intuitive, as private equity returns are subject to the receptiveness of the capital markets to generate their outsized returns.

## Buyouts

Our expected return for U.S. buyouts is 10.25%. The assumption is that buyouts will exhibit similar business risks as publicly traded companies but will have greater financial risk. Therefore, it is appropriate to model buyout returns using public market proxies for equity returns and financing costs. All expected returns in Appendix B are intended to be net returns. For example, the 10.25% expected return for buyouts should be viewed as net of all fees, including carried interest.

Wilshire's risk forecast for buyouts is 28%. This forecast is considerably higher than the 16% risk level we assume for public stocks and is attributable to greater financial risk due to a more leveraged capital structure in buyout companies. Our leverage assumption is based on a capital structure with 40% short-term debt, 20% high yield debt, and 40% equity for buyouts, which is consistent with historical measurements.

## Venture Capital

Wilshire's return assumption for venture capital is 12.00%, unchanged from last year and consistent with our view on the public markets. The valuation of venture capital investments can vary by manager. This mix of current and stale valuations becomes an issue when aggregating

[5] Wilshire Associates, Inc. (2002). *Private Equity Investing Part 2 – Generating Asset Class Assumptions*.: Foresti and Toth.

venture performance for use in asset allocation. Therefore the presence of stale valuations suggests that to the extent venture capital performance is related to public market performance it will have some sensitivity to both recent and past returns. By including lagged data from the public markets, a more correct beta can be derived versus one naively found with a regression on contemporaneous data.

Our analysis indicates that venture capital exhibits a beta of 1.7 to the public market. Using the familiar CAPM formula $E(r) = \beta(R_m - R_f) + R_f$, we can derive an expected return for venture capital. This return estimate makes intuitive sense as investors should demand a return premium for making venture investments considering the uncertainty inherent in investing in new ventures.

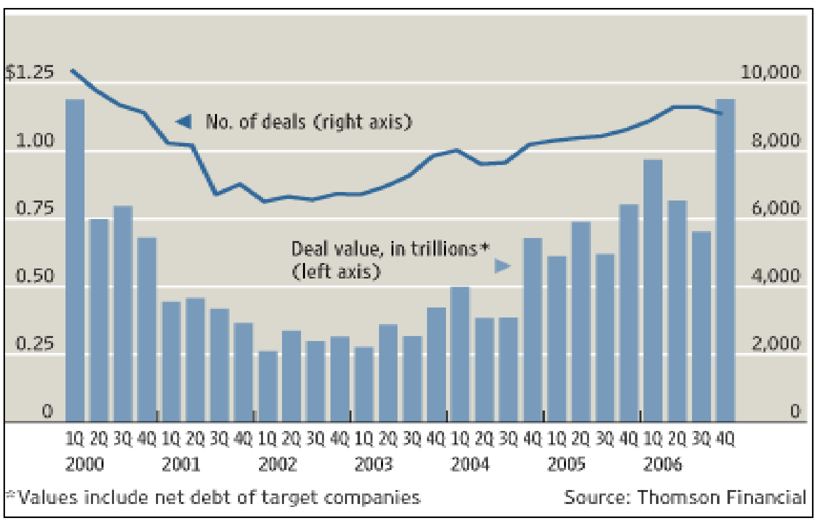
$E(r) = 1.7(8.25 - 3.00) + 3.00 = 11.93\%$, which we round to 12.00%.

The first three quarters of 2006 saw total venture capital investments of $19.2 billion versus $17 billion for the same time period in 2005.[6] This level of interest in the asset class indicates that investors believe in the necessity of including venture capital when making strategic allocations.

## *Non-U.S. Buyouts*

The U.S. market was not alone in its explosion of large deal volume; private market deals set record levels in Asia as well raising $288 billion.

**Exhibit 17**
**2000-2006 Global Private Equity Transactions**




Return and risk forecasts for non-U.S. buyouts follow the same methodology used for U.S. buyouts with two changes: non-U.S. equity is used as a public market proxy instead of U.S.

[6] MoneyTree Survey, Q3 2006 Results, U.S. Report. Price Waterhouse Coopers, National Venture Capital Association, Data provided by Thomson Financial. Located on the Web at www.pwcmoneytree.com.

equity and Wilshire's non-U.S. bond assumption is used as the corporate debt proxy. The result is a 10.25% expected return and 33.00% risk.

### Distressed Debt

The Citigroup Global Markets Bankrupt/Defaulted Debt Index was selected as a public market proxy for distressed debt investments. The index contains virtually all issues in default. The 19% risk forecast and correlations reported in Appendix B for distressed debt are based upon historical measurements for the Citigroup Index. The 8.75% expected return for distressed debt comes from our view that successful distressed investors take equity-like control positions in distressed companies with significant upside potential but less risk than other buyouts because companies have already encountered financial distress.

Our analysis suggests that one of the benefits of including distressed debt in a private markets portfolio is its low correlation with public asset classes, particularly stocks, when compared with other private market asset classes.

### Mezzanine Debt

Wilshire views mezzanine debt like a convertible bond. However, unlike publicly traded convertibles with characteristics combining stocks and bonds, mezzanine debt possesses characteristics combining buyouts and high yield bonds. Consequently, we expect their return and risk measures to lie somewhere between buyouts and high yield bonds. Therefore, the 8.75% return and 19% risk forecast for mezzanine debt in Appendix B is based upon a blend of our buyout and high yield assumptions.

### Private Markets Portfolio

The return and risk forecast for a diversified private markets portfolio is provided in Appendix B. The makeup of the private portfolio is:

| | |
|---|---|
| Buyouts | 60% |
| Venture Capital | 30% |
| Non-U.S. Buyouts | 10% |
| | 100% |

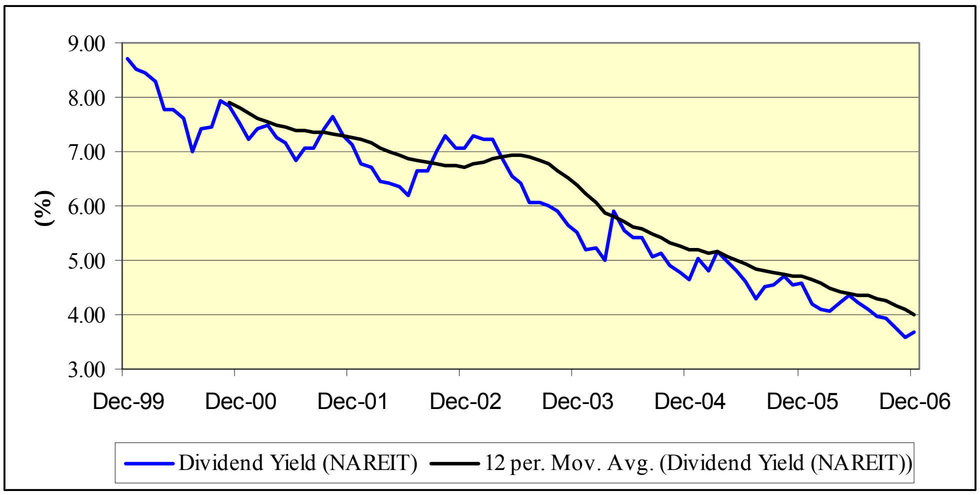
The weightings were chosen because they are representative of typical private market allocations of large institutional investors. When the components are geometrically calculated with a lognormal assumption, the forecast return for a diversified private markets portfolio is 11.7%, which we round to 11.75% given our convention to round to the nearest quarter percent. This level of return is 3.50% above the 8.25% expected return for U.S. stocks. The forecast risk for the diversified private markets portfolio is 29%, almost twice the forecast risk of U.S. stocks.

# Real Estate Investments

## U.S. Real Estate Securities

Wilshire is forecasting an expected return of 5.75% for U.S. real estate securities, reduced from 6.25% last year. This assumption is derived from combining the 1-year average REIT dividend yield for 2006 of 4.0% with an expected dividend growth rate of 1.7%. Examining REIT dividend growth over the past 33 years, Wilshire found that REITs were able to pass through about three-quarters of inflation through rent and dividend increases. The 1.7% expected dividend growth equals three-quarters of Wilshire's 2.25% inflation forecast. The REIT sector followed up the 13.8% gain in 2005 with a charging 36.0% gain in 2006. Exhibit 18 shows that the REIT dividend yield declined throughout the year and is a key reason for the 50 basis point reduction in our expected return for U.S. Real Estate Securities.

**Exhibit 18**
**REIT Dividend Yield**




*Source: NAREIT*

## Global Real Estate Securities

Wilshire's usual practice is to assume comparable non-U.S. and U.S. returns within a global asset class containing regional components. Within this context we often employ a market or model based approach to forecasting the U.S. component return, which we then build into a non-U.S. component assumption. Similar to our equity assumptions, we forecast a long-term return for U.S. real estate securities and then expand that result to serve as our global real estate securities return forecast. While the historical record for global real estate securities is short, it does not support a non-U.S. return premium and until strong evidence supports otherwise, we are comfortable assuming a similar return globally. This approach leads to our 5.75% long-term return forecast for global real estate securities.

## *Private Real Estate (Direct Property)*

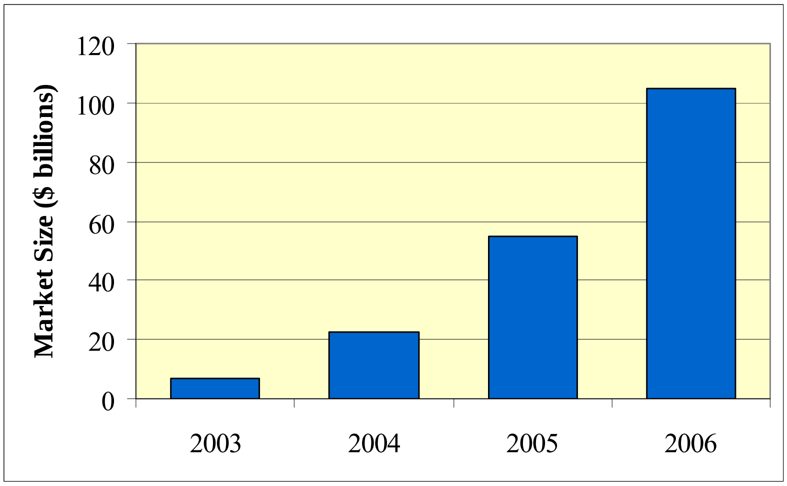
Private real estate investments can be divided into three primary subsets: core (including core infrastructure), value-added, and opportunistic. Wilshire's return assumption for private real estate is 6.75% and is based on a private real estate portfolio consisting of 70% core, 15% value-added, and 15% opportunistic. The increase in our private real estate return mainly reflects a new asset mix for our private real estate portfolio, which moved from a concentration in core real estate to include higher weightings of value-added and opportunistic real estate allocations. These private real estate asset weightings are flexible and dependent on a client's investment objectives. Wilshire's assumptions for individual private real estate asset classes are contained in Appendix C together with comparisons to some of the major public asset classes.

As mentioned above, the private real estate portfolio can be broken up into three categories: core, value-added, and opportunistic. Core real estate investments are characterized by larger properties with more stable cash flows, less utilization of financial leverage and a lower level of risk than the other real estate investment strategies. Value-added investments in the real estate market are characterized by improvements in a number of attributes. Value-added real estate investors are able to create wealth by developing new properties as well as redeveloping underperforming properties through physical, financial and operational upgrades. Investing in opportunistic real estate occurs after the cyclical nature of assets in different geographies and property types cause market values to fall. The opportunistic investor attempts to successfully exploit inefficient market pricing through property selection and market-timing while at the same time managing risk appropriately. For a more detailed discussion on Private Real Estate Investing, please refer to Wilshire's research paper "Private Real Estate Investing."

## Commodities

The recent performance of commodities has thrust the asset class into the spotlight as investors continue to search for enhanced returns and portfolio diversification. Institutional investors can gain exposure to commodities through either the futures market or via a swap contract. Investable commodity indices, constructed from a combination of commodity futures contracts, can provide investors broad access to the return and diversification attributes of underlying commodities. While the precise levels of investments tracking such indexes are difficult to measure, as they are often implemented through over-the-counter transactions, reliable estimates do exist. As Exhibit 19 demonstrates, the size of long-only commodity index exposure has grown dramatically over recent years as tens of billions of dollars of net capital flows have been invested.

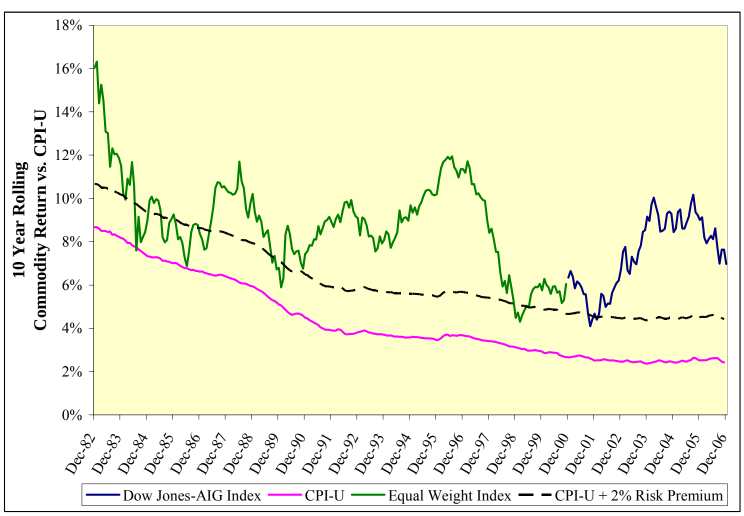
**Exhibit 19**
**Commodity Index Investments**




Source: Dow Jones Indexes (values are the mid-point of range estimates)

As was discussed in Wilshire's March 2005 paper, "Commodity Futures Investing: Is All That Glitters Gold?," an allocation to commodity futures becomes a bet on the term structure of commodity prices going forward, where a greater degree of backwardation enhances roll yield. Investors should understand that future commodity returns will be similar to the historical profile if the premium for providing insurance and convenience (roll yield) are as high in the future as they have been in the past. As more investors participate in collecting a risk premium from producers, the theoretical support for backwardation becomes less compelling. Therefore, the additional $80 billion in assets following such strategies, which represents a quadrupling in size over the past two years, leads us to reduce our assumed premium over inflation from 3.0% to 2.0%, resulting in Wilshire's long-term return forecast of 4.25%. Exhibit 20 shows graphical support for this methodology over the historical record.

**Exhibit 20**
**Historical Commodity Returns**



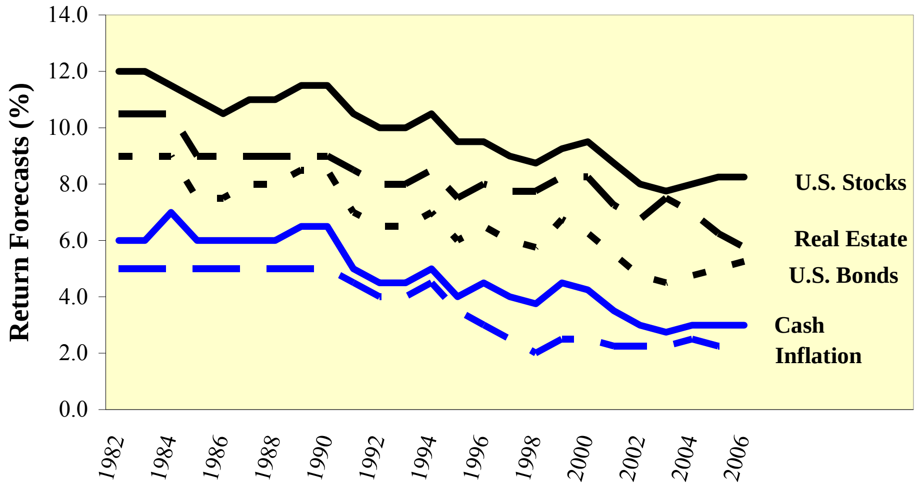
Wilshire's forecasted risk for commodity futures is 13% based on the historical record of the Dow Jones-AIG Commodity Index. It is important to note that other indexes differ in composition from the Dow Jones-AIG index and therefore may be substantially more or less risky.

The low measured correlation of commodity returns with more traditional assets, such as stocks and bonds, stems from their price sensitivity to current economic supply and demand forces. In contrast, stock and bond valuations are more heavily driven by forward-looking expectations. Historically, these factors have caused traditional assets and commodities to have lower correlations. A complete list of correlations for commodities versus other asset classes can be found in Appendix A.

## Wilshire Forecasts Over Time

Exhibit 21 shows how Wilshire's return forecasts have changed over the past 25 years. Notice the relative relationship between asset classes and how, when the assumptions change, they generally move together.

## Exhibit 21
## Wilshire's Past Forecasts for Asset Class Returns




| Year Beginning | U.S. Stocks | U.S. Bonds | Cash Equivalents | Real Estate | Inflation |
|---|---|---|---|---|---|
| 1982 | 12.0 % | 9.0 % | 6.0 % | 10.5 % | 5.0 % |
| 1983 | 12.0 | 9.0 | 6.0 | 10.5 | 5.0 |
| 1984 | 11.5 | 9.0 | 7.0 | 10.5 | 5.0 |
| 1985 | 11.0 | 7.5 | 6.0 | 9.0 | 5.0 |
| 1986 | 10.5 | 7.5 | 6.0 | 9.0 | 5.0 |
| 1987 | 11.0 | 8.0 | 6.0 | 9.0 | 5.0 |
| 1988 | 11.0 | 8.0 | 6.0 | 9.0 | 5.0 |
| 1989 | 11.5 | 8.5 | 6.5 | 9.0 | 5.0 |
| 1990 | 11.5 | 8.5 | 6.5 | 9.0 | 5.0 |
| 1991 | 10.5 | 7.0 | 5.0 | 8.5 | 4.5 |
| 1992 | 10.0 | 6.5 | 4.5 | 8.0 | 4.0 |
| 1993 | 10.0 | 6.5 | 4.5 | 8.0 | 4.0 |
| 1994 | 10.5 | 7.0 | 5.0 | 8.5 | 4.5 |
| 1995 | 9.5 | 6.0 | 4.0 | 7.5 | 3.5 |
| 1996 | 9.5 | 6.5 | 4.5 | 8.0 | 3.0 |
| 1997 | 9.0 | 6.0 | 4.0 | 7.8 | 2.5 |
| 1998 | 8.8 | 5.8 | 3.8 | 7.8 | 2.0 |
| 1999 | 9.3 | 6.8 | 4.5 | 8.3 | 2.5 |
| 2000 | 9.5 | 6.3 | 4.3 | 8.3 | 2.5 |
| 2001 | 8.8 | 5.5 | 3.5 | 7.3 | 2.3 |
| 2002 | 8.0 | 4.8 | 3.0 | 6.8 | 2.3 |
| 2003 | 7.8 | 4.5 | 2.8 | 7.5 | 2.3 |
| 2004 | 8.0 | 4.8 | 3.0 | 7.0 | 2.5 |
| 2005 | 8.3 | 5.0 | 3.0 | 6.3 | 2.3 |
| 2006 | 8.3 | 5.3 | 3.0 | 5.8 | 2.3 |

## Risk and Correlation

Wilshire's approach to forecasting long-term risk and correlation is largely based on observed historical asset class behavior. Generally, past relationships serve as very good predictors of future risk and correlation. In practice, Wilshire applies sound financial theory and judgment to the interpretation and analysis of historical results. The role of judgment ('art') versus measured statistics ('science') is more pronounced for investment categories with less historical data or that have experienced material structural changes.

This year we have increased our correlation assumptions for TIPS against several other asset classes. Wilshire's past assumptions have been significantly lower than historical correlations due to the absence of a material or sustained occurrence of unanticipated inflation and a small data set. This year we are approaching a 10 year time horizon in TIPS data and have thus increased the weight of historical data in our forecasts. The most significant changes to our correlation assumptions have been to our fixed income correlation assumptions. Our past expectation had been that the inflation adjustments to TIPS would produce lower correlations with traditional fixed income assets than the growing data set suggests, therefore we have adjusted our forecasts to reflect an increase in the data's influence. In addition to fixed income assets, Developed ex-U.S. Stock denominated in Local Currency has been adjusted downward to reflect a slight negative correlation.

In practice Wilshire places much more confidence in the predictive accuracy of past relationships for asset classes with longer and more robust historical data. In this report we rely upon historical measurements of risk and correlation through 2006 to estimate future risk and correlation. To maximize the quality of our estimates, we observe this historical behavior over various time horizons (i.e. five years, ten years, full history, etc.). Wilshire does not use a preset or static rolling time period to derive these forecasts; as such an approach could result in forward numbers reacting too quickly to what may prove to be short-term relationships or event driven anomalies between markets.

A full listing of Wilshire's risk and diversification assumptions for all asset classes is found in Appendix A.

WILSHIRE CONSULTING

# Appendix A: Wilshire 2007 Correlation Matrix

| | Equity | | | | Fixed Income | | | | | | | | Alternative | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | US Stock | Dev ex-US Stock (USD) | Dev ex-US Stock (LC) | Emg Stock | Cash | Core Bond | LT Bond (LPF) | LT Treas | TIPS | High Yield | Non-US Bond (USD) | Non-US Bond (LC) | Real Estate US RES | Real Estate Prvt RE | Real Estate xUS RES | Prvt Mkts | Cmdty | US CPI |
| **Expected Return (%)** | 8.25 | 8.25 | 8.15 | 8.25 | 3.00 | 5.25 | 5.50 | 5.00 | 5.00 | 6.75 | 5.00 | 4.90 | 5.75 | 6.75 | 5.75 | 11.75 | 4.25 | 2.25 |
| **Expected Risk (%)** | 16.00 | 18.00 | 17.00 | 24.00 | 1.00 | 5.00 | 7.00 | 12.00 | 6.00 | 10.00 | 10.00 | 4.00 | 15.00 | 12.50 | 13.00 | 29.00 | 13.00 | 1.00 |
| **Cash Yield (%)** | 1.70 | 2.45 | 2.45 | 2.30 | 3.00 | 5.25 | 5.50 | 12.00 | 5.00 | 6.75 | 5.00 | 4.90 | 4.00 | 4.00 | 4.00 | 0.00 | 3.00 | |
| **Correlations:** | | | | | | | | | | | | | | | | | | |
| US Stock | 1.00 | | | | | | | | | | | | | | | | | |
| Dev ex-US Stock (USD) | 0.77 | 1.00 | | | | | | | | | | | | | | | | |
| Dev ex-US Stock (LC) | 0.82 | 0.79 | 1.00 | | | | | | | | | | | | | | | |
| Emerging Mkt Stock | 0.65 | 0.65 | 0.60 | 1.00 | | | | | | | | | | | | | | |
| Cash Equivalents | 0.00 | -0.09 | -0.01 | -0.05 | 1.00 | | | | | | | | | | | | | |
| Core Bond | 0.29 | 0.05 | 0.04 | 0.00 | 0.10 | 1.00 | | | | | | | | | | | | |
| LT Bond (LPF) | 0.34 | 0.09 | 0.05 | 0.01 | 0.10 | 0.95 | 1.00 | | | | | | | | | | | |
| LT Treasury | 0.19 | 0.10 | 0.03 | -0.05 | 0.10 | 0.85 | 0.87 | 1.00 | | | | | | | | | | |
| TIPS | -0.05 | 0.05 | -0.05 | 0.00 | 0.15 | 0.20 | 0.15 | 0.20 | 1.00 | | | | | | | | | |
| High Yield Bond | 0.48 | 0.35 | 0.40 | 0.35 | 0.00 | 0.39 | 0.40 | 0.21 | 0.01 | 1.00 | | | | | | | | |
| Non-US Bond (USD) | -0.01 | 0.32 | -0.07 | -0.04 | -0.10 | 0.33 | 0.34 | 0.32 | 0.05 | 0.01 | 1.00 | | | | | | | |
| Non-US Bond (LC) | 0.16 | 0.26 | 0.25 | -0.01 | 0.10 | 0.60 | 0.59 | 0.58 | 0.25 | 0.38 | 0.50 | 1.00 | | | | | | |
| US RE Securities | 0.35 | 0.25 | 0.25 | 0.30 | 0.00 | 0.15 | 0.15 | 0.10 | 0.15 | 0.30 | 0.05 | 0.00 | 1.00 | | | | | |
| Private Real Estate | 0.34 | 0.24 | 0.24 | 0.29 | 0.02 | 0.24 | 0.24 | 0.19 | 0.16 | 0.37 | 0.14 | 0.08 | 0.82 | 1.00 | | | | |
| Non-US RE Securities | 0.50 | 0.65 | 0.50 | 0.60 | 0.00 | 0.10 | 0.10 | 0.05 | 0.15 | 0.40 | 0.30 | 0.10 | 0.50 | 0.44 | 1.00 | | | |
| Private Markets | 0.73 | 0.61 | 0.65 | 0.60 | 0.00 | 0.30 | 0.30 | 0.22 | 0.01 | 0.31 | 0.04 | 0.24 | 0.35 | 0.32 | 0.55 | 1.00 | | |
| Commodities | 0.00 | 0.20 | 0.15 | 0.24 | -0.05 | 0.00 | 0.00 | 0.00 | 0.20 | 0.08 | 0.15 | 0.00 | 0.20 | 0.21 | 0.25 | 0.02 | 1.00 | |
| Inflation (CPI) * | -0.10 | -0.15 | -0.05 | -0.13 | 0.10 | -0.12 | -0.12 | -0.12 | 0.10 | -0.08 | -0.05 | -0.08 | -0.10 | -0.07 | 0.00 | -0.09 | 0.20 | 1.00 |

* Inflation correlations are provided for informational purposes and do not represent forward-looking assumptions.

# Appendix B: Wilshire 2007 Private Markets Correlation Matrix

| | Buyouts | Venture Capital | Distressed Debt | Mezz Debt | Non-US Buyouts | Pvt Mkts Portfolio | US Stocks | Dev xUS Stock | Emg Stock | Cash | Core Bond | High Yield Bond | US RES |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Expected Return (%)** | 10.25 | 12.00 | 8.75 | 8.75 | 10.25 | 11.75 | 8.25 | 8.25 | 8.25 | 3.00 | 5.25 | 6.75 | 5.75 |
| **Expected Risk (%)** | 28.00 | 42.00 | 19.00 | 19.00 | 32.00 | 29.00 | 16.00 | 18.00 | 24.00 | 1.00 | 5.00 | 10.00 | 15.00 |
| **Correlations:** | | | | | | | | | | | | | |
| Buyouts | 1.00 | | | | | | 0.70 | 0.55 | 0.55 | 0.00 | 0.40 | 0.30 | 0.35 |
| Venture Capital | 0.65 | 1.00 | | | | | 0.60 | 0.50 | 0.50 | 0.00 | 0.10 | 0.25 | 0.30 |
| Distressed Debt | 0.10 | 0.05 | 1.00 | | | | 0.30 | 0.25 | 0.25 | 0.00 | 0.05 | 0.55 | 0.10 |
| Mezzanine Debt | 0.60 | 0.35 | 0.60 | 1.00 | | | 0.70 | 0.55 | 0.58 | 0.05 | 0.30 | 0.65 | 0.40 |
| Non-US Buyouts | 0.78 | 0.50 | 0.15 | 0.35 | 1.00 | | 0.60 | 0.70 | 0.60 | 0.00 | 0.25 | 0.25 | 0.20 |
| Pvt Mkts Portfolio | 0.94 | 0.86 | 0.10 | 0.54 | 0.78 | 1.00 | 0.73 | 0.61 | 0.60 | 0.00 | 0.30 | 0.31 | 0.35 |

# Appendix C: Wilshire 2007 Private Real Estate Correlation Matrix

| | US RES | Non-US RES | ----------- Private RE ----------- Core | Value Added | Opport | Prvt RE Basket | US Stocks | Dev xUS Stock | Emg Stock | Cash | Core Bond | High Yield Bond |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Expected Return (%)** | 5.75 | 5.75 | 5.75 | 7.75 | 9.00 | 6.75 | 8.25 | 8.25 | 8.25 | 3.00 | 5.25 | 6.75 |
| **Expected Risk (%)** | 15.00 | 13.00 | 10.50 | 15.50 | 23.00 | 12.50 | 16.00 | 18.00 | 24.00 | 1.00 | 5.00 | 10.00 |
| **Correlations:** | | | | | | | | | | | | |
| US RE Securities | 1.00 | | | | | | 0.35 | 0.25 | 0.30 | 0.00 | 0.15 | 0.30 |
| Non-US RES | 0.50 | 1.00 | | | | | 0.50 | 0.65 | 0.60 | 0.00 | 0.10 | 0.40 |
| Core RE | 0.90 | 0.45 | 1.00 | | | | 0.30 | 0.20 | 0.25 | 0.00 | 0.15 | 0.30 |
| Value-Added RE | 0.70 | 0.40 | 0.85 | 1.00 | | | 0.35 | 0.25 | 0.30 | 0.05 | 0.30 | 0.40 |
| Opportunistic RE | 0.55 | 0.35 | 0.70 | 0.95 | 1.00 | | 0.35 | 0.25 | 0.30 | 0.05 | 0.35 | 0.40 |
| Private RE Basket | 0.82 | 0.44 | 0.96 | 0.96 | 0.88 | 1.00 | 0.34 | 0.24 | 0.29 | 0.02 | 0.24 | 0.37 |

## Appendix D: Historical 1-Year Rolling Returns: 1926 to 2006

| Year | S&P 500 Index | Bond Index | T-bills | CPI | Year | S&P 500 Index | Bond Index | T-bills | CPI |
|---|---|---|---|---|---|---|---|---|---|
| 1926 | 11.6 | 7.4 | 3.3 | -1.5 | 1967 | 24.0 | -5.0 | 4.2 | 3.0 |
| 1927 | 37.5 | 7.4 | 3.1 | -2.1 | 1968 | 11.1 | 2.6 | 5.2 | 4.7 |
| 1928 | 43.6 | 2.8 | 3.5 | -1.0 | 1969 | -8.5 | -8.1 | 6.6 | 6.1 |
| 1929 | -8.4 | 3.3 | 4.7 | 0.2 | 1970 | 4.0 | 18.4 | 6.5 | 5.5 |
| 1930 | -24.9 | 8.0 | 2.4 | -6.0 | 1971 | 14.3 | 11.0 | 4.4 | 3.4 |
| 1931 | -43.4 | -1.9 | 1.1 | -9.5 | 1972 | 19.0 | 7.3 | 3.8 | 3.5 |
| 1932 | -8.2 | 10.8 | 1.0 | -10.3 | 1973 | -14.8 | 2.3 | 6.9 | 8.7 |
| 1933 | 54.0 | 10.4 | 0.3 | 0.5 | 1974 | -26.4 | 0.2 | 8.2 | 12.4 |
| 1934 | -1.4 | 13.8 | 0.2 | 2.0 | 1975 | 37.2 | 12.3 | 5.8 | 7.0 |
| 1935 | 47.7 | 9.6 | 0.1 | 3.0 | 1976 | 24.1 | 15.6 | 5.0 | 4.9 |
| 1936 | 33.9 | 6.7 | 0.2 | 1.2 | 1977 | -7.3 | 3.0 | 5.4 | 6.7 |
| 1937 | -35.0 | 2.8 | 0.3 | 3.1 | 1978 | 6.4 | 1.4 | 7.5 | 9.0 |
| 1938 | 31.1 | 6.1 | 0.0 | -2.8 | 1979 | 18.5 | 1.9 | 10.3 | 13.3 |
| 1939 | -0.4 | 4.0 | 0.0 | -0.5 | 1980 | 32.2 | 2.7 | 11.8 | 12.5 |
| 1940 | -9.8 | 3.4 | 0.0 | 1.0 | 1981 | -4.9 | 6.3 | 14.5 | 8.9 |
| 1941 | -11.6 | 2.7 | 0.0 | 9.7 | 1982 | 21.1 | 32.6 | 11.1 | 3.8 |
| 1942 | 20.4 | 2.6 | 0.3 | 9.3 | 1983 | 22.4 | 8.4 | 8.8 | 3.8 |
| 1943 | 25.9 | 2.8 | 0.4 | 3.2 | 1984 | 6.1 | 15.2 | 9.9 | 4.0 |
| 1944 | 19.7 | 4.7 | 0.3 | 2.1 | 1985 | 32.1 | 22.1 | 7.7 | 3.8 |
| 1945 | 36.4 | 4.1 | 0.3 | 2.3 | 1986 | 18.6 | 15.3 | 6.1 | 1.1 |
| 1946 | -8.1 | 1.7 | 0.4 | 18.2 | 1987 | 5.2 | 2.8 | 5.4 | 4.4 |
| 1947 | 5.7 | -2.3 | 0.5 | 9.0 | 1988 | 16.8 | 7.9 | 6.7 | 4.4 |
| 1948 | 5.5 | 4.1 | 0.8 | 2.7 | 1989 | 31.5 | 14.5 | 9.0 | 4.6 |
| 1949 | 18.8 | 3.3 | 1.1 | -1.8 | 1990 | -3.2 | 9.0 | 8.3 | 6.1 |
| 1950 | 31.7 | 2.1 | 1.2 | 5.8 | 1991 | 30.6 | 16.0 | 6.4 | 3.1 |
| 1951 | 24.0 | -2.7 | 1.5 | 5.9 | 1992 | 7.7 | 7.4 | 3.9 | 2.9 |
| 1952 | 18.4 | 3.5 | 1.7 | 0.9 | 1993 | 10.0 | 9.8 | 3.2 | 2.8 |
| 1953 | -1.0 | 3.4 | 1.8 | 0.6 | 1994 | 1.3 | -2.9 | 4.2 | 2.7 |
| 1954 | 52.6 | 5.4 | 0.9 | -0.5 | 1995 | 37.5 | 18.5 | 6.1 | 2.5 |
| 1955 | 31.6 | 0.5 | 1.6 | 0.4 | 1996 | 23.1 | 3.6 | 5.4 | 3.3 |
| 1956 | 6.6 | -6.8 | 2.5 | 2.9 | 1997 | 33.3 | 9.7 | 5.5 | 1.7 |
| 1957 | -10.8 | 8.7 | 3.2 | 3.0 | 1998 | 28.8 | 8.7 | 5.4 | 1.6 |
| 1958 | 43.4 | -2.2 | 1.5 | 1.8 | 1999 | 21.0 | -0.8 | 4.6 | 2.7 |
| 1959 | 12.0 | -1.0 | 3.0 | 1.5 | 2000 | -9.1 | 11.6 | 6.2 | 3.4 |
| 1960 | 0.5 | 9.1 | 2.7 | 1.5 | 2001 | -11.9 | 8.4 | 4.4 | 1.6 |
| 1961 | 26.9 | 4.8 | 2.1 | 0.7 | 2002 | -22.1 | 10.3 | 1.8 | 2.4 |
| 1962 | -8.7 | 8.0 | 2.7 | 1.2 | 2003 | 28.7 | 4.1 | 1.2 | 1.9 |
| 1963 | 22.8 | 2.2 | 3.1 | 1.7 | 2004 | 10.9 | 4.3 | 1.3 | 3.3 |
| 1964 | 16.5 | 4.8 | 3.5 | 1.2 | 2005 | 4.9 | 2.4 | 3.1 | 3.4 |
| 1965 | 12.5 | -0.5 | 3.9 | 1.9 | 2006 | 15.8 | 4.3 | 4.8 | 2.6 |
| 1966 | -10.1 | 0.2 | 4.8 | 3.4 | | | | | |
| | | | | | **Winning Percentage:** | **63%** | **23%** | **14%** | |

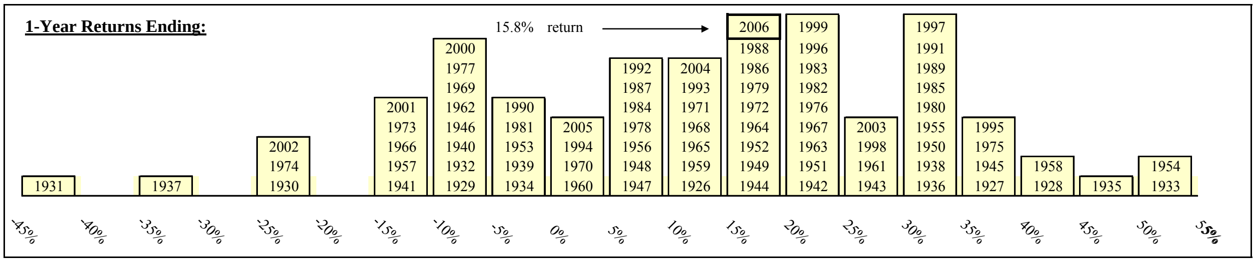
# Appendix D: Historical 5-Year Rolling Returns: 1926 to 2006

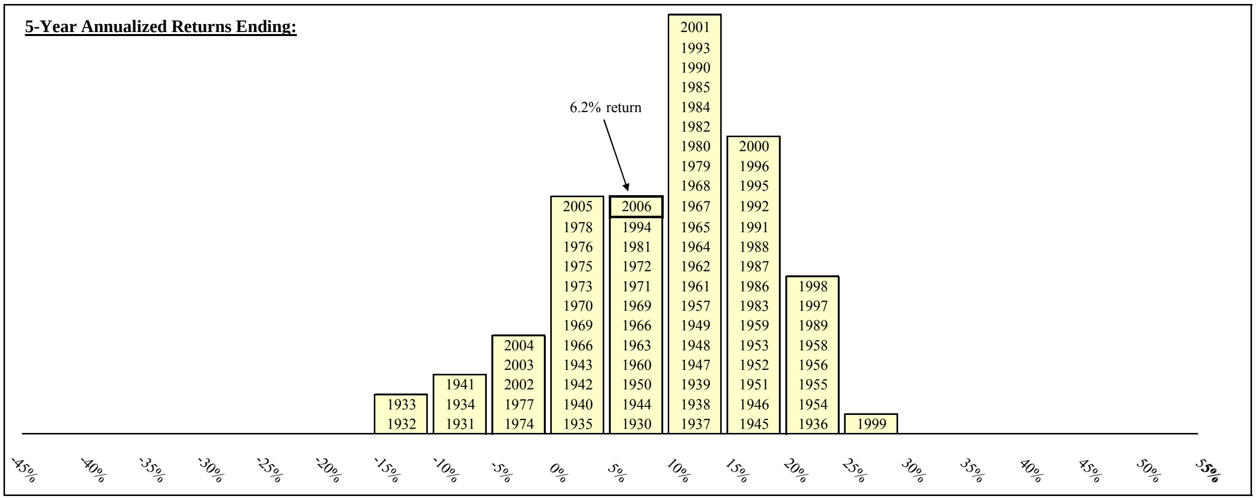
| Year | S&P 500 Index | Bond Index | T-bills | CPI | Year | S&P 500 Index | Bond Index | T-bills | CPI |
|---|---|---|---|---|---|---|---|---|---|
| 1926-30 | 8.7 | 5.8 | 3.4 | -2.1 | 1965-69 | 5.0 | -2.2 | 4.9 | 3.8 |
| 1927-31 | -5.1 | 3.9 | 3.0 | -3.7 | 1966-70 | 3.4 | 1.2 | 5.4 | 4.5 |
| 1928-32 | -12.5 | 4.5 | 2.5 | -5.4 | 1967-71 | 8.4 | 3.3 | 5.4 | 4.5 |
| 1929-33 | -11.2 | 6.0 | 1.9 | -5.1 | 1968-72 | 7.5 | 5.8 | 5.3 | 4.6 |
| 1930-34 | -9.9 | 8.1 | 1.0 | -4.8 | 1969-73 | 2.0 | 5.8 | 5.6 | 5.4 |
| 1931-35 | 3.1 | 8.4 | 0.5 | -3.0 | 1970-74 | -2.4 | 7.6 | 6.0 | 6.6 |
| 1932-36 | 22.5 | 10.3 | 0.3 | -0.8 | 1971-75 | 3.2 | 6.5 | 5.8 | 6.9 |
| 1933-37 | 14.3 | 8.6 | 0.2 | 2.0 | 1972-76 | 4.9 | 7.4 | 5.9 | 7.2 |
| 1934-38 | 10.7 | 7.8 | 0.1 | 1.3 | 1973-77 | -0.2 | 6.5 | 6.3 | 7.9 |
| 1935-39 | 10.9 | 5.8 | 0.1 | 0.8 | 1974-78 | 4.3 | 6.3 | 6.4 | 8.0 |
| 1936-40 | 0.5 | 4.6 | 0.1 | 0.4 | 1975-79 | 14.8 | 6.7 | 6.8 | 8.1 |
| 1937-41 | -7.5 | 3.8 | 0.1 | 2.0 | 1976-80 | 13.9 | 4.8 | 8.0 | 9.2 |
| 1938-42 | 4.6 | 3.8 | 0.1 | 3.2 | 1977-81 | 8.0 | 3.1 | 9.9 | 10.1 |
| 1939-43 | 3.8 | 3.1 | 0.1 | 4.5 | 1978-82 | 13.9 | 8.4 | 11.0 | 9.5 |
| 1940-44 | 7.7 | 3.3 | 0.2 | 5.0 | 1979-83 | 17.2 | 9.8 | 11.3 | 8.4 |
| 1941-45 | 17.0 | 3.4 | 0.3 | 5.3 | 1980-84 | 14.6 | 12.6 | 11.2 | 6.5 |
| 1942-46 | 17.9 | 3.2 | 0.3 | 6.8 | 1981-85 | 14.6 | 16.5 | 10.4 | 4.8 |
| 1943-47 | 14.8 | 2.2 | 0.4 | 6.8 | 1982-86 | 19.7 | 18.4 | 8.7 | 3.3 |
| 1944-48 | 10.9 | 2.4 | 0.5 | 6.7 | 1983-87 | 16.4 | 12.5 | 7.6 | 3.4 |
| 1945-49 | 10.7 | 2.2 | 0.6 | 5.8 | 1984-88 | 15.4 | 12.4 | 7.1 | 3.5 |
| 1946-50 | 9.9 | 1.8 | 0.8 | 6.6 | 1985-89 | 20.4 | 12.3 | 7.0 | 3.7 |
| 1947-51 | 16.7 | 0.9 | 1.0 | 4.3 | 1986-90 | 13.2 | 9.8 | 7.1 | 4.1 |
| 1948-52 | 19.4 | 2.0 | 1.3 | 2.7 | 1987-91 | 15.4 | 9.9 | 7.1 | 4.5 |
| 1949-53 | 17.9 | 1.9 | 1.5 | 2.2 | 1988-92 | 15.9 | 10.9 | 6.8 | 4.2 |
| 1950-54 | 23.9 | 2.3 | 1.4 | 2.5 | 1989-93 | 14.5 | 11.3 | 6.1 | 3.9 |
| 1951-55 | 23.9 | 2.0 | 1.5 | 1.4 | 1990-94 | 8.7 | 7.7 | 5.2 | 3.5 |
| 1952-56 | 20.2 | 1.1 | 1.7 | 0.8 | 1991-95 | 16.6 | 9.5 | 4.8 | 2.8 |
| 1953-57 | 13.6 | 2.1 | 2.0 | 1.3 | 1992-96 | 15.2 | 7.0 | 4.6 | 2.8 |
| 1954-58 | 22.3 | 1.0 | 1.9 | 1.5 | 1993-97 | 20.2 | 7.5 | 4.9 | 2.6 |
| 1955-59 | 15.0 | -0.3 | 2.3 | 1.9 | 1994-98 | 24.1 | 7.3 | 5.3 | 2.4 |
| 1956-60 | 8.9 | 1.4 | 2.6 | 2.1 | 1995-99 | 28.6 | 7.7 | 5.4 | 2.4 |
| 1957-61 | 12.8 | 3.8 | 2.5 | 1.7 | 1996-00 | 18.3 | 6.5 | 5.4 | 2.5 |
| 1958-62 | 13.3 | 3.6 | 2.4 | 1.3 | 1997-01 | 10.7 | 7.4 | 5.2 | 2.2 |
| 1959-63 | 9.8 | 4.5 | 2.7 | 1.3 | 1998-02 | -0.6 | 7.5 | 4.5 | 2.3 |
| 1960-64 | 10.7 | 5.7 | 2.8 | 1.2 | 1999-03 | -0.6 | 6.6 | 3.6 | 2.4 |
| 1961-65 | 13.2 | 3.8 | 3.1 | 1.3 | 2000-04 | -2.3 | 7.7 | 3.0 | 2.5 |
| 1962-66 | 5.7 | 2.9 | 3.6 | 1.9 | 2001-05 | 0.5 | 5.9 | 2.4 | 2.5 |
| 1963-67 | 12.4 | 0.3 | 3.9 | 2.2 | 2002-06 | 6.2 | 5.1 | 2.4 | 2.7 |
| 1964-68 | 10.2 | 0.4 | 4.3 | 2.8 | | | | | |
| | | | | | **Winning Percentage:** | **74%** | **22%** | **4%** | |

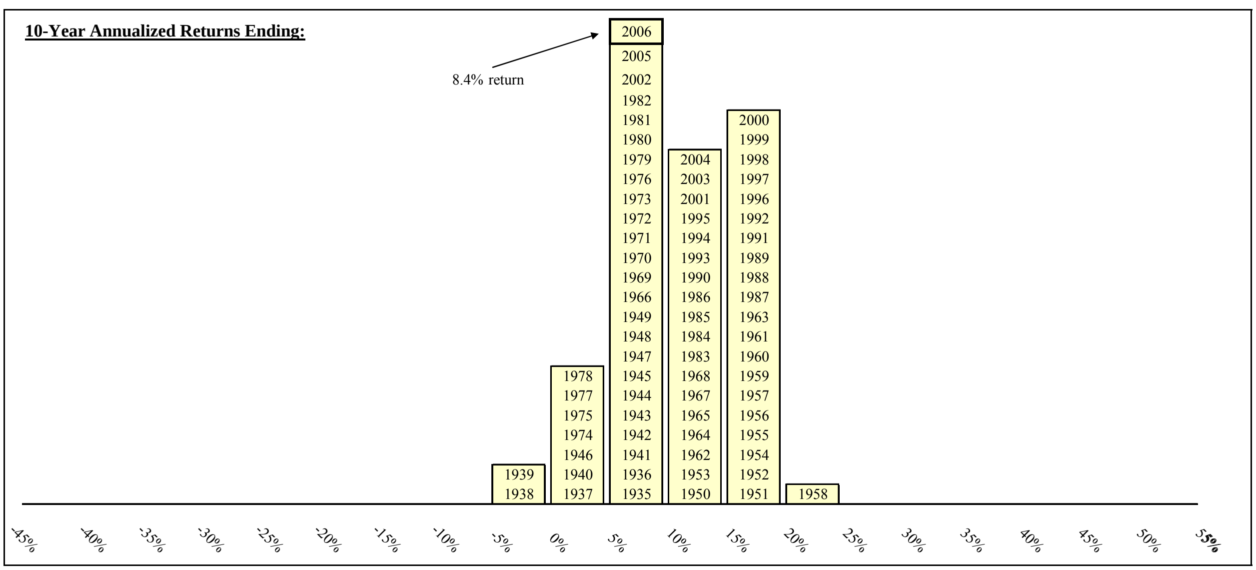
# Appendix D: Historical 10-Year Rolling Returns: 1926 to 2006

| Year | S&P 500 Index | Bond Index | T-bills | CPI | Year | S&P 500 Index | Bond Index | T-bills | CPI |
|---|---|---|---|---|---|---|---|---|---|
| 1926-35 | 5.9 | 7.1 | 2.0 | -2.6 | 1962-71 | 7.1 | 3.1 | 4.5 | 3.2 |
| 1927-36 | 7.8 | 7.0 | 1.7 | -2.3 | 1963-72 | 9.9 | 3.0 | 4.6 | 3.4 |
| 1928-37 | 0.0 | 6.5 | 1.4 | -1.8 | 1964-73 | 6.0 | 3.0 | 5.0 | 4.1 |
| 1929-38 | -0.9 | 6.9 | 1.0 | -2.0 | 1965-74 | 1.2 | 2.6 | 5.4 | 5.2 |
| 1930-39 | -0.1 | 6.9 | 0.6 | -2.0 | 1966-75 | 3.3 | 3.8 | 5.6 | 5.7 |
| 1931-40 | 1.8 | 6.5 | 0.3 | -1.3 | 1967-76 | 6.7 | 5.3 | 5.7 | 5.9 |
| 1932-41 | 6.4 | 7.0 | 0.2 | 0.6 | 1968-77 | 3.6 | 6.2 | 5.8 | 6.2 |
| 1933-42 | 9.4 | 6.2 | 0.1 | 2.6 | 1969-78 | 3.2 | 6.1 | 6.0 | 6.7 |
| 1934-43 | 7.2 | 5.4 | 0.1 | 2.9 | 1970-79 | 5.9 | 7.2 | 6.4 | 7.4 |
| 1935-44 | 9.3 | 4.5 | 0.2 | 2.9 | 1971-80 | 8.4 | 5.6 | 6.9 | 8.1 |
| 1936-45 | 8.4 | 4.0 | 0.2 | 2.8 | 1972-81 | 6.4 | 5.2 | 7.9 | 8.6 |
| 1937-46 | 4.4 | 3.5 | 0.2 | 4.4 | 1973-82 | 6.6 | 7.4 | 8.6 | 8.7 |
| 1938-47 | 9.6 | 3.0 | 0.2 | 5.0 | 1974-83 | 10.6 | 8.1 | 8.8 | 8.2 |
| 1939-48 | 7.3 | 2.8 | 0.3 | 5.6 | 1975-84 | 14.7 | 9.6 | 9.0 | 7.3 |
| 1940-49 | 9.2 | 2.7 | 0.4 | 5.4 | 1976-85 | 14.2 | 10.5 | 9.2 | 7.0 |
| 1941-50 | 13.4 | 2.6 | 0.5 | 5.9 | 1977-86 | 13.7 | 10.5 | 9.3 | 6.6 |
| 1942-51 | 17.3 | 2.0 | 0.7 | 5.5 | 1978-87 | 15.2 | 10.4 | 9.3 | 6.4 |
| 1943-52 | 17.1 | 2.1 | 0.8 | 4.7 | 1979-88 | 16.3 | 11.1 | 9.2 | 5.9 |
| 1944-53 | 14.3 | 2.2 | 1.0 | 4.4 | 1980-89 | 17.5 | 12.4 | 9.1 | 5.1 |
| 1945-54 | 17.1 | 2.2 | 1.0 | 4.2 | 1981-90 | 13.9 | 13.1 | 8.7 | 4.5 |
| 1946-55 | 16.7 | 1.9 | 1.1 | 4.0 | 1982-91 | 17.5 | 14.1 | 7.9 | 3.9 |
| 1947-56 | 18.4 | 1.0 | 1.3 | 2.5 | 1983-92 | 16.2 | 11.7 | 7.2 | 3.8 |
| 1948-57 | 16.4 | 2.1 | 1.6 | 2.0 | 1984-93 | 14.9 | 11.9 | 6.6 | 3.7 |
| 1949-58 | 20.1 | 1.4 | 1.7 | 1.9 | 1985-94 | 14.4 | 10.0 | 6.1 | 3.6 |
| 1950-59 | 19.4 | 1.0 | 1.9 | 2.2 | 1986-95 | 14.9 | 9.6 | 5.9 | 3.5 |
| 1951-60 | 16.2 | 1.7 | 2.0 | 1.8 | 1987-96 | 15.3 | 8.5 | 5.8 | 3.7 |
| 1952-61 | 16.4 | 2.4 | 2.1 | 1.3 | 1988-97 | 18.0 | 9.2 | 5.9 | 3.4 |
| 1953-62 | 13.4 | 2.9 | 2.2 | 1.3 | 1989-98 | 19.2 | 9.3 | 5.7 | 3.1 |
| 1954-63 | 15.9 | 2.7 | 2.3 | 1.4 | 1990-99 | 18.2 | 7.7 | 5.3 | 2.9 |
| 1955-64 | 12.8 | 2.7 | 2.6 | 1.6 | 1991-00 | 17.5 | 8.0 | 5.1 | 2.7 |
| 1956-65 | 11.1 | 2.6 | 2.8 | 1.7 | 1992-01 | 12.9 | 7.2 | 4.9 | 2.5 |
| 1957-66 | 9.2 | 3.3 | 3.0 | 1.8 | 1993-02 | 9.3 | 7.5 | 4.7 | 2.5 |
| 1958-67 | 12.9 | 1.9 | 3.1 | 1.8 | 1994-03 | 11.1 | 6.9 | 4.5 | 2.4 |
| 1959-68 | 10.0 | 2.4 | 3.5 | 2.1 | 1995-04 | 12.1 | 7.7 | 4.2 | 2.4 |
| 1960-69 | 7.8 | 1.7 | 3.9 | 2.5 | 1996-05 | 9.1 | 6.2 | 3.9 | 2.5 |
| 1961-70 | 8.2 | 2.5 | 4.3 | 2.9 | 1997-06 | 8.4 | 6.2 | 3.8 | 2.4 |
| | | | | | **Winning Percentage:** | **82%** | **13%** | **6%** | |

# Appendix E: Histogram of 1-, 5-, 10-Year S&P 500 Index Returns



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# Ohio Bureau of Workers' Compensation

## Portfolio Market Value
## Asset Allocation

## August 31, 2007

| Asset Sector | | SIF | SIF % Assets | Non SIF | Non SIF % Assets | Total Fund | Total Fund % Assets |
|---|---|---|---|---|---|---|---|
| **Bonds** | $ | 12,525,093,450 | 78.4% | 1,410,591,278 | 97.0% | 13,935,684,728 | 79.9% |
| **Public Equity** | $ | 2,676,515,413 | 16.7% | - | 0.0% | 2,676,515,413 | 15.3% |
| **Private Equity** | $ | 392,367,044 | 2.5% | - | 0.0% | 392,367,044 | 2.3% |
| **Lehman Agg Transition** | $ | - | 0.0% | - | 0.0% | - | 0.0% |
| **Miscellaneous** | $ | 34,875,498 | 0.2% | - | 0.0% | 34,875,498 | 0.2% |
| **Cash** | $ | 353,692,316 | 2.2% | 43,640,831 | 3.0% | 397,333,147 | 2.3% |
| **Total** | $ | 15,982,543,720 | 100.0% | 1,454,232,109 | 100.0% | 17,436,775,829 | 100.0% |
| **Total Fund Assets** | $ | 15,982,543,720 | 91.7% | 1,454,232,109 | 8.3% | 17,436,775,829 | 100.0% |

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

JPMorgan

# Composite Profile

Ohio Bureau of Workers' Compensation (04357)

As of August 2007

Net Of Fee

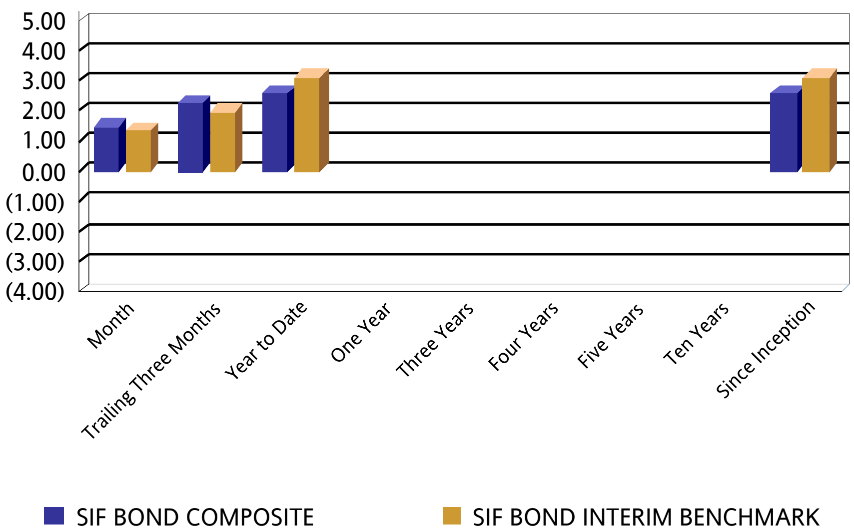
Composite VS Primary Benchmark

| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| SIF BOND COMPOSITE | 1.49 | 2.24 | 2.61 | 2.61 |
| SIF BOND INTERIM BENCHMARK | 1.38 | 1.98 | 3.13 | 3.13 |
| Excess Return | 0.11 | 0.27 | (0.52) | (0.52) |

Composite VS Supplemental Index

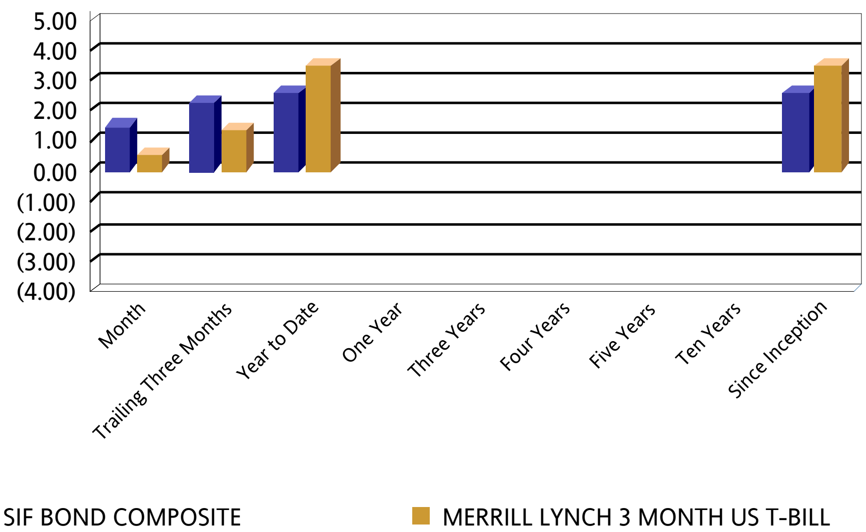
| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| SIF BOND COMPOSITE | 1.49 | 2.24 | 2.61 | 2.61 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |
| Excess Return | 0.94 | 0.90 | (0.91) | (0.91) |

## Composite VS Primary Benchmark




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| SIF BOND COMPOSITE | 1.49 | 2.24 | 2.61 | 2.61 |
| SIF BOND INTERIM BENCHMARK | 1.38 | 1.98 | 3.13 | 3.13 |

## Composite VS Supplemental Index




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| SIF BOND COMPOSITE | 1.49 | 2.24 | 2.61 | 2.61 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |

# Composite Profile

Ohio Bureau of Workers' Compensation (04357)

As of August 2007

Net Of Fee

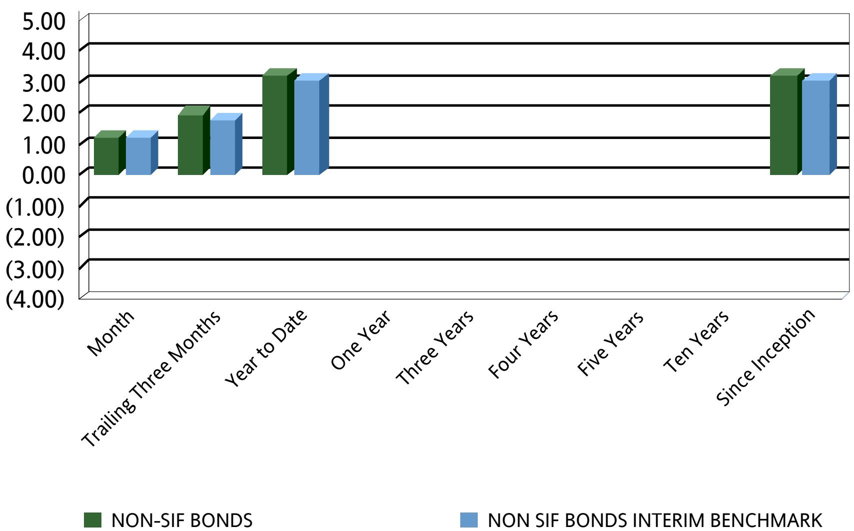
**Composite VS Primary Benchmark**

| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| NON-SIF BONDS | 1.23 | 1.98 | 3.23 | 3.23 |
| NON SIF BONDS INTERIM BENCHMARK | 1.23 | 1.77 | 3.07 | 3.07 |
| Excess Return | 0.00 | 0.21 | 0.16 | 0.16 |

**Composite VS Supplemental Index**

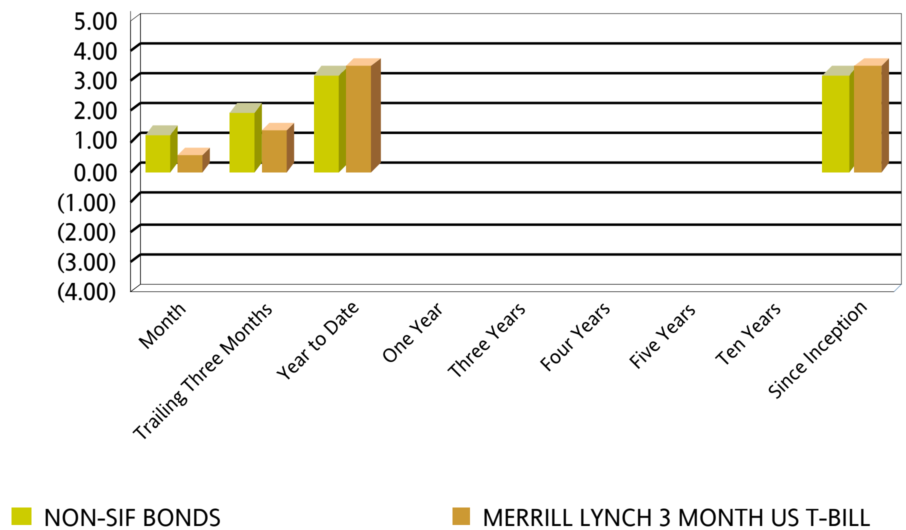
| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| NON-SIF BONDS | 1.23 | 1.98 | 3.23 | 3.23 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |
| Excess Return | 0.67 | 0.64 | (0.29) | (0.29) |

## Composite VS Primary Benchmark




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| NON-SIF BONDS | 1.23 | 1.98 | 3.23 | 3.23 |
| NON SIF BONDS INTERIM BENCHMARK | 1.23 | 1.77 | 3.07 | 3.07 |

## Composite VS Supplemental Index




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| NON-SIF BONDS | 1.23 | 1.98 | 3.23 | 3.23 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |

# Composite Profile

Ohio Bureau of Workers' Compensation (04357)
As of August 2007
Net Of Fee

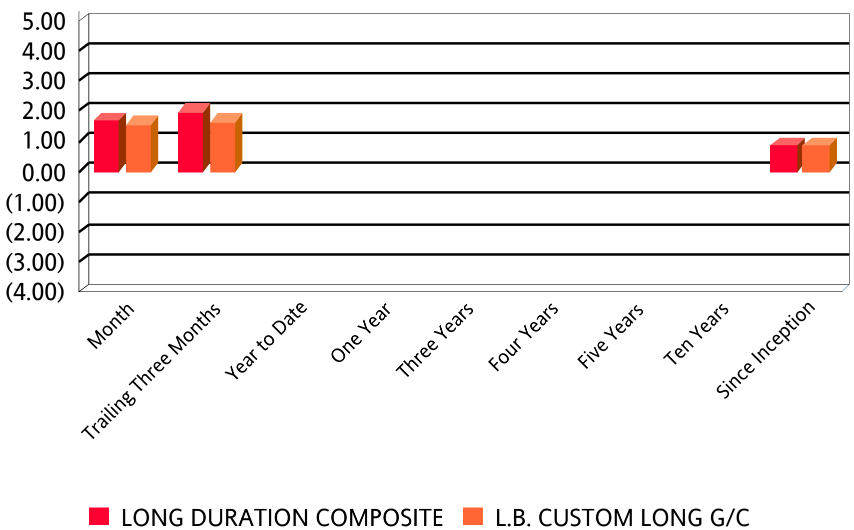
Composite VS Primary Benchmark

| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| LONG DURATION COMPOSITE | 1.69 | 1.97 | - | 0.85 |
| L.B. CUSTOM LONG G/C | 1.56 | 1.63 | - | 0.86 |
| Excess Return | 0.14 | 0.34 | - | (0.01) |

Composite VS Supplemental Index

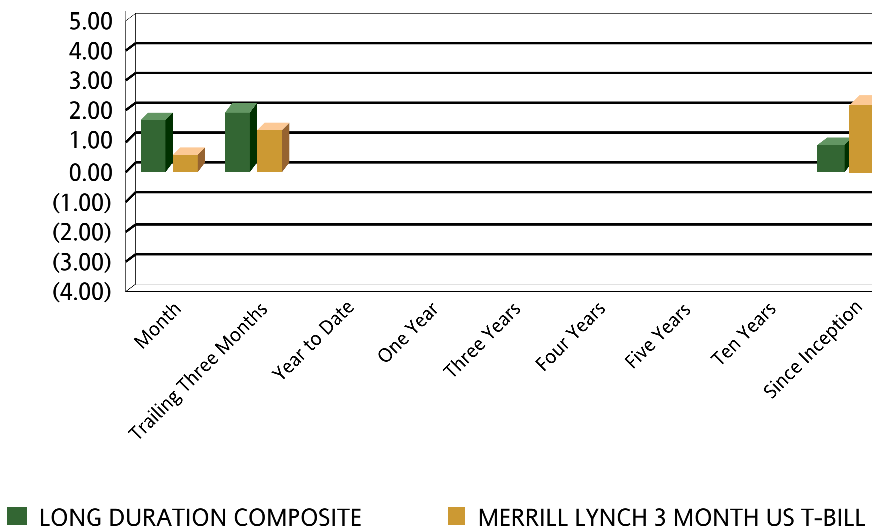
| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| LONG DURATION COMPOSITE | 1.69 | 1.97 | - | 0.85 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | - | 2.24 |
| Excess Return | 1.14 | 0.63 | - | (1.39) |

## Composite VS Primary Benchmark




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| LONG DURATION COMPOSITE | 1.69 | 1.97 | - | 0.85 |
| L.B. CUSTOM LONG G/C | 1.56 | 1.63 | - | 0.86 |

## Composite VS Supplemental Index




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| LONG DURATION COMPOSITE | 1.69 | 1.97 | - | 0.85 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | - | 2.24 |

JPMorgan

# Composite Profile

Ohio Bureau of Workers' Compensation (04357)
As of August 2007
Net Of Fee

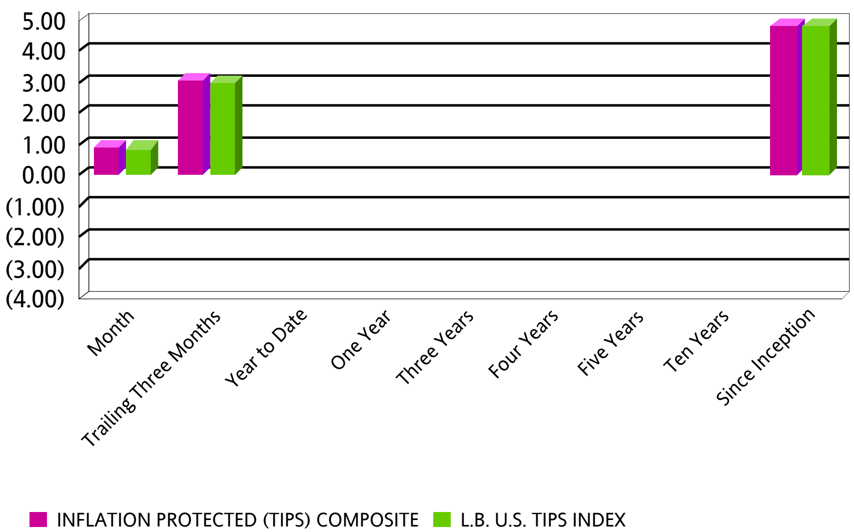
**Composite VS Primary Benchmark**

| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| INFLATION PROTECTED (TIPS) COMPOSITE | 0.89 | 3.06 | - | 4.83 |
| L.B. U.S. TIPS INDEX | 0.87 | 3.00 | - | 4.81 |
| Excess Return | 0.03 | 0.05 | - | 0.02 |

**Composite VS Supplemental Index**

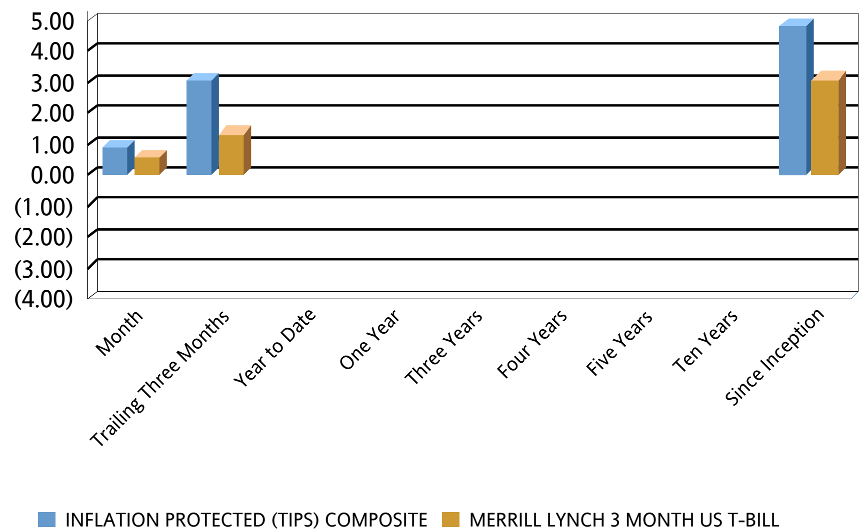
| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| INFLATION PROTECTED (TIPS) COMPOSITE | 0.89 | 3.06 | - | 4.83 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | - | 3.09 |
| Excess Return | 0.34 | 1.71 | - | 1.74 |

## Composite VS Primary Benchmark




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| INFLATION PROTECTED (TIPS) COMPOSITE | 0.89 | 3.06 | - | 4.83 |
| L.B. U.S. TIPS INDEX | 0.87 | 3.00 | - | 4.81 |

## Composite VS Supplemental Index




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| INFLATION PROTECTED (TIPS) COMPOSITE | 0.89 | 3.06 | - | 4.83 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | - | 3.09 |

# Composite Profile

Ohio Bureau of Workers' Compensation (04357)
As of August 2007
Net Of Fee

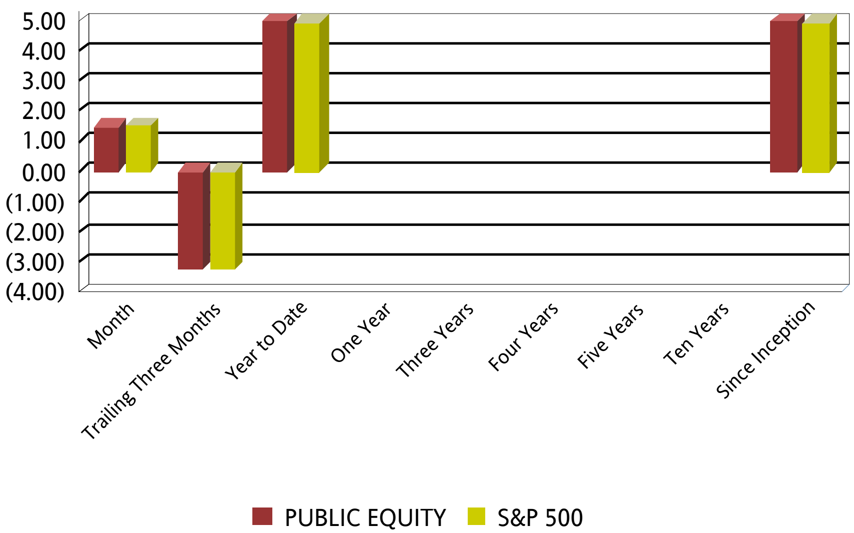
Composite VS Primary Benchmark

| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| PUBLIC EQUITY | 1.48 | (3.27) | 4.96 | 4.96 |
| S&P 500 | 1.50 | (3.26) | 4.95 | 4.95 |
| Excess Return | (0.02) | (0.01) | 0.01 | 0.01 |

Composite VS Supplemental Index

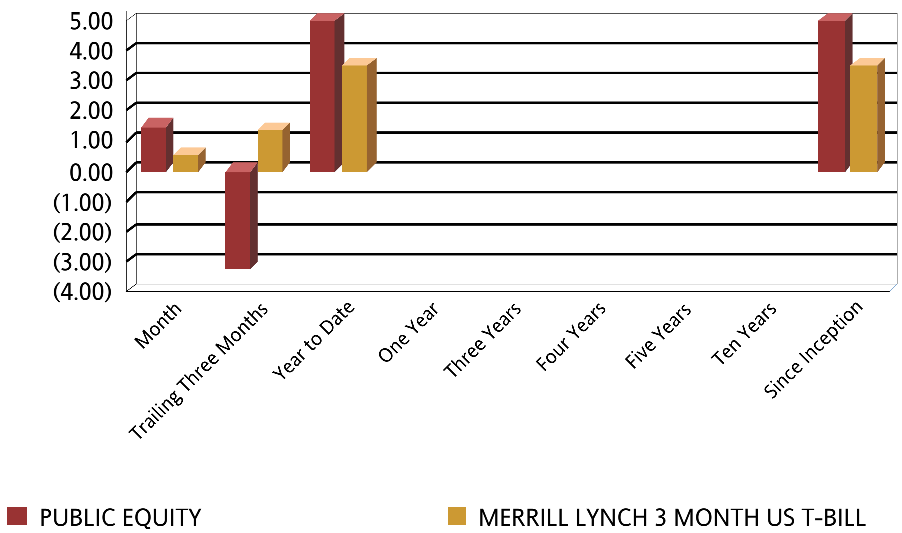
| Portfolio | One Month Return | Trailing Three Months | Year to Date | Since Inception |
|---|---|---|---|---|
| PUBLIC EQUITY | 1.48 | (3.27) | 4.96 | 4.96 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |
| Excess Return | 0.93 | (4.61) | 1.45 | 1.45 |

## Composite VS Primary Benchmark




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| PUBLIC EQUITY | 1.48 | (3.27) | 4.96 | 4.96 |
| S&P 500 | 1.50 | (3.26) | 4.95 | 4.95 |

## Composite VS Supplemental Index




| Name | 1 MNTH | 3 MNTHS | YTD | Since Inception |
|---|---|---|---|---|
| PUBLIC EQUITY | 1.48 | (3.27) | 4.96 | 4.96 |
| MERRILL LYNCH 3 MONTH US T-BILL | 0.56 | 1.34 | 3.51 | 3.51 |

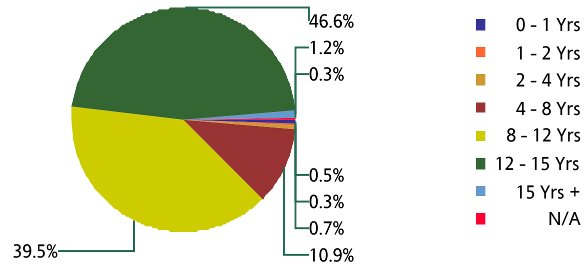
SIF-State Street LDFI Passive (16396800)

# Portfolio Fact Sheet
## August 2007

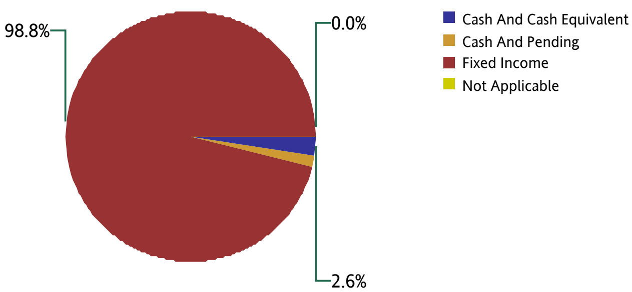
## Portfolio Characteristics

| | |
|---|---|
| Total Net Assets (Millions) | 7,885.0 |
| Weighted Average Life (Years) | 20.45 |
| Weighted Avg. Effective Duration (Years) | 10.83 |
| Weighted Average Coupon (%) | 6.81 |
| Weighted Average Current Yield (%) | 5.60 |
| Weighted Average Yield to Maturity (%) | 5.61 |
| Weighted Average Rating | AA- |
| Number of Holdings | 605 |

## Duration Mix



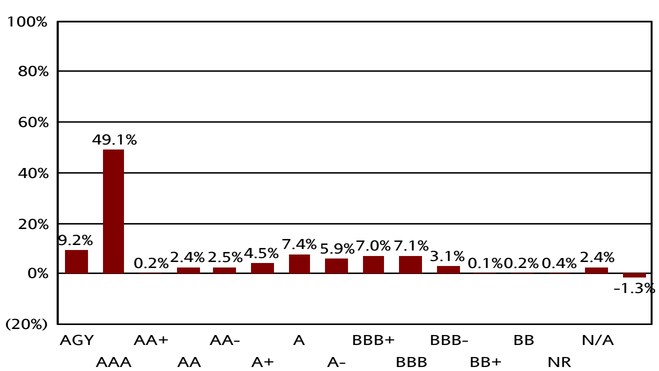

## Asset Mix



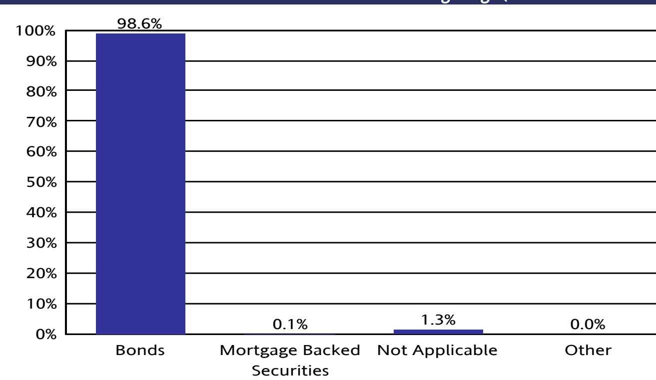

## Top Ten Portfolio Holdings

| Security ID | Security Name | % of Assets | Coupon Rate | Maturity Date |
|---|---|---|---|---|
| 912810EL8 | USA TREASURY BDS 8% BDS 15/NOV | 5.38% | 8.00 | 15/11/2021 |
| 912810EG9 | UNITED STATES OF AMER TREAS BO | 3.64% | 8.75 | 15/8/2020 |
| 912810EP9 | UNITED STATES OF AMER TREAS BO | 3.19% | 7.12 | 15/2/2023 |
| 912810ED6 | UNITED STATES OF AMER TREAS BO | 3.04% | 8.12 | 15/8/2019 |
| 912810FB9 | UNITED STATES OF AMER TREAS BO | 2.62% | 6.12 | 15/11/2027 |
| 912810FT0 | UNITED STATES OF AMER TREAS BO | 2.43% | 4.50 | 15/2/2036 |
| 912810EW4 | USA TREASURY BDS 6.00% 15/FEB/ | 2.42% | 6.00 | 15/2/2026 |
| 46699A9A6 | JPMORGAN US GOV'T CAPITAL SHAR | 2.39% | 5.18 | 4/9/2007 |
| 912810EC8 | UNITED STATES OF AMER TREAS BO | 2.25% | 8.88 | 15/2/2019 |
| 912810EV6 | UNITED STATES OF AMER TREAS BO | 2.07% | 6.88 | 15/8/2025 |

## Quality/Rating Weightings

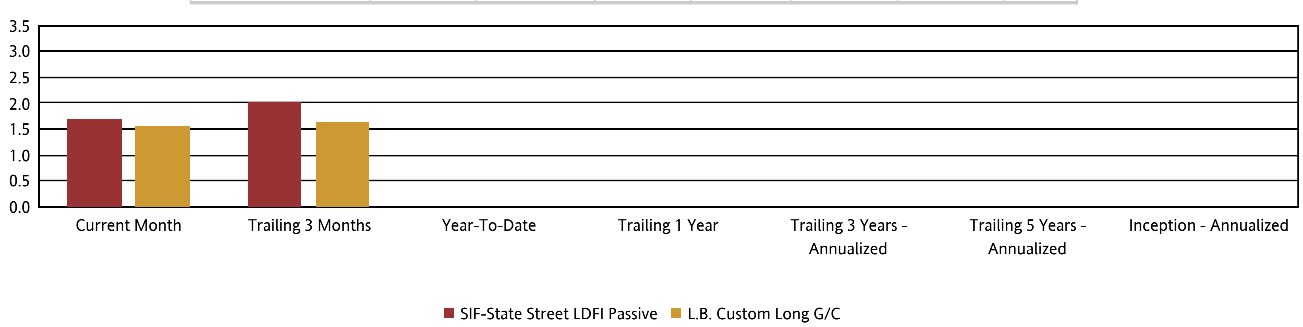



## Sector Weightings (as % of Market Value)




## Returns Series

| | Current Month | Trailing 3 Months | Year-To-Date | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Inception |
|---|---|---|---|---|---|---|---|
| SIF-State Street LDFI Passive | 1.70 | 2.02 | | | | | |
| L.B. Custom Long G/C | 1.56 | 1.63 | | | | | |
| **Excess** | 0.15 | 0.39 | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |



JPMorgan

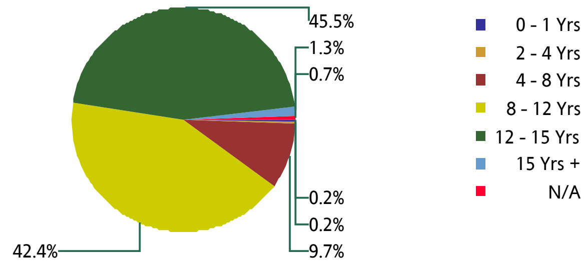
SIF-Barclays LDFI Passive (16396900)

Portfolio Fact Sheet
August 2007

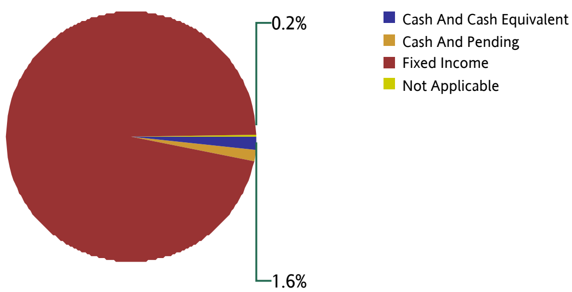
## Portfolio Characteristics

| | |
|---|---|
| Total Net Assets (Millions) | 1,506.0 |
| Weighted Average Life (Years) | 20.80 |
| Weighted Avg. Effective Duration (Years) | 10.91 |
| Weighted Average Coupon (%) | 6.77 |
| Weighted Average Current Yield (%) | 5.71 |
| Weighted Average Yield to Maturity (%) | 5.71 |
| Weighted Average Rating | AA- |
| Number of Holdings | 455 |

## Duration Mix



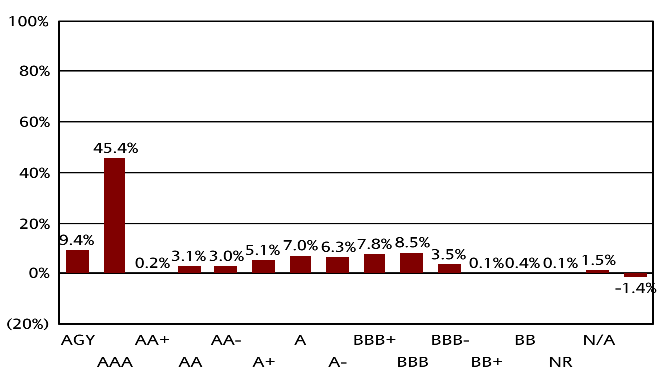

## Asset Mix



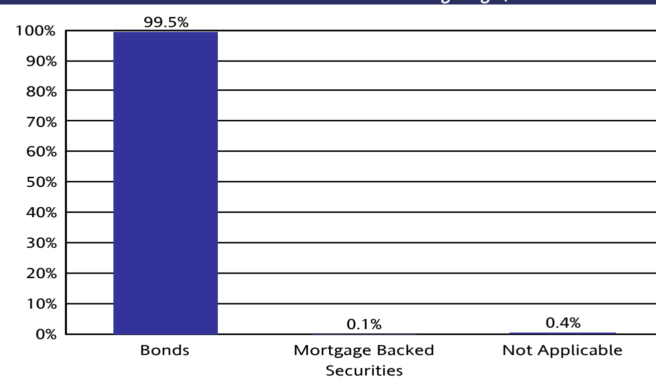

## Top Ten Portfolio Holdings

| Security ID | Security Name | % of Assets | Coupon Rate | Maturity Date |
|---|---|---|---|---|
| 912810EL8 | USA TREASURY BDS 8% BDS 15/NOV | 4.02% | 8.00 | 15/11/2021 |
| 912810EG9 | UNITED STATES OF AMER TREAS BO | 2.75% | 8.75 | 15/8/2020 |
| 912810ED6 | UNITED STATES OF AMER TREAS BO | 2.61% | 8.12 | 15/8/2019 |
| 912810EA2 | UNITED STATES OF AMER TREAS BO | 2.32% | 9.12 | 15/5/2018 |
| 912810EQ7 | UNITED STATES OF AMER TREAS BO | 2.30% | 6.25 | 15/8/2023 |
| 912810EJ3 | UNITED STATES OF AMER TREAS BO | 2.24% | 8.12 | 15/5/2021 |
| 912810FT0 | UNITED STATES OF AMER TREAS BO | 2.00% | 4.50 | 15/2/2036 |
| 912810FB9 | UNITED STATES OF AMER TREAS BO | 1.96% | 6.12 | 15/11/2027 |
| 912810EP9 | UNITED STATES OF AMER TREAS BO | 1.66% | 7.12 | 15/2/2023 |
| 912810FM5 | UNITED STATES OF AMER TREAS NO | 1.60% | 6.25 | 15/5/2030 |

## Quality/Rating Weightings

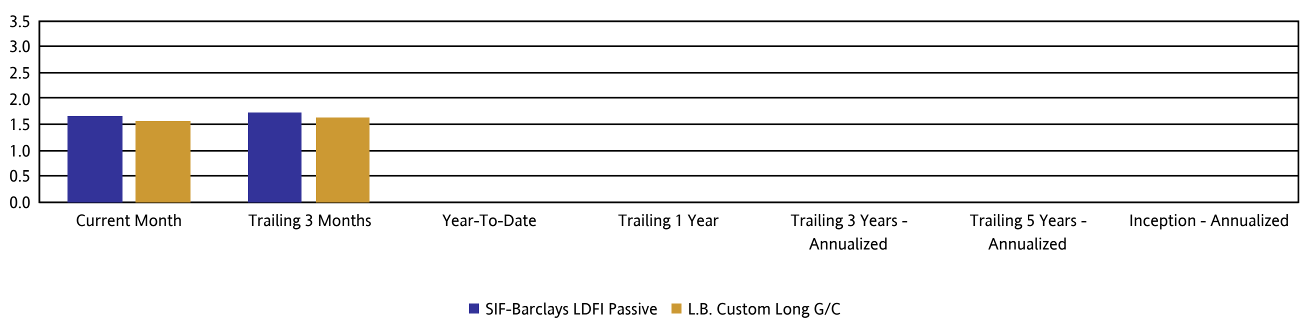



## Sector Weightings (as % of Market Value)




## Returns Series

| | Current Month | Trailing 3 Months | Year-To-Date | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Inception |
|---|---|---|---|---|---|---|---|
| SIF-Barclays LDFI Passive | 1.66 | 1.73 | | | | | |
| L.B. Custom Long G/C | 1.56 | 1.63 | | | | | |
| **Excess** | 0.10 | 0.10 | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |



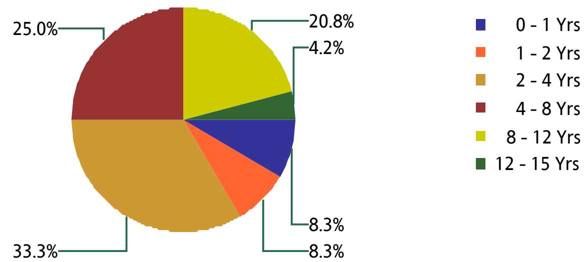
SIF-SSGA TIPS Passive Index (16365100)

Portfolio Fact Sheet
August 2007

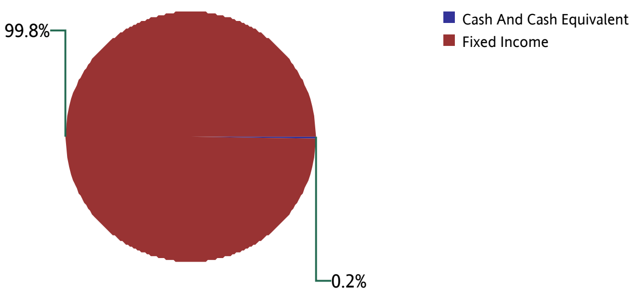
## Portfolio Characteristics

| | |
|---|---|
| Total Net Assets (Millions) | 3,134.0 |
| Weighted Average Life (Years) | 9.66 |
| Weighted Avg. Effective Duration (Years) | 5.75 |
| Weighted Average Coupon (%) | 2.52 |
| Weighted Average Current Yield (%) | 2.42 |
| Weighted Average Yield to Maturity (%) | 4.56 |
| Weighted Average Rating | AAA |
| Number of Holdings | 24 |

## Duration Mix



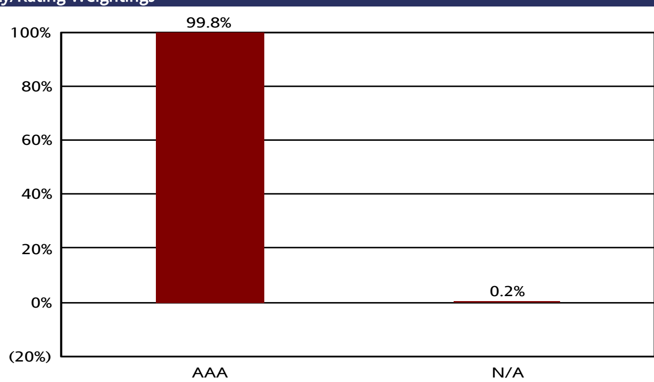

## Asset Mix



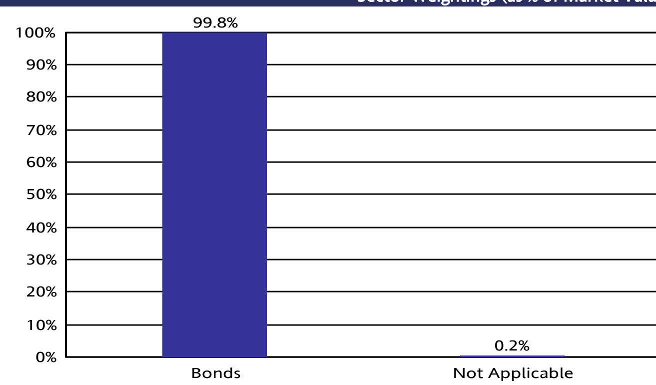

## Top Ten Portfolio Holdings

| Security ID | Security Name | % of Assets | Coupon Rate | Maturity Date |
|---|---|---|---|---|
| 912828CZ1 | USA TREASURY NTS VAR TIPS 15/A | 6.98% | 0.88 | 15/4/2010 |
| 912810FR4 | UNITED STATES OF AMER TREAS BO | 6.74% | 2.38 | 15/1/2025 |
| 912810FH6 | UNITED STATES OF AMER TREAS NO | 6.57% | 3.88 | 15/4/2029 |
| 912828AF7 | UNITED STATES OF AMER TREAS NO | 6.11% | 3.00 | 15/7/2012 |
| 912828BW9 | UNITED STATES OF AMER TREAS NO | 5.55% | 2.00 | 15/1/2014 |
| 912810FD5 | USA TREASURY BDS 3.625% TIPS 1 | 5.51% | 3.62 | 15/4/2028 |
| 912828BD1 | USA TREASURY NTS 1.875% TIPS 1 | 5.40% | 1.88 | 15/7/2013 |
| 912828CP3 | UNITED STATES OF AMER TREAS NO | 5.08% | 2.00 | 15/7/2014 |
| 912828DH0 | UNITED STATES TREASURY NOTE VA | 4.85% | 1.62 | 15/1/2015 |
| 912828FB1 | UNITED STATES OF AMER TREAS NO | 4.56% | 2.38 | 15/4/2011 |

## Quality/Rating Weightings

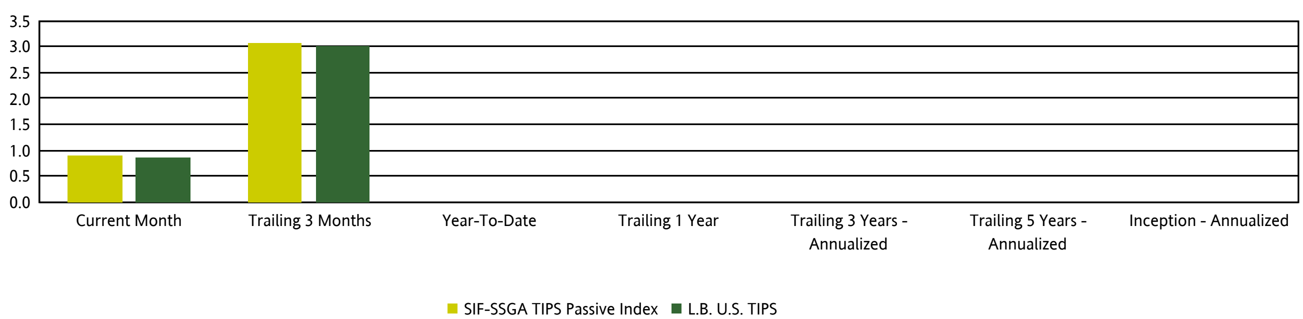



## Sector Weightings (as % of Market Value)




## Returns Series

| | Current Month | Trailing 3 Months | Year-To-Date | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Inception |
|---|---|---|---|---|---|---|---|
| SIF-SSGA TIPS Passive Index | 0.89 | 3.06 | | | | | |
| L.B. U.S. TIPS | 0.87 | 3.00 | | | | | |
| **Excess** | 0.03 | 0.05 | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |



JPMorgan

SIF-Northern Tr S&P 500 Passive Index (16438100)

Portfolio Fact Sheet
August 2007

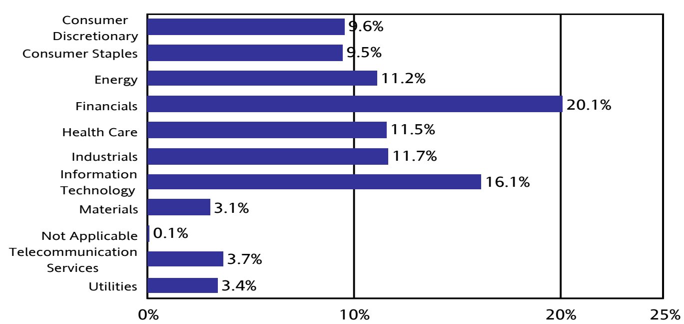
## Portfolio Characteristics

| | |
|---|---|
| Total Net Asset Value ($ Millions) | 2,676.3 |
| P/E Ratio | 20.92 |
| Price to Book Ratio | 4.44 |
| Dividend Yield (%) | 1.89 |
| Return on Equity (%) | 22.17 |
| Sales Growth (%) | 13.62 |
| Market Capitalization ($ Billions) | 104.01 |
| Earnings Per Share ($) | 3.50 |
| Number of Holdings | 500 |

## Risk Measures

| | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Since Inception |
|---|---|---|---|---|
| Tracking Error | - | - | - | - |
| Information Ratio | - | - | - | - |
| Std Deviation of Portfolio | - | - | - | - |
| Std Deviation of Benchmark | - | - | - | - |
| Sharpe Ratio of Portfolio | - | - | - | - |
| Sharpe Ratio of Benchmark | - | - | - | - |
| R-Squared | - | - | - | - |
| Jensen's Alpha | - | - | - | - |

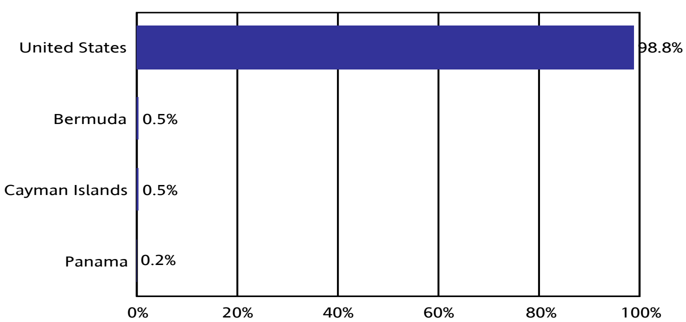
## Sector Weightings



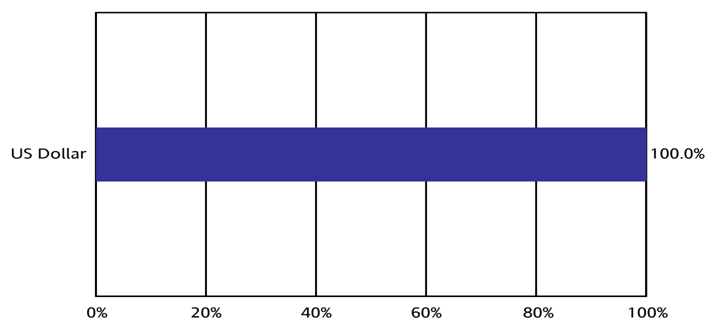

## Top Ten Portfolio Holdings

| Security ID | Security Name | % of Assets |
|---|---|---|
| 30231G102 | EXXON MOBIL CORP COM NPV | 3.69% |
| 369604103 | GENERAL ELECTRIC CO. COM STK U | 3.04% |
| 00206R102 | AT&T INC COM STK USD1 | 1.87% |
| 594918104 | MICROSOFT CORP COM USD0.000012 | 1.84% |
| 172967101 | CITIGROUP INC COM STK USD0.01 | 1.76% |
| 060505104 | BANK OF AMERICA CORP COM STK U | 1.70% |
| 742718109 | PROCTER & GAMBLE CO COM STK NP | 1.56% |
| 17275R102 | CISCO SYSTEMS COM USD0.001 | 1.49% |
| 166764100 | CHEVRON CORP COM STK USD0.75 | 1.46% |
| 478160104 | JOHNSON & JOHNSON COM STK USD1 | 1.37% |

## Top Ten Country Weights

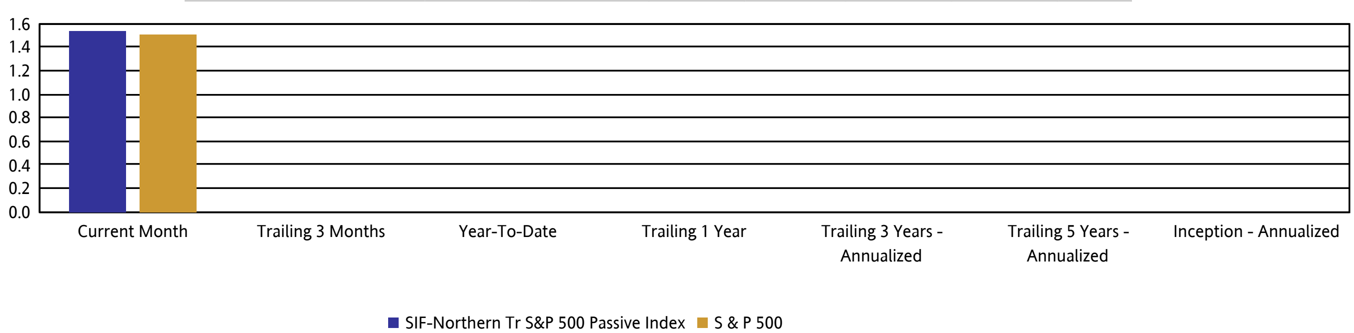



## Top Ten Currency Weights




## Returns Series

| | Current Month | Trailing 3 Months | Year-To-Date | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Inception |
|---|---|---|---|---|---|---|---|
| SIF-Northern Tr S&P 500 Passive Index | 1.53 | | | | | | |
| S & P 500 | 1.50 | | | | | | |
| **Excess** | 0.04 | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |



## *INVESTMENT DIVISION*

TO: Marsha Ryan, Administrator
Robert Smith, Chairman, Investment Committee
Alison Falls, Vice Chair, Investment Committee
David Caldwell, Investment Committee
James Harris, Investment Committee
Larry Price, Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

DATE: September 17, 2007

SUBJECT: CIO Report for July/August, 2007

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

## 2007 Goals

The Investment Division has five major goals for calendar year 2007. These proposed goals are the following:

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

2. Complete establishment of new BWC Investment Division

3. Assist in establishment of new investment accounting system

4. Sell all 68 private equity funds

5. Establish proper investment controls and compliance procedures

**Strategic Goal One – PORTFOLIO TRANSITION**

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

The State Insurance Fund 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 first two major asset class transitions for the State Insurance Fund were completed in January, 2007 by State Street Global Markets (SSGM) as BWC transition manager. These two important initial transitions involved a shift of $5.5 billion of invested assets from the Ohio Fund managed by State Street Global Advisors (SSGA) to (i) a passive indexed managed U.S. TIPS fixed income portfolio ($3.0 billion) managed by SSGA and (ii) a passive indexed managed Large Cap S&P 500 equity portfolio ($2.5 billion) managed on an interim basis by SSGM as transition manager. The other large transition from the State Insurance Fund involving approximately $9.3 billion was completed in April, 2007 by Barclays Global Investors as BWC transition manager. This major transition involved a shift of $9.3 billion of invested assets from the Ohio Bond Fund to (i) a passive indexed managed Long Duration fixed income portfolio ($7.8 billion) managed by SSGA and (ii) a similar passive indexed managed Long Duration fixed income portfolio ($1.5 billion) managed by Barclays Global Investors. It was critical that these three major asset class transitions involving the State Insurance Fund be completed before asset class transition activity could commence with respect to four BWC ancillary portfolios representing an aggregate of approximately $1.4 billion in invested assets. The focus since the completion of the State Insurance Fund transitions has been on the transitioning of the assets of these four BWC ancillary portfolios.

The Ohio Treasurer of State, BWC and JPMorgan reached a contractual agreement and signed a tri-party document dated June26, 2007 involving the investment of BWC assets in the JPMorgan U.S. Government Money Market Fund (the "Money Market Fund"). BWC utilized this Money Market Fund as its money market fund of choice offered by its custodian bank, JPMorgan Chase Bank, for cash-equivalent asset management and use as its overnight cash sweep vehicle. This Money Market Fund is a commingled mutual fund registered with the SEC and compliant with specified SEC rules. The Ohio Treasurer of State has concerns with the use of commingled funds from a custody control perspective. This recently executed tri-party agreement states specific requirements and understandings that both JPMorgan Chase Bank, as custodian to the Money Market Fund, and the investment manager unit of JPMorgan, as investment adviser to the Money Market Fund, must fulfil to the satisfaction of both the Ohio Treasurer of State and BWC.

As a result of this tri-party agreement being executed, BWC could then proceed with the transition of approximately $1.4 billion of assets involving four ancillary trust fund portfolios being shifted from the Ohio Bond Fund passively managed by SSGA to the targeted asset allocation strategy for each respective ancillary portfolio previously approved by the BWC Investment Committee and WCOC. The first step in the ancillary trust funds portfolio transition strategy was to focus and execute the transition of the two small ancillary portfolios before the two larger ancillary trust funds so as to not disadvantage the small ancillary funds versus the large ancillary funds. It was the interim transition investment strategy to utilize the Money Market Fund as the transition target portfolio for the two small ancillary funds (Ohio Public Workers Relief Fund and Ohio Marine Industry Fund). Invested assets totalling $21.4 million for the Public Workers Fund and $15.2 million for the Marine Industry Fund were shifted from the Ohio Bond Fund to the Money Market Fund on July 19, 2007.

The second step in the ancillary trust funds transition strategy is to have the invested assets of the Ohio Disabled Workers Retirement Fund (DWRF) and the Coal Workers Pneumoconiosis Fund (CWPF), totalling approximately $1.14 billion and $240 million, respectively, shifted from the Ohio Bond Fund to three respective asset class mandates per the investment policy targeted asset classes in the proportion 60% Long Duration fixed income, 20% TIPS fixed income and 20% S&P 500 index. SSGA will serve as the targeted passive indexed manager for these two fixed income mandates and Northern trust will serve as the targeted S&P 500 passive indexed manager. SSGM has been selected and engaged by BWC to serve as its transition manager for each of these three transitions for both DWRF and CWPF. These transitions are targeted for execution and completion in September 2007.

**Strategic Goal Two – BUILD INVESTMENT STAFF**

Broadening of knowledge and skills continue for the two senior and two assistant investment managers of the Investment Division. The hiring of these four individuals occurred over the period March through August of 2006. Further additions to staff are anticipated to occur in 2007, as the Investment Division executes the new Investment Policy. The Investment Division initiated job postings in December 2006 for the open positions of Investment Administration Manager and Assistant Investment Manager. These positions could not be filled until the temporary hiring freeze imposed on state agencies by the Governor's Office was lifted. This temporary hiring freeze was lifted, effective May 1, 2007. Interviewing for these two positions continued during the hiring freeze period. After the hiring freeze ended, finalist candidates for both positions were identified and the first choice finalists for both positions accepted in June, 2007 the BWC offer of employment. Both new hires joined the Investment Division in late July, 2007 and are making many immediate contributions.

Job postings for two additional staff positions also occurred in June, 2007. These positions are for a third senior investment manager position and an administrative assistant. It is anticipated that both the administrative assistant position and the senior investment manager position will be filled in the fourth quarter 2007. These four additions to staff over the second half of 2007 will reflect the next stage of the building of a team of experienced investment professionals dedicated to serving the needs of the BWC and its customers with the highest of integrity and competence.

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

The Investment Division and the Finance Division have a joint goal of improving and selecting a new investment accounting and reporting system. The higher importance of an improved investment accounting and reporting system is a result of the approval of the new Investment Policy at the July 20, 2006 meeting. Two separate RFPs were issued in November, 2006 regarding the option of an enhanced vendor software platform and December, 2006 pertaining to a proven integrated outsourced package. The Investment Division has been actively involved with Financial Reporting/Accounting, IT and Internal Audit for the support and development of an enhanced accounting system.

A decision was reached by the RFP Evaluation Committee on both the preferred enhanced vendor software platform finalist (insource solution) and the integrated outsourced package vendor finalist (outsource solution). A finalist for both of these options was identified and a recommendation for the outsourced vendor solution was made to BWC Administrator Marsha Ryan. Administrator Ryan approved this recommendation in mid-June, 2007. BWC is currently in the implementation and conversion process to this web-based system with a goal for completion targeted for November 1, 2007. It is also the goal to have an improved accounting system available to BWC to accommodate the monitoring of new approved active style asset managers in satisfaction of the current BWC Investment Policy.

**Strategic Goal Four – PRIVATE EQUITY SALE**

At the IC/WCOC meetings of August 24, 2006, UBS Securities LLC was approved to represent BWC as agent in the potential sale of some or all of its private equity funds. The contract of engagement was executed the day of approval. This contract had a commencement date of September 11, 2006. The auction sale process has been completed by UBS and progress continues towards the sale of the BWC private equity funds. The first private equity fund sale was completed in late June, 2007 and eight additional private equity partnership sales have occurred over July-August, 2007. Proceeds received through 8/31/07 from private equity partnership sales have totalled almost $84 million, with all such proceeds received reinvested in the passive indexed Large Cap S&P 500 Equity portfolio managed by Northern Trust. It is expected that the sale of most or all remaining private equity partnerships will be completed by the end of 2007.

**Strategic Goal Five – INTERNAL INVESTMENT PROCEDURES**

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

The Investment Division continues to improve internal procedures for the management oversight of the remaining private equity funds as well as the new passive style investment managers, performance reporting, and other investment activities to support the new Investment Policy. Internal procedures for the monitoring of active style investment managers are being developed well in advance of the selection of such managers.

## Compliance

The investment portfolios managed by State Street, Barclays and Northern trust were in compliance on both July 31and August 31, 2007 with the BWC Investment Policy and their respective investment management agreement guidelines imposed by BWC under management contract.

## Declaratory Judgement Private Equity Action Update

The DJ action was scheduled for trial the week of September 14, 2006, but the case was continued because private equity fund defendants began to enter into settlement agreements with the Columbus Dispatch. BWC is consenting to the settlements. As of the last report from the Attorney General, all of the Private Equity funds that were parties to the action have entered settlement agreements with the Dispatch to release redacted versions of the Ennis Knupp Report. Thus, the case has been dismissed. The impact is that BWC and the WCOC members who have a copy of the final Ennis Knupp Report should not release to the public the full version of Tabs 4 and 5 from the Report. For any future public records request, BWC will provide only the agreed upon version of those Tabs for the Funds.

## <u>Legislative Updates</u>

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

The first major segment of the 127th General Assembly wound up with the passage of House Bill 119, Ohio's Biennial Budget. The legislature reconvened September 11 & 12 for relatively uneventful sessions, and does not plan to meet again until October.

Administrator Ryan and Senior Team members will be testifying in front of the House Insurance Committee on October 2, 2007 to introduce themselves and give their assessment of the Bureau under the new administration, and highlight some of the changes that have taken place as a result of House Bill 100 as well as various other initiatives.

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

**House Bill 100 (Brinkman) BWC Budget.**

- General Summary.
  - Makes numerous changes to the BWC governance structure including establishing the office of Deputy Inspector General, replacing the Workers' Compensation Oversight Commission with a professionalized Board of Directors, and establishing the Workers' Compensation Council.
  - Authorizes the following biennial appropriation:
    - FY 2008 $328,956,361.00;
    - FY 2009 $329,210,479.00.
- Current Status.
  - Signed by Governor Strickland on June 11, 2007.
  - The Board of Directors language (4121.12) as well as the uncodified sections of the bill went into effect immediately.
  - The appropriation became effective on July 1, 2007.
  - All other provisions became effective September 10, 2007.
- BWC Action.
  - Many members of the BWC senior team were involved with this legislation. They provided impact-related feedback and information about the policies and procedures at BWC.
  - Operational implementation of this legislation began after the Governor's signature.

**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.
  - One hearing in House Insurance Committee (5/22/07 George Smith, Executive Director of MCO League presented information about managed care organizations).
- BWC Action.
  - In the 10/2 testimony in front of the House Insurance Committee, Marsha and Senior Team members may offer input on legislative tools (if any) they may need in order to execute initiatives.

**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.
  - Three hearings in House Commerce and Labor (6/26/07)
  - Next anticipated hearing in October.
- BWC Action.
  - 6/26/07. 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:
    - 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
  - 6/14/07 letter including impact information and proposed recommendations was submitted to Representative Batchelder.
  - 5/08/07 At Representative Batchelder's request, Bruce Dunn and Lee Damsel appeared before House Commerce and Labor Committee to offer impact testimony.

**House Bill 95 (Koziura) Unemployment Compensation.**

- General Summary.
  - This bill specifies the conditions under which a claimant's unemployment compensation benefits are not reduced by the amount received in social security retirement benefits.
- Current Status.
  - Referred to House Commerce and Labor.

**House Bill 125 (Huffman) Health Insurance.**

- General Summary.
  - This (OSMA) bill proposes to establish uniform contract provisions between health care providers and third party payers, to establish standardized credentialing, and to require third party payers to give health care providers certain information concerning enrollees. Last week the Committee adopted the -6 version of the bill which expressly eliminates BWC Revised Code Chapters from the scope of the legislation.
- Current Status.
  - Ten hearings in House Civil and Commercial Law Committee (9/11/07). A -7 version of the bill is expected to be drafted and adopted in 9/25 hearing.
- BWC Action.
  - At the request of legislators, a memo (prepared by the Legal and Medical Divisions) was circulated regarding the impact enactment would have on BWC.
  - Will be verifying with Legal and Medical that all BWC interests have been addressed in -6 version.

**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.

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

- General Summary.
  - This bill requires a health insurer, and allows an injured worker, during the time the i/w's claim is pending approval, to pay for medical services, and requires BWC to reimburse i/w 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).

**SB146 (Spada)/HB166 (Schindel) OBM Office of Internal Audits.**

- General Summary.
  - Requires all state agency internal auditors to be transferred to OBM, creating an Office of Internal Auditing.
- Current Status.
  - HB166 (Schindel) passed House State Government and Elections Committee – party line vote.
  - SB 146 – Two hearings in Senate Finance (5/10/07).
- BWC Action.
  - BWC Chief of Internal Auditing has prepared a memo detailing the impact that enactment of this legislation will have on BWC.

# The Ohio Bureau of Workers' Compensation

# Statement of Investment Policy and Guidelines

Adopted by the WCOC:  July 26, 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 Oversight Commission ("WCOC") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the surplus and reserves of the Funds.

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

### B. Fiduciary Standard

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

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

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

## III. ROLES AND RESPONSIBILITIES

### A. WCOC Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**B. OBWC Staff Responsibilities**

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

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

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

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

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

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

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

vii. Implement the directives of the WCOC.

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

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

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

xi. Monitor manager trade execution.

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

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

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

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

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

## C. Investments Managers' Responsibilities

Each Investment Manager shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## D. General Partners' Responsibilities

Each General Partner shall:

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

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

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

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

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

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

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

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

## E. Investment Consultants' Responsibilities

The Investment Consultant shall:

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

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

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

iv. Assist in the development of performance measurement standards.

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

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

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

viii. Establish a procedural due diligence search process.

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

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

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

## IV. INVESTMENT POLICY GUIDELINES

### A. Asset Allocation Guidelines

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

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

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

### B. Rebalancing Policy

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

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

## C. General Guidelines

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

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

- No one investment organization or General Partner, utilizing active investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The WCOC, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
- The Funds' assets managed by any one firm, utilizing either active or passive investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that 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** | **Individual Security 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**

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

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

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

iii. **U.S. Equity**

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

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

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

**Non-U.S. Equity**

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

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

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

iv. **Alternative Investments**

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

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

v. **Cash Equivalents**

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 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

Adopted by the WCOC: July 26, 2007

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

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## Appendix IX: Asset Allocation Criteria

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

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

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

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

| Asset Class | Policy Target |
|---|---|
| ***Total Fixed Income:*** | ***99%*** |
| Intermediate Duration | 99%[2] |
| ***Cash Equivalents*** | ***1%*** |
| ***Total Equity*** | ***0%*** |

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

[2] 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



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# 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.

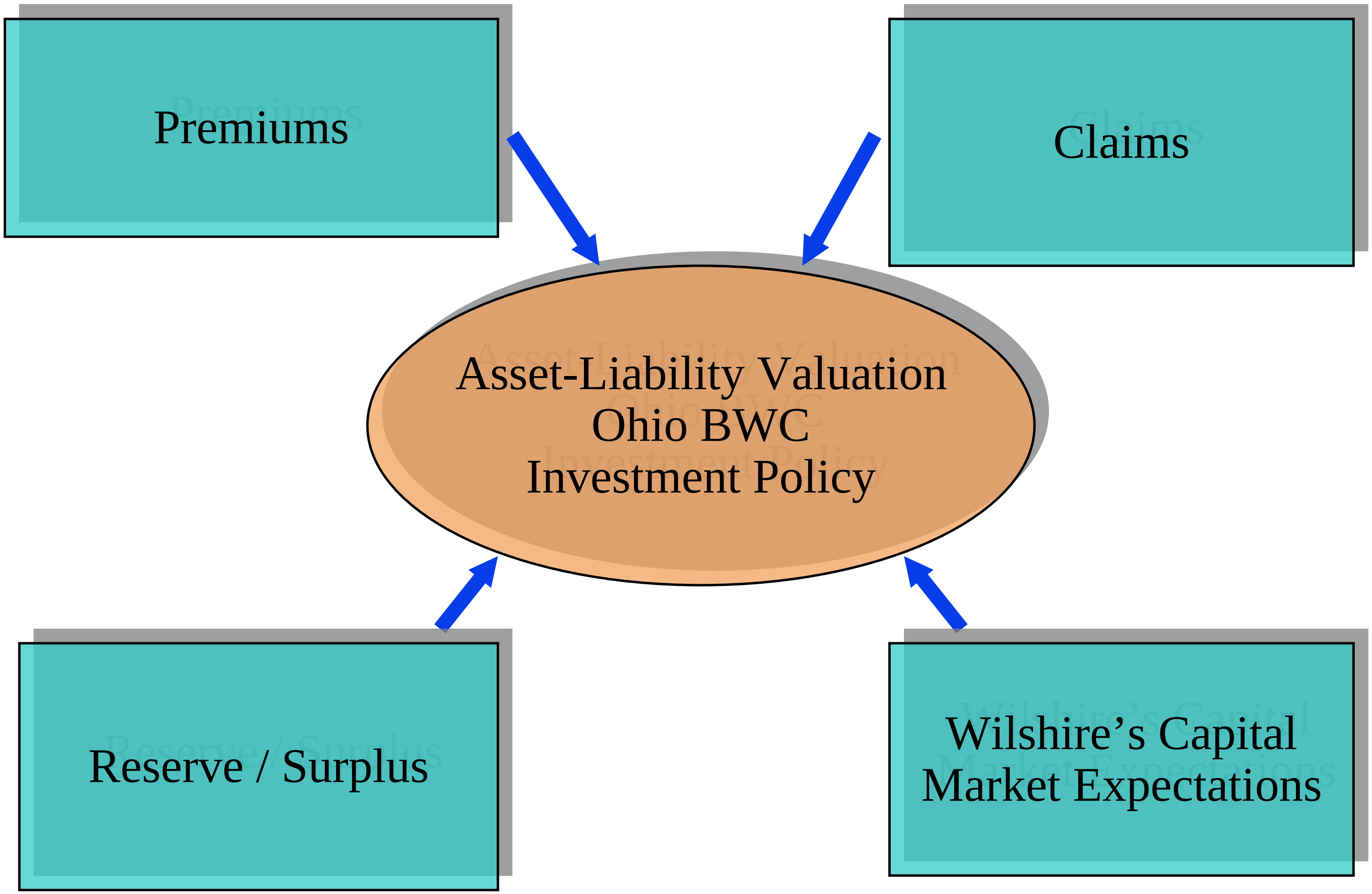
- Asset Allocation is the process of selecting a policy portfolio - allocating a portfolio's assets among asset classes that have the potential to serve the financial objectives of the fund.

- 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

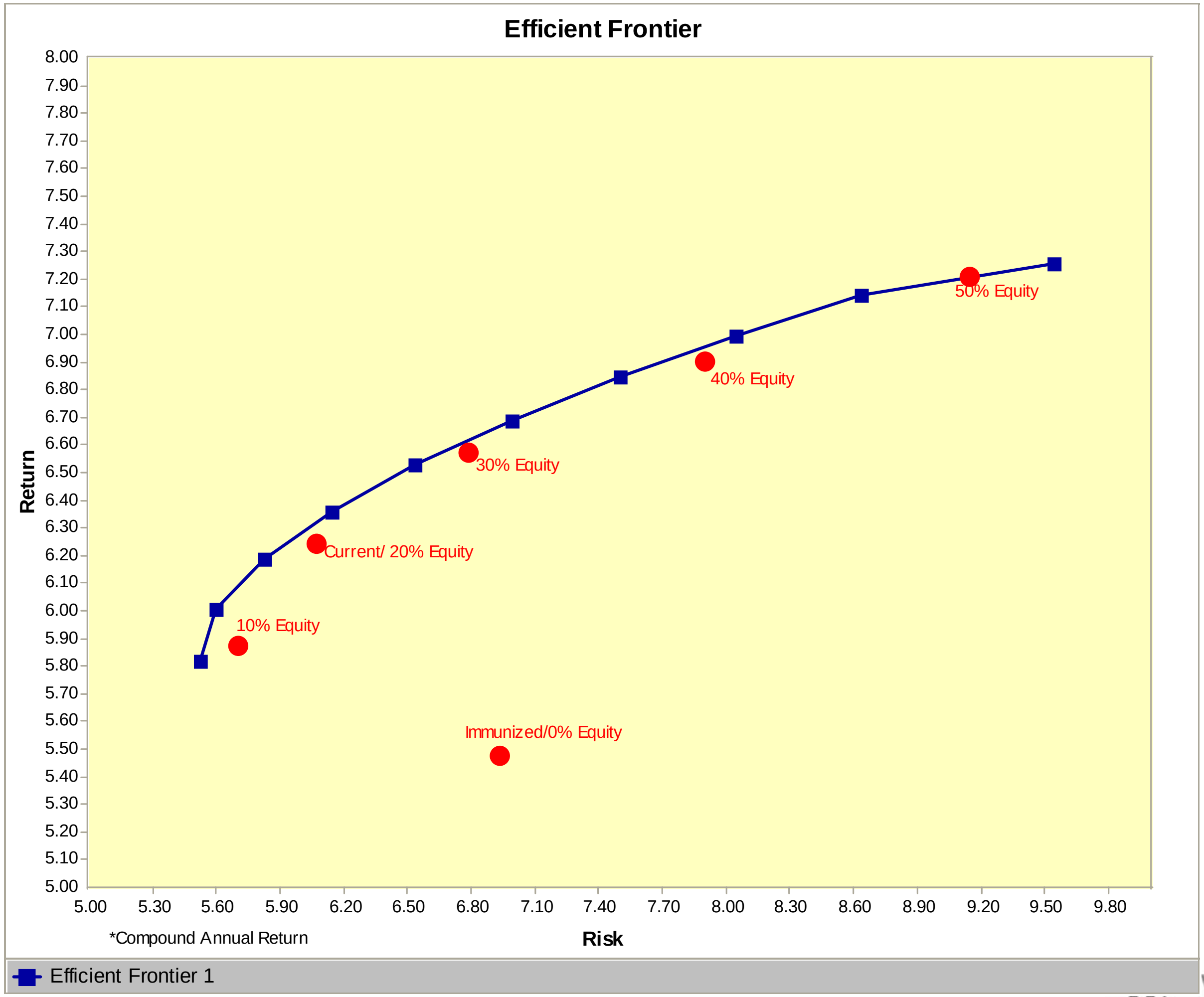
| Asset Class | U.S. Equity | Non-U.S. Equity | Fixed Income - Core | Fixed Income - Long Duration/Dedicated | Fixed Income - High Yield | Fixed Income - Inflation Protected | Cash Equivalents |
|---|---|---|---|---|---|---|---|
| **Return** | 8.25 | 8.25 | 5.25 | 5.50 | 6.75 | 5.00 | 3.00 |
| **Risk** | 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.



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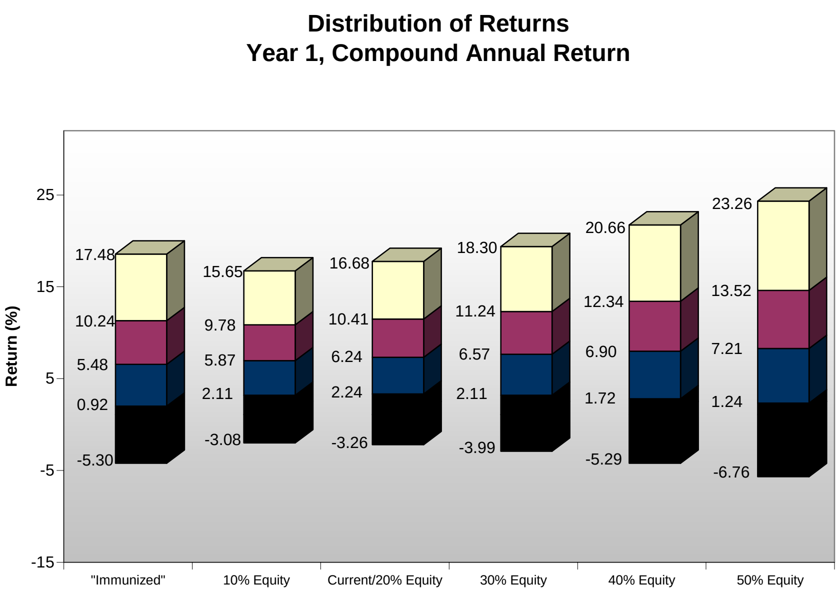
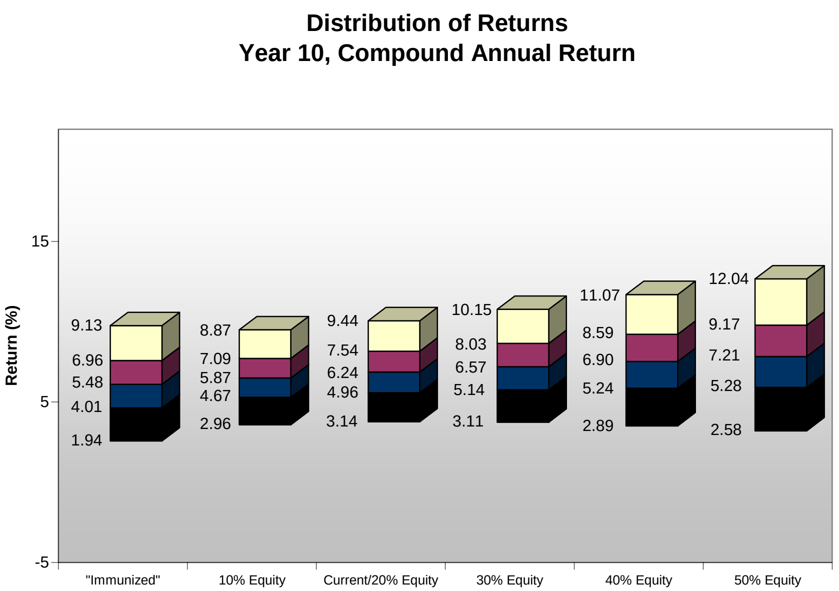
# 1 and 10-Year Distribution of Expected Returns

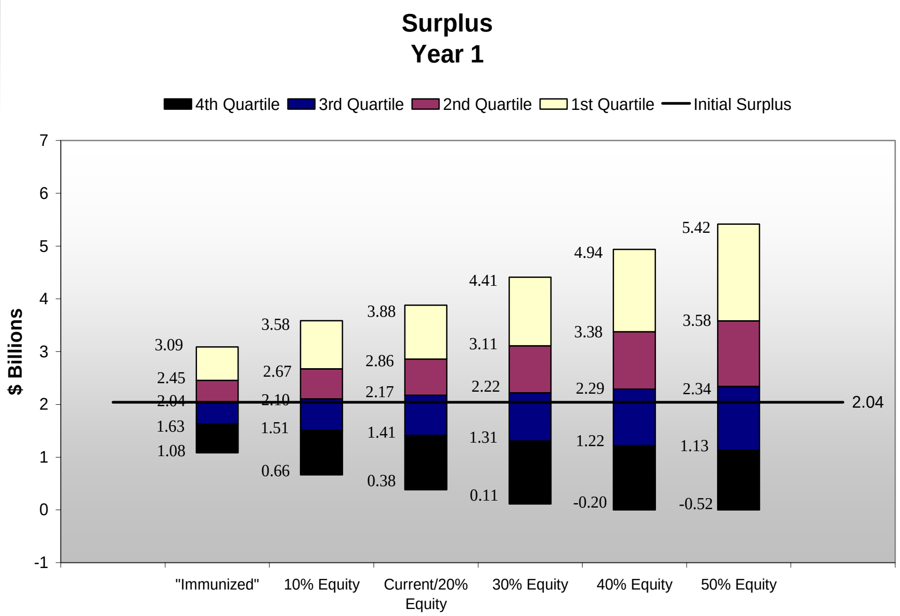


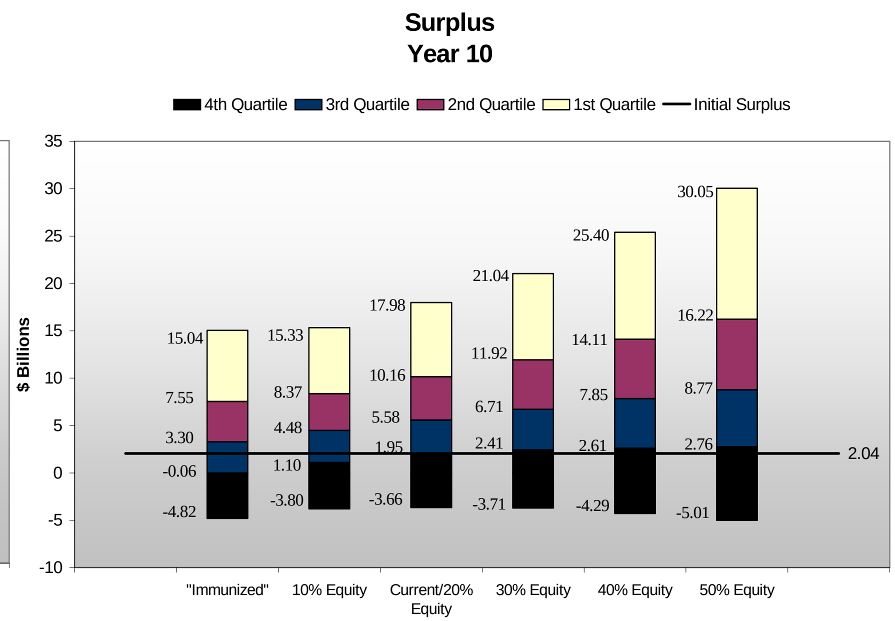



# IV. Asset-Liability Modeling

# 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 |

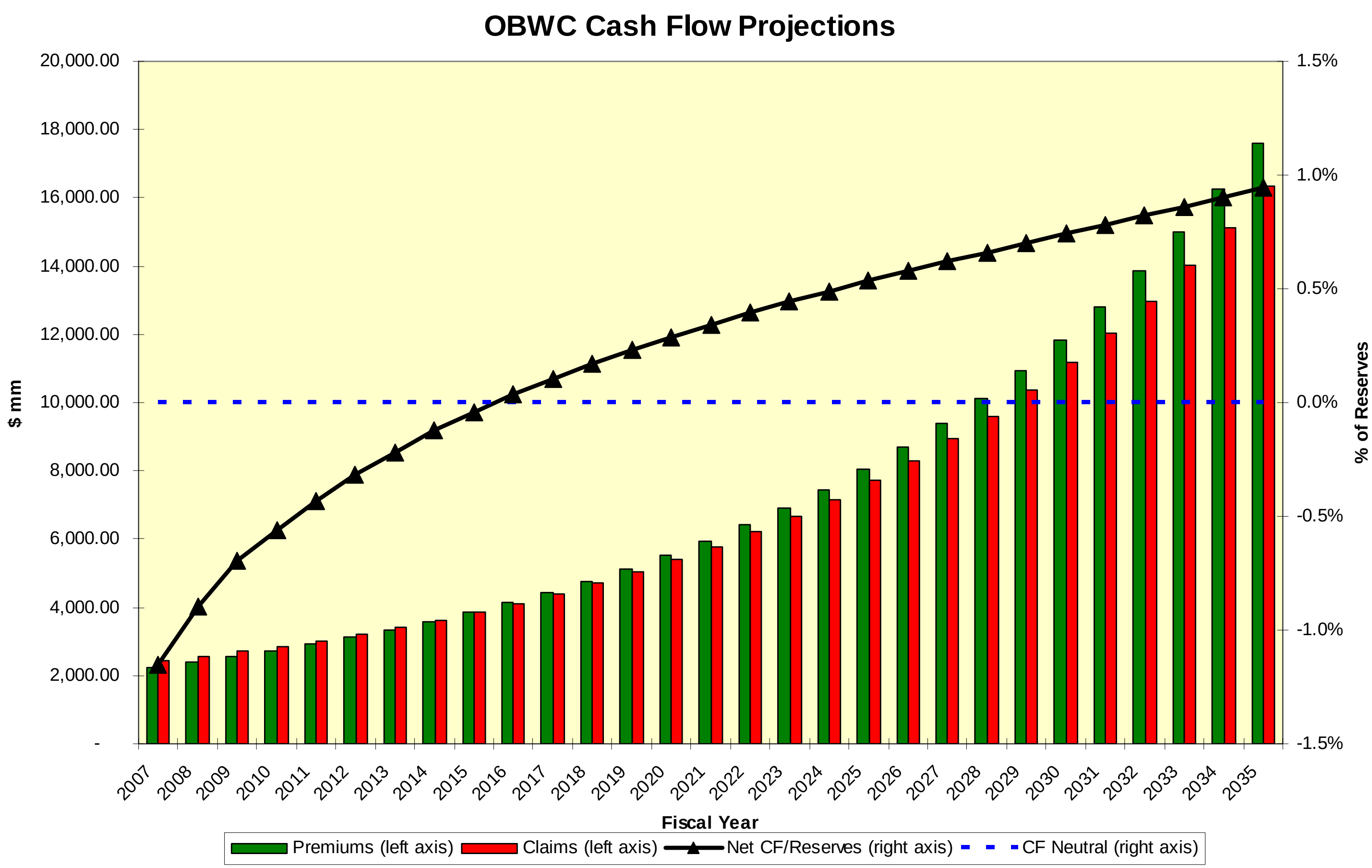
| | "Market Environment" | "Immunized" | 10% Equity | Current/20% Equity | 30% Equity | 40% Equity | 50% Equity |
|---|---|---|---|---|---|---|---|
| Year 3 | Bottom 5% | 0.37 | -0.13 | -0.48 | -0.94 | -1.39 | -1.78 |
| | Bottom Quartile | 1.42 | 1.46 | 1.43 | 1.36 | 1.20 | 1.04 |
| | Median | 2.35 | 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 |

# 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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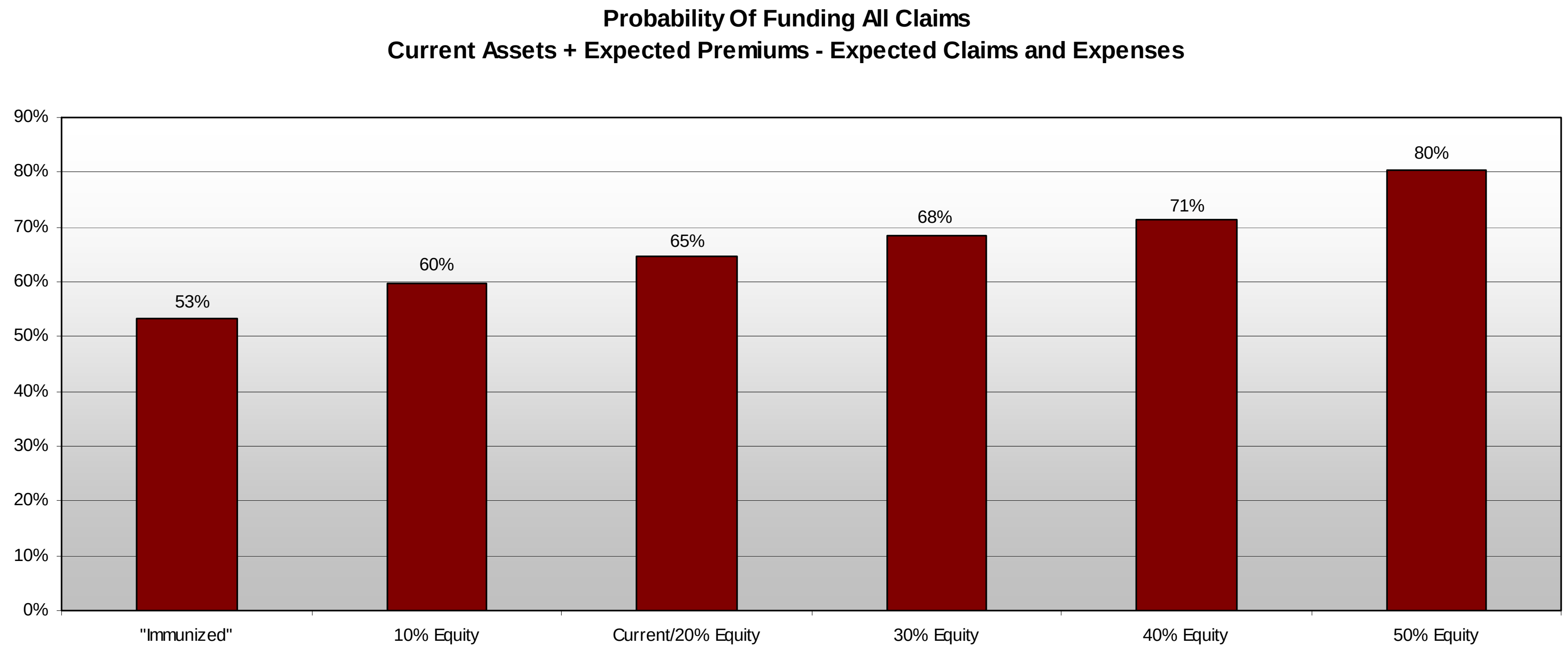
# Probability of Success

- 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 (80%) | 5 | 833 | |
| Passsive (20%) | 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** |



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# 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~~ **20** | **0** | **0** | **0** | **15** |
| *Large Cap* | *12* | *12* | *~~12~~ 17* | *0* | *0* | *0* | *12* |
| Active | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Passive | 12 | 12 | ~~12~~ 17 | 0 | 0 | 0 | 12 |
| *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** | **0** | **5** |
| Active | ~~4~~ 5 | ~~4~~ 5 | 0 | 0 | 0 | 0 | ~~4~~ 5 |
| Passsive | ~~1~~ 0 | ~~1~~ 0 | ~~5~~ 0 | 0 | 0 | 0 | ~~1~~ 0 |
| **Fixed Income - Long Duration** | **54** | **54** | **54** | **0** | **0** | **0** | **54** |
| Active | 27 | 27 | 0 | 0 | 0 | 0 | 27 |
| Passive | 27 | 27 | 54 | 0 | 0 | 0 | 27 |
| **Fixed Income - Intermediate** | **0** | **0** | **0** | **99** | **99** | **0** | **0** |
| **High Yield** | **5** | **5** | **5** | **0** | **0** | **0** | **5** |
| Active | 5 | 5 | 5 | 0 | 0 | 0 | 5 |
| Passive | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Inflation-Protected Securities** | **20** | **20** | **20** | **0** | **0** | **0** | **20** |
| Active | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Passive | 20 | 20 | 20 | 0 | 0 | 0 | 20 |
| **Cash Equivalents** | **1** | **1** | **1** | **1** | **1** | **100** | **1** |

# Fund Descriptions

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

# Fund Descriptions

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

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

# Implementation Issues

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

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

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

## Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HISTORICAL AND STATUTORY NOTES

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

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

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

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

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

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

CROSS REFERENCES

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

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

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

RESEARCH REFERENCES

Encyclopedias

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

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

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

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

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

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

1. Constitutional issues

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

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

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

2. In general

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

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

3. Disbursements; investments

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

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

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

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

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

4. Fiduciary obligations

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

5. Effective date

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

R.C. § 4123.44, OH ST § 4123.44

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

# Appendix XIII: Legal Requirements Summary

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

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

## I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

## II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

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

## III. Administrator's Investment Duties

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

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

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

## IV. Chief Investment Officer Duties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## VI. Fiduciary Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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

# BWC Investment Division

## Investment Basics

By

**Lee Damsel, CFA, CPA**
*Director of Investments*

**Vyts Kulpa, CFA**
*Investment Administration Manager*

**Doug Walouke, CFA**
*Senior Investment Manager*



**Lee Damsel, CFA, CPA**
*Director of Investments*



## Prudent Person Rule

- BWC's Standard of Responsibility

  *"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".* ORC § 4123.44



## Standard of Responsibilities

- **Trustee**
  - Must **preserve** the trust fund
- **Prudent Person Rule/Prudent Man Rule**
  - Must use **care,** skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity
- **Prudent Investor Rule**
  - Must use prudence, diligence, and **intelligence** as would be used by a prudent person making similar investments
- **Prudent Expert Rule**
  - Must act as someone with **subject matter expertise** relating to the management of money, not just prudence.

## Investment vs. Deposit

Investment: Item of value purchased for income or capital appreciation

- Treasury Note (Fixed Income)
- Stock (Equity)
- Certificate of Deposit (Cash)

Deposit: Transaction involving a transfer of funds to another party for safekeeping

- Checking account
- Savings account



## Investment Policy Statement - IPS

- A written document with specific scopes and goals/objectives by fund

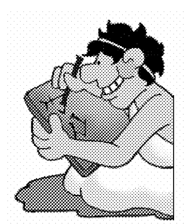
## IPS and Role of Asset Allocation

- This document determines over 90% of the funds' return based on the asset allocation specified
- The other 10% of return is explained by security selection and/or market timing



## IPS – General Policy Structure

- Scope
- Goals/Objectives
- Constraints
  - Liquidity and cash flows needs
  - Time horizon
- Benchmarks





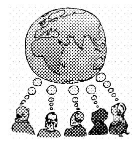
## Fixed Income Securities

- A debt obligation of a corporation, governmental entity or trust
- Provides periodic coupon payments based on a fixed or floating interest rate
- The face value or principal is returned upon maturity

## Investment Basics

### Type of Fixed Income Securities

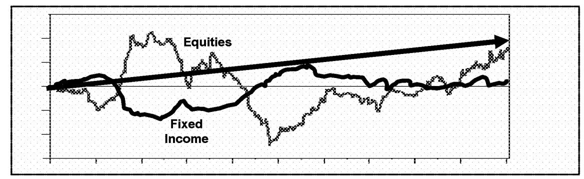
| Money Market | Notes/Bonds |
|---|---|
| • U.S. Treasury Bills | • U.S. Treasury Notes/Bonds |
| • Federal Agency Discount | • Federal Agency Notes/Bonds |
| • Commercial Paper | • Corporate Notes/Bonds |
| • Bankers' Acceptances | • Foreign Notes/Bonds |
| • Repurchase Agreements | |
| • Certificates of Deposit | |
| • Money Market Mutual Funds | |



## Investment Basics

### Equities

- Stocks issued by publicly owned corporations
  - *Represent ownership interest in corporation*
  - *May pay dividends*




## Investment Basics

### Advantages

**Fixed Income**
- Principal return at maturity
- Increased cash flows due to coupon income

**Equities**
- Right to future growth and profits
- Historically outperform fixed income investments
- Highly liquid

### Disadvantages

**Fixed Income**
- Market valuations created by interest rate fluctuation
- Corporate bankruptcy may decrease value

**Equities**
- Stock valuations created by market fluctuations
- No guarantee of dividends or return
- Corporate bankruptcy may eliminate value

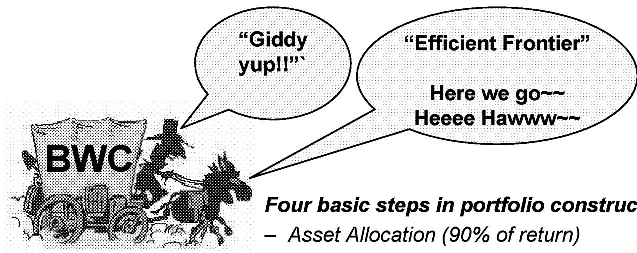
## Investment Basics

### Mutual Funds

- Pooling of funds from multiple investors
- Variety of types:
  - Equity
  - Bond
  - Money Market
- Highly Liquid
- Fees Netted from Income
- The fund's prospectus provides important information:
  - Investment policies
  - Fees/Expenses

## Investment Basics

### Modern Portfolio Theory - MPT

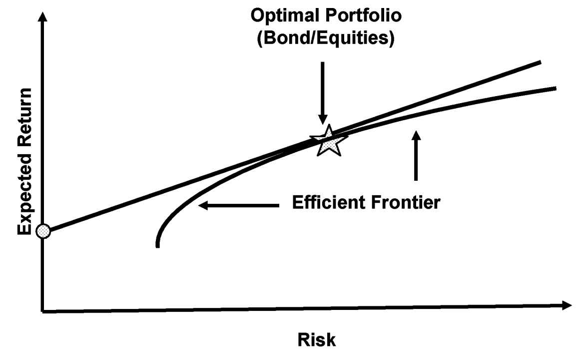



***Four basic steps in portfolio construction:***

- *Asset Allocation (90% of return)*
- *Security Selection (10% of return)*
- *Portfolio Optimization*
- *Performance Measurement*

## Investment Basics

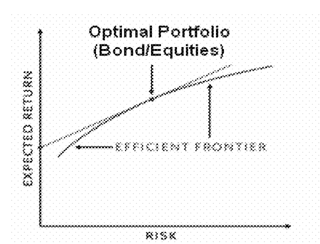
### Modern Portfolio Theory - MPT




## Investment Basics

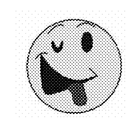
### Modern Portfolio Theory - MPT

- Constructing portfolios in order to optimize market risk for expected returns
- Emphasizing that risk is an inherent part of higher reward
- By constructing an 'efficient frontier' of optimal portfolios, we can achieve the maximum possible expected return for a given level of risk



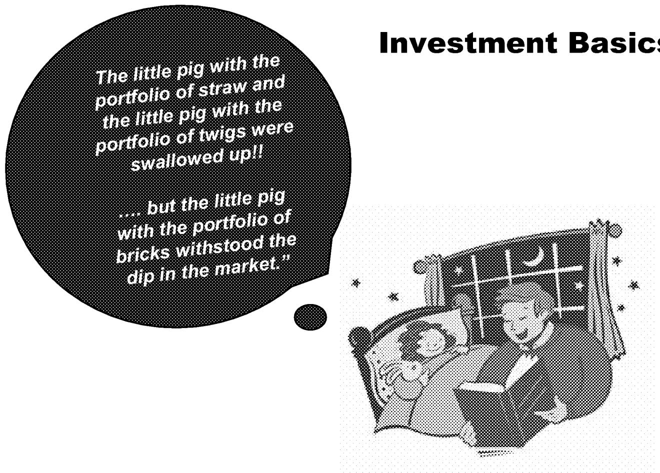

## Investment Basics

### Gains/Losses



- Realized Gain/Loss: Gain or loss posted to books
  - securities sold at market values
  - Charge off to reflect change in value
- Unrealized Gain/Loss: Market value fluctuations
  - Interest rates changes
  - Passage of time
  - Credit changes

## Investment Basics




## Investment Basics

### Who's Holding the Securities?

- Banks and trust companies provide security safekeeping and custody services
- A third-party custodian minimizes custodial risk
- Different custodial agents may be used for different types of securities
- Securities have unique identifying numbers called CUSIPS
- Custodial accounts should be reconciled monthly

## Investment Basics

### What is an Investment Consultant/Advisor?

- Firm that provides investment consultant services
- Regulated by the Securities & Exchange Commission
- Paid a fee for services
- Has a fiduciary responsibility to clients
- An independent - investment advisor does not control

## Investment Basics

### Interest Rates

- **Real Interest Rate**
  - ✓ *Compensation to the investor*
  - ✓ *Averages 2-3% over long historical periods*
- **Inflation Premium**
  - ✓ *Reflects expectations of future inflation levels over the term on the investment*
  - ✓ *Preserves the purchasing power of the investor over time*
- **Risk Premium**
  - ✓ *Compensation for current or possible risks*

Real Interest Rate + Inflation Premium + Risk Premium = Investment Return

## Investment Basics

**Vyts Kulpa, CFA**

*Investment Administration Manager*

## Investment Basics

**Return:** % *Gain or loss received from an investment*

**5% !!!! ????**

- **What Time Period?**
  *Month, Quarter, Year*
- **What Asset Class?**
  *Fixed Income, Equities*
- **What Benchmark?**
  *Lehman Brothers Fixed Income*
  *S&P 500 Index Equity*

## Investment Basics

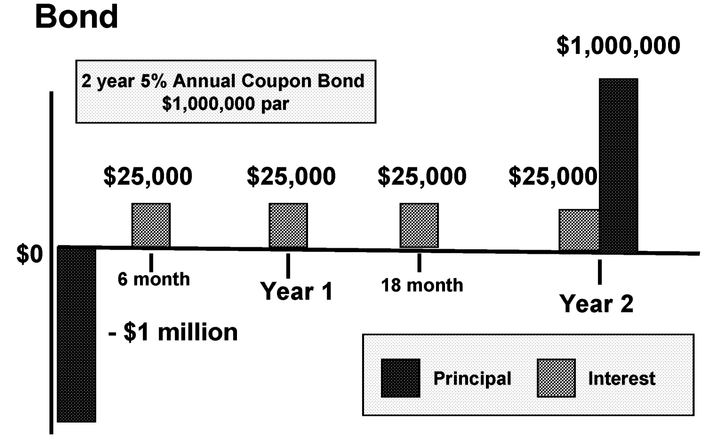
**Yield**

**Annual rate of return on an investment, expressed as a percentage**

Example:
- Invest $100 for one year
- Receive interest of $5 at year end
- Yield = 5% ($5 ÷ $100)

## Investment Basics

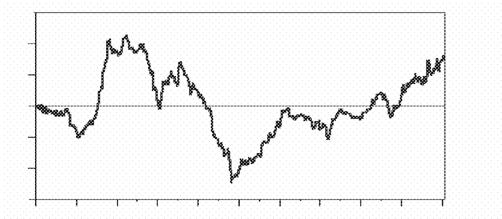
**Bond**



## Investment Basics

**Risk:** *Not just "Losing" Money,*
*But A Type of Uncertainty That Can Be Managed*

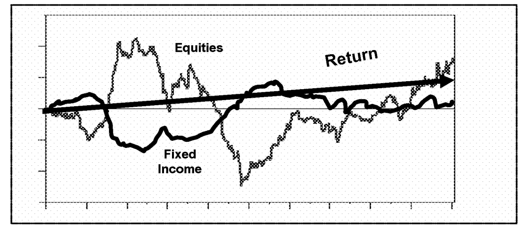
- **Volatility**
  - ✓ *Fluctuation*
  - ✓ *Not a straight line up*
  - ✓ *Zig Zag*



## Investment Basics

**Risk:** *Not just "Losing" Money,*
*But A Type of Uncertainty That Can Be Managed*

- **Diversification (Exposure)**
  - ✓ *Across Investment Classes (Asset Allocation)*
  - ✓ *Across Economic Sectors (i.e. Health, Financial, Energy)*
  - ✓ *Across Countries (International Exposure)*




- **Result: More Net Stable Return**

## Investment Basics

**Industry Standard**
**Performance Measurement**

- Monthly valuation
- Current market value
- Appropriate benchmark
- Gross of fee/ Net of fee performance presentation

## Investment Basics

**Doug Walouke, CFA**
*Senior Investment Manager*

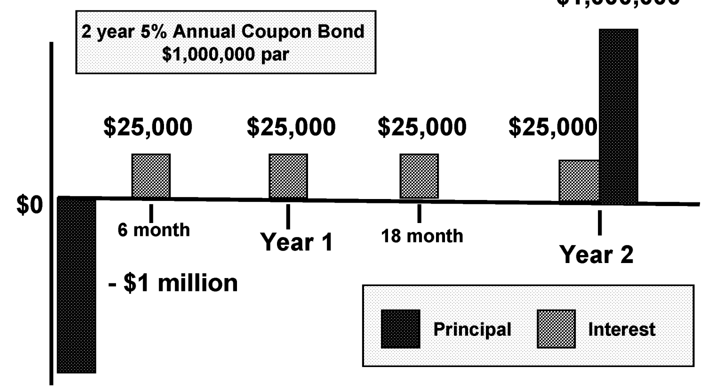
## Investment Basics

- **Interest Rate or Market Risk**
  - Variability of return/price related to changes in interest rates
  - Interest rates move inversely to prices

Real Interest Rate + Inflation Premium + Risk Premium = Investment Return

## Investment Basics

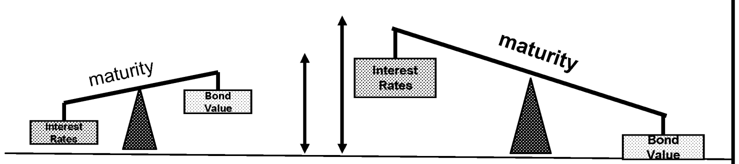
### Bond




## Investment Basics

### Volatility/Duration

- Interest rates and bond value are inversely related (normally)
- It is the effect of interest rate changes on the price/return of a security or portfolio of securities




## Investment Basics

- **What is the Risk Premium?**

Real Interest Rate + Inflation Premium + Risk Premium = Investment Return

## Investment Basics

### Credit Risk

- Monitoring credit risk
  - ✓ *Moody's*
  - ✓ *Standard & Poor's*
  - ✓ *Fitch*
- Risk of default or decline in security value due to conditions outside investors control

Real Interest Rate + Inflation Premium + Risk Premium = Investment Return

## Investment Basics

- Standard Ratings

Investment Grade

| Moody | S&P | Fitch |
|---|---|---|
| Aaa | AAA | AAA |
| Aa1 | AA+ | AA+ |
| Aa2 | AA | AA |
| Aa3 | AA- | AA- |
| A1 | A+ | A+ |
| A2 | A | A |
| A3 | A- | A- |
| Baa1 | BBB+ | BBB+ |
| Baa2 | BBB | BBB |
| Baa3 | BBB- | BBB- |
| Ba1 | BB+ | BB+ |
| Ba2 | BB | BB |
| Ba3 | BB- | BB- |
| B1 | B+ | B+ |
| B2 | B | B |
| B3 | B- | B- |
| Caa1 | CCC+ | CCC+ |
| Caa2 | CCC | CCC |
| Caa3 | CCC- | CCC- |
| Ca | CC | CC |
| C | C | C |
| D | D | D |

## Investment Basics

### Liquidity Risk

- Inability to sell portfolio holdings at a competitive price

Real Interest Rate + Inflation Premium + Risk Premium = Investment Return

## Investment Basics

### Trust Funds

| | | |
|---|---|---|
| **State Insurance Fund (SIF)** | Provides compensation and medical benefits to employees sustaining work related inquires or diseases | $15.3 B |
| **Disabled Workers' Relief Fund (DWRF)** | Provides supplemental payments to injured workers who are receiving permanent and total disability (PTD) benefits | $1.1 B |
| **Coal Workers' Pneumoconiosis Fund (CWPF)** | Provides benefits to injured workers exposed to coal dust, under the Federal Coal Mine Health and Safety Act of 1969 | $0.2 B |
| **Public Workers Relief Fund (PWRF)** | Provides benefits to "work-relief employees" engaging 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 | $0.02 B |
| **Marine Industry Fund (MIF)** | Provides voluntary coverage to employers who have employees working on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act | $0.02 B |
| **Self Insured Employers Guarantee Fund (SIEGF)** | Provides for payment of compensation and medical benefits to injured workers of self-insured employers that are bankrupt or in default | * |
| **Administrative Cost Fund (ACF)** | Allocation of administrative costs | * |

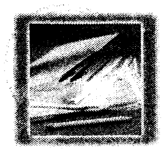
**Investment Basics**

## Recap & Q & A

- Prudent Rules
- Investment Policy Statement (IPS)
- Type of Securities
  - Fixed Income
  - Equities
- Risk/Return Profile
- Performance Reporting
- Trust Funds

# BWC Investment Division

How to "RFP" for Investment Management Services/Products



By Lee Damsel, CFA, CPA

*How to "RFP" for Investment Management Services/Products*

## Definition

**RFI/RFQ** = Request for Information/ Request for Qualification

typically used as a step prior to going to a full-blown RFP to determine general price ranges and services available

**RFP** = Request for Proposal

an invitation for suppliers, through a bidding process, to submit a proposal on a specific product or service

*How to "RFP" for Investment Management Services/Products*

## Process

**BWC Investment Division issues RFP's for:**

- **Investment Management Services**
  - firm that invests the funds of investors in securities in line with the stated investment objectives
  *(i.e. Barclays, State Street, Northern Trust)*
- **Investment Consultant Services**
  - investment firm providing investment products and services to clients
  *(i.e. Wilshire)*
- **Investment Advisory Services**
  - firm that advises clients on investment matters on a professional basis
  *(i.e. UBS Private Equity Sell Side Advisors)*

*How to "RFP" for Investment Management Services/Products*

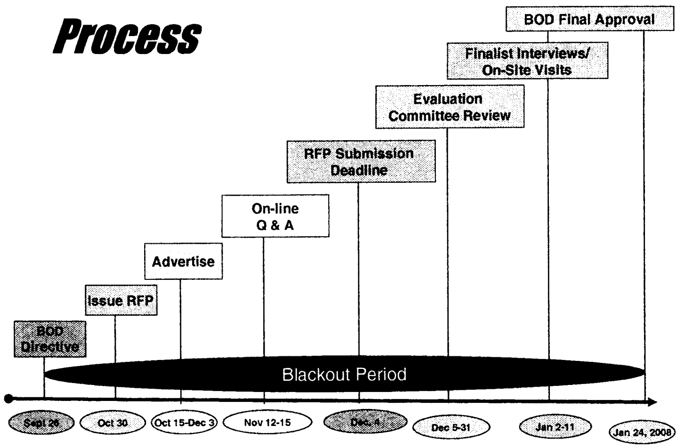
## Process

**Major Steps:**

- Board of Directors Directive
- Write/Issue RFP
- Advertise
- On – line Q & A
- RFP Submission Deadline
- Evaluation
- Interview Finalists
- On – Site Visits
- Staff/Consultant Recommendations
- Board of Directors Approval

*How to "RFP" for Investment Management Services/Products*

# Process




*How to "RFP" for Investment Management Services/Products*

# Ohio Revised Code/Legal Requirements

- Ethics Affirmations
- Political Contribution Affirmations
- Indemnification – *not provided by State Agency*
- All vendors mandatory fingerprinting
- Minimum Insurance Levels Required
- Standard BWC Legal Contract

*How to "RFP" for Investment Management Services/Products*

# Evaluation Committee Members

**RFP for Investment Manager, Advisors Search**

Evaluation Committee Members are:

- Investment Division Staff
- Consultant

**RFP for Consultant Search**

Evaluation Committee Members are:

- Members of Board of Directors
- Investment Division Staff

*How to "RFP" for Investment Management Services/Products*

# Composition

- BWC Portfolios and Fund Characteristics Overview
- BWC Investment Policy Statement
- Calendar of Events
- 20-40 Questions Regarding:
  - *Mandate*
  - *Provider's quality, experience, price*
  
  *(Note: Consultant fully engaged for mandate specific questions)*
- Minimum Qualifications
- Submission Requirements (i.e. proposal format, number of copies, etc.)
- General Evaluation Parameters
- RFP Submission Deadline

* All RFP's meet State of Ohio's bidding requirements, BWC's internal legal requirements, and BWC's Finance Division (Purchasing) requirements

# How to "RFP"

***How to "RFP" for Investment Management Services/Products***

***Ad:***

- Pensions & Investments
- Wall Street Journal

**Ohio Bureau of Workers' Compensation**

## Request for Proposal

BWC

PASSIVE INDEXED INVESTMENT MANAGEMENT SERVICES FOR LONG DURATION FIXED INCOME (LEHMAN LONG GOVERNMENT /CREDIT), INTERMEDIATE DURATION FIXED INCOME (LEHMAN AGGREGATE BOND INDEX) TREASURY INFLATION PROTECTED SECURITIES (LEHMAN U.S. TIPS), LARGE CAP US EQUITY (S&P 500), and NON-U.S. EQUITY (MORGAN STANLEY COUNTRY INDEX, ALL COUNTRY WORLD INDEX ex-US)

The Ohio Bureau of Workers' Compensation is seeking a qualified firm or firms that have demonstrated experience with, and success in, providing passive indexed investment management services for Long Duration Fixed Income, Intermediate Duration Fixed Income (Lehman Aggregate Bond Index), Treasury Inflation Protection Securities, Large Cap U.S. Equity, and Non-U.S. Equity. The BWC seeks proposals from managers experienced in passive index management in any of the above mentioned assets classes and/or mandates, with the objective of replicating index returns while minimizing tracking error at a competitive cost level. Respondents may propose their services for any one mandate and/or combination of mandates.

If qualified, please log onto www.ohiobwc.com click on "About BWC" then click "Competitive Bids" for a copy of the RFP. RFP will be available September 13, 2006.