

# **The Ohio Bureau of Workers' Compensation**



## **Statement of Investment Policy and Guidelines**

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

## **I. INVESTMENT OBJECTIVES**

The primary investment objective is to manage assets to create and maintain a reasonable net asset position that has a high probability to meet identified long term liabilities. This net asset level will be achieved through an investment strategy that assumes a prudent amount of risk to earn sufficient returns to improve the level of net assets over time while keeping 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 Specialty Funds ("the Funds"). The Workers' Compensation Board of Directors ("Board") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the net assets and reserves of the Funds as required by Ohio Revised Code Section 4121.12(F).

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

### **B. Fiduciary Standard**

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

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

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the O.R.C. 4123.44 and any other applicable statutory or administrative rules.

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**III. ROLES AND RESPONSIBILITIES**

**A. Board Responsibilities**

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

- i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.
- ii. Permit the Administrator to invest in an investment class only after the Board, 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. Approve the selection and termination of all Investment Consultants.
- vii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.
- viii. Approve the final selection and funding and termination of all Investment Managers and General Partners.
- ix. 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.
- x. Prohibit on a prospective basis any specific investment that the Board finds to be contrary to the Investment Objectives of the Funds. In the event that the Board determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the Board shall direct the Administrator to take the appropriate corrective action.
- xi. 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.

The Board may appoint members to an Investment Committee for the express purpose of assisting the Board to carry out any of the responsibilities enumerated here. Rules governing and responsibilities of the Investment Committee are outlined in the Investment Committee Charter.

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### **B. OBWC Staff Responsibilities**

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

- i. Consult with the Investment Consultant and receive approval from the Board regarding the appropriate strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving relevant facts or situations.
- ii. Recommend permissible asset classes for investment to the Board.
- iii. Monitor and review the investment performance of the Funds on a monthly basis to determine achievement of goals and compliance with Investment Policy. Provide a report of monthly market value changes by investment asset class.
- iv. Consult with and receive approval from the Board on the selection and termination of all Investment Consultants.
- v. Consult with and receive approval from the Board on the selection and termination of all Investment Managers and General Partners.
- vi. Consult with and receive approval from the Board on the asset class to be managed, investment style, and scope of investment activities that may be allocated to each Investment Manager and General Partner.
- vii. Implement the directives of the Board.
- viii. Supervise the management of each Fund's assets in accordance with this Investment Policy and the objectives and guidelines set forth herein.
- ix. Consult with and receive approval from the Board regarding criteria and procedures to be utilized to select Investment Managers and General Partners.
- x. Monitor all managed assets to insure compliance with the guidelines set forth in this Investment Policy and report same to the Board on a monthly basis.
- xi. Inform and receive approval by the Board of any significant change in investment strategy of approved Investment Managers and General Partners.
- xii. Monitor manager trade execution.
- xiii. Report to the Board on at least an annual basis summary trade activity by brokerage firm and communicate any unusual trading activity to the Board in a timely manner, including any discussions with Investment Managers regarding such trading activity.

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- xiv. 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 to comply with all the regulatory obligations related thereto or direct investment managers to vote the proxies related to securities held in their respective portfolios and comply with all the regulatory obligations related thereto.
- 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, the document filed with the U.S. Securities and Exchange Commission to register as an investment advisor, of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the Board.

**C. Investments Managers' Responsibilities**

Each Investment Manager shall:

- i. Be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of 1940.
- ii. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.
- iii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Investment Management Agreement and the specific portfolio guidelines contained therein.
- iv. Subject to any exceptions expressly set forth herein, Investment Managers shall be directly responsible for executing trades related to the portfolios they manage for the Funds. Investment Managers shall be responsible for seeking the best execution of trades. Any Broker used by any Investment Manager must be properly licensed.
- v. Provide monthly performance evaluation reports that comply with the Global Investment Performance Standards (GIPS) 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 as set forth in the Ohio Revised Code (O.R.C.) Section 3517 and provide written evidence of such compliance on a quarterly basis.

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- 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 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 as set forth in the Ohio Revised Code (O.R.C.) Section 3517 and provide written evidence of such compliance 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.

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## E. Investment Consultants' Responsibilities

The Investment Consultant shall:

- i. Provide independent and unbiased information to the Board, the Administrator and the CIO.
- ii. Assist in the development and amendment of this Investment Policy.
- iii. Assist in the establishment of strategic asset allocation targets.
- iv. Assist in the development of performance measurement standards.
- v. Report the quarterly investment performance results and quarterly risk characteristics of the Funds to the Board.
- vi. Monitor and evaluate Investment Manager performance on an ongoing basis.
- vii. Conduct due diligence on the Funds' current and prospective Investment Managers.
- viii. Confirm a procedural due diligence search process to include criteria and procedures to be utilized for the selection of all Investment Managers.
- ix. Provide the CIO with the firm's most recent Form ADV on an annual basis.
- x. Provide any other advice or services that the Board or the Administrator and Chief Investment Officer determine from time to time is necessary, useful or appropriate to fulfill the objectives of this Investment Policy in accordance with the Investment Consulting Agreement.

## IV. INVESTMENT POLICY GUIDELINES

### A. Asset Allocation Guidelines

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

**Asset allocation** refers to the strategic deployment of assets among the major classes of investments such as fixed income, U.S. equity, non-U.S. equity, alternative investments and cash equivalents. It is the primary determinant of success in meeting long term investment objectives. 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 every three – five years, or more frequently if conditions warrant.

The Board has a long-term asset allocation policy for each Fund that identifies the strategic target asset weights and ranges to each of the major asset classes. These policies are detailed in Section VI.

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### **B. Rebalancing Policy**

Rebalancing is the periodic adjustment of an asset portfolio for the purposes of shifting the asset allocation back towards the desired target percentages. Rebalancing policies are put in place to provide a reliable discipline to keep a portfolio in balance as market fluctuations change the percentages that are committed to various assets classes. Over, time the asset mix of any portfolio will tend to drift away from its strategic target asset allocation, acquiring risk and return characteristics that are unintended.

The Board has a policy of rebalancing when actual asset allocations fall outside of the desired ranges as detailed in Section VI. For purposes of rebalancing, the percentages that each asset class constitutes of the total market value of the fund of which it is a part will be computed at the end of every calendar quarter. If the actual percentage of an assets class falls outside of the allowable ranges as outlined in Section VI by any amount, a rebalancing event will be triggered.

The following sequence of actions will be applied for any rebalancing activity:

1. When a rebalancing event is triggered, the Chief Investment Officer will notify the Administrator that a rebalancing event is imminent.
2. The Investment Division will then contact the appropriate outside investment managers and the BWC investment consultant to discuss market conditions and potential rebalancing actions.
3. The Investment Division will calculate a specific rebalancing dollar reallocation that will factor in appropriate future trust fund cash flows and the desired asset allocations after rebalancing. In general, the Board's policy, when rebalancing becomes necessary, is to restore an asset allocation for the out-of-balance asset class that is halfway between the outer bound that was violated and the original targeted asset percentage. Thus, as an example, if equities have a target allocation of 20%, and an allowable lower limit of 17%, but fall to 16% at a quarter's end as a result of market action, the proposed rebalancing plan would seek to restore equities to 18½% of the total fund (halfway between 17% and 20%).
4. The Chief Investment Officer will present a rebalancing recommendation to the Senior Officer Review Team, which consists of the BWC Administrator, the Chief Operating Officer, and the Chief Fiscal & Planning Officer, for approval before any such asset rebalancing can be implemented and executed.
5. Finally, the Chief Investment Officer will provide a written summary of the fully executed rebalancing activity for any respective trust fund portfolio to the BWC Investment Committee at its next scheduled meeting.

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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.

During periods of extreme market conditions and consequent illiquid markets whereby the ability to execute identified Fund assets rebalancing adjustments is made difficult and costly in the judgment of the Administrator and Chief Investment Officer, such rebalancing actions may be suspended. The suspension of such rebalancing actions and the reason for such decision will be reported promptly to the Board by the Administrator and Chief Investment Officer. Any required rebalancing action for a Fund will be implemented when the impacted financial markets become sufficiently liquid so as to execute such rebalancing action with reasonable cost in the judgment of the Administrator and Chief Investment Officer.

### **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 management investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
  - On a prospective basis, an investment organization which utilizes passive management investment strategies, may manage up to 50% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The Board, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
  - The Funds' assets managed by any one firm, utilizing either active or passive management 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 such as bonds or stocks.

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### ii. Fixed Income Investments

The investment goal of the fixed income investments is to offer the Funds a broad exposure to the return opportunities and investment characteristics associated with the U.S. domestic fixed income market. Each Fund's fixed income portfolio shall be invested in a manner that takes into consideration the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow net assets.

Passive fixed income investment mandates shall be managed to match the risk and return profile of an assigned fixed income benchmark resulting in performance with a reasonably low tracking error. Active managed fixed income investment mandates shall be managed to provide an enhanced return-to-risk profile and excess investment return performance relative to an assigned fixed income benchmark.

Active managed Long Duration Credit fixed income portfolios are to have the following complementary objectives:

- Controlling/reducing risk and notable market value deterioration, independent of general interest rate increases, by eliminating/avoiding exposure to prominent declining credits
- Emphasizing the careful selection of well-researched credit holdings sufficiently diversified by both issuers and industry/sector groups
- Achieving acceptable risk-adjusted portfolio returns by outperforming the benchmark index by 0.25% (25 basis points) per annum net-of-fees over the trailing three-year period within acceptable returns tracking error and dispersion objectives
- Outperforming the peer group manager total return median over the trailing three-year period net-of-fees

### 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. Passive U.S. equity investment mandates shall be managed to match the risk and return profile of an assigned U.S. equity benchmark resulting in performance with a reasonably low tracking error.

### iv. Non-U.S. Equity

The investment goal of the non-U.S. equity investments is to offer the Funds a broad exposure to the return opportunities, diversification effects and investment characteristics associated with the non-U.S. equity market. Passive international equity investment mandates shall be managed to match the risk and return profile of an assigned international equity benchmark resulting in performance with a reasonably low tracking error.

### v. Cash Equivalents

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

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### **vi. Securities Lending**

Securities lending shall be engaged by the Funds or their Investment Managers as determined and approved by the Board.

### **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 prohibited unless specifically approved by the Board. Specific approvals include:

1. Permission is granted to passive indexed investment managers to use futures on financial contracts in the management of commingled investment funds. The Board anticipates that this use of financial futures may be initiated by investment managers for specific risk-control purposes such as the facilitation of the investment of a large inflow of new money into the commingled fund.

The Board also recognizes that the language of the policies of some commingled funds permits other financial derivatives such as options and swaps. The Board has a very low tolerance for the use of other financial derivatives in commingled funds. On the infrequent occasions when financial derivatives such as options and swaps are used in commingled funds, the Board requires the investment staff of the BWC to report the use of the derivatives to the Board at the next scheduled meeting after the derivatives position has been initiated so that the Board may judge the appropriateness of the risks of the derivatives position. The Board will carefully evaluate whether remaining invested in that commingled fund is appropriate.

2. Permission is granted to investment transition managers to use futures on financial contracts, forward currency contracts, and Exchange Traded Funds in the management of portfolio transitions and in the management of portfolio rebalancing activity. The use of these instruments by investment transition managers for these purposes will typically begin and end in short periods of time.
3. Other derivatives that are generally approved for use include: collateralized mortgage obligations (CMOs), asset backed securities (ABS), and TBA mortgaged-backed securities in accordance with the restrictions stated in the definitions outlined below. Other broad classes of derivatives may be added in the future as deemed necessary and desirable by the Board.

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. 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.

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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 with the exception of selling futures contracts for risk-control purposes.
- b. The use of all forms of leverage or the purchase of securities with borrowed money is prohibited, except that the Board recognizes that financial futures are generally purchased on margin and this is permitted.
- 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 equals or exceeds the return of each Fund’s Performance Benchmark on a consistent basis. Each Fund’s Performance Benchmark combines designated market and/or custom indexes for Investment Category asset classes, weighted by asset-allocation target percentages. The Performance Benchmarks for each Fund are named in Section VI. The investment category Performance Benchmarks are described in Appendix A.

### **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.

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**VI. TARGET ASSET MIXES AND RANGES**

**A. State Insurance Fund (SIF)**

The State Insurance Fund 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 Government Accounting Standards Board (GASB).

The Board has adopted a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes with a specific performance benchmark for each asset class. The asset allocation is deemed reasonable by the Board given the risk and return objectives of the Fund within the context of the Fund's expected liabilities and the current funding ratio. Performance benchmarks have been selected to provide broadly diversified market coverage within each asset class segment.

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The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

<b><u>State Insurance Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Active Long Duration Fixed Income – Credit Bonds	20%	17% - 23%	Barclays Capital U.S. Long Credit Index
Indexed Long Duration Fixed Income – Credit Bonds	8%	5% - 11%	Barclays Capital U.S. Long Credit Index
Indexed Long Duration Fixed Income – U.S. Government Bonds	9%	6% - 12%	Barclays Capital U.S. Long Government Index
Indexed Barclays Capital Aggregate Fixed Income	15%	12% - 18%	Barclays Capital U.S. Aggregate Index
Indexed Treasury Inflation Protected Securities	17%	14% - 20%	Barclays Capital U.S. Treasury: U.S. TIPS Index
Cash and Cash Equivalents	1%	0 - 6%	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>70%</b>		
Indexed U.S. Equity	20%	17% - 23%	Russell 3000 Stock Index
Index Non-U.S. Equity	10%	7% - 13%	MSCI All World ex-U.S. Index
<b>Total Public Equity</b>	<b>30%</b>		
<b>Total State Insurance Fund</b>	<b>100%</b>		<b>Fund Performance Benchmark</b> <u>A weighted index consisting of:</u> 28% BC U.S. Long Credit Index 9% BC U.S. Long Govt. Index 15% BC U.S. Aggregate Index 17% BC U.S. TIPS Index 1% 3-Month U.S. Treasury Bills 20% Russell 3000 Stock Index 10% MSCI All World ex-U.S. Index

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**B. 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. However, premiums are set each year on a "pay as you go" basis. BWC originally collected premium at a level that is expected to cover the cost of future claims, but a State of Ohio Attorney General's Opinion in 1993 clarified that premiums should be on a pay as you go basis. Due to this prior treatment the liabilities of the fund, discounted at a rate that is consistent with the guidelines as established by the GASB, are supported by both cash and invested assets as well as an accrued premium asset

The Board has a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes. The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

<b><u>Disabled Workers' Relief Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Indexed Barclays Capital Aggregate Fixed Income	34%	30% - 38%	Barclays Capital U.S. Aggregate Index
Indexed Treasury Inflation Protected Securities	35%	31% - 39%	Barclays Capital U.S. Treasury: U.S. TIPS Index
Cash and Cash Equivalents	1%	0 - 6%	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>70%</b>		
Indexed U.S. Equity	20%	17% - 23%	Russell 3000 Stock Index
Index Non-U.S. Equity	10%	7% - 13%	MSCI All World ex-U.S. Index
<b>Total Public Equity</b>	<b>30%</b>		
<b>Total Disabled Workers' Relief Fund</b>	<b>100%</b>		<b>Fund Performance Benchmark</b> <u>A weighted index consisting of:</u> 34% BC U.S. Aggregate Index 35% BC U.S. TIPS Index 1% 3-Month U.S. Treasury Bills 20% Russell 3000 Stock Index 10% MSCI All World ex-US Index

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**C. 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 and are assessed only to employers that have come into Ohio since May 1999. Liabilities are discounted at a rate that is consistent with the guidelines as established by the GASB.

The Board has a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes. The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

<b><u>Coal Workers' Pneumoconiosis Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Indexed Barclays Capital Aggregate Fixed Income	39%	35% - 43%	Barclays Capital U.S. Aggregate Index
Indexed Treasury Inflation Protected Securities	40%	36% - 44%	Barclays Capital U.S. Treasury: U.S. TIPS Index
Cash and Cash Equivalents	1%	0 - 6%	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>80%</b>		
Indexed U.S. Equity	13%	10% - 16%	Russell 3000 Stock Index
Index Non-U.S. Equity	7%	4% - 10%	MSCI All World ex-U.S. Index
<b>Total Public Equity</b>	<b>20%</b>		
			<b>Fund Performance Benchmark</b>
<b>Total: Coal Workers' Pneumoconiosis Fund</b>	<b>100%</b>		<u>A weighted index consisting of:</u> 39% BC U.S. Aggregate Index 40% BC U.S. TIPS Index 1% 3-Month U.S. Treasury Bills 13% Russell 3000 Stock Index 7% MSCI All World ex-U.S. Index

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**D. Public Work-Relief 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 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 Board has a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes. The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

<b><u>Public Work-Relief Employees' Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Indexed Intermediate Duration Fixed Income	99%	NA	Barclays Capital Intermediate U.S. Government / Credit Index
Cash and Cash Equivalents	1%	0 - 6%	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>100%</b>		
<b>Total Public Equity</b>	<b>0%</b>		
			Fund Performance Benchmark
<b>Total: Public Work-Relief Employees' Fund</b>	<b>100%</b>		<u>A weighted index consisting of:</u> 99% BC Intermediate U.S. Gov / Credit Index 1% 3-Month U.S. Treasury Bills

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**E. 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 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 Board has a long-term asset allocation policy that identifies the strategic target weights to each of the major asset classes. The table below highlights the general asset classes approved for investment and the strategic target weights. The allowable range for all target weights is reflected in the following table.

<b><u>Marine Industry Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Indexed Intermediate Duration Fixed Income	99%	94-100%	Barclays Capital Intermediate U.S. Government / Credit Index
Cash and Cash Equivalents	1%	0 - 6%	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>100%</b>		
<b>Total Public Equity</b>	<b>0%</b>		
<b>Total: Marine Industry Fund</b>	<b>100%</b>		Fund Performance Benchmark <u>A weighted index consisting of:</u> 99% BC Intermediate U.S. Gov/Credit Index 1% 3-Month U.S. Treasury Bills

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**F. Self Insured Employers Guarantee Fund (SIEGF)**

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

The Board has 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.

<b><u>Self Insured Employers Guarantee Fund</u></b>			
<u>Investment Category</u>	<u>Target Allocation</u>	<u>Permissible Range</u>	<u>Performance Benchmark</u>
Cash and Cash Equivalents	100%	NA	3-Month U.S. Treasury Bills
<b>Total Fixed Income</b>	<b>100%</b>		
<b>Total Public Equity</b>	<b>0%</b>		
			Fund Performance Benchmark
<b>Total: Self Insured Employers Guarantee Fund</b>	<b>100%</b>		<u>A weighted index consisting of:</u>  100% 3-Month U.S. Treasury Bills

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**VII. INVESTMENT POLICY STATEMENT REVIEW**

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

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

**VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY**

The Board desires that the BWC Investment Staff and the Investment Consultant identify, research and evaluate qualified Ohio investment managers, minority-owned investment managers and women-owned investment managers. It is the Board's intention to give such investment management firms fair consideration to fulfill the Funds' investment objective; however, the Board is not obligated to hire any qualified Ohio firm, minority-owned or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders or in asset classes that have not been approved by the Board.

**A. Qualified Minority-Owned and/or Women-Owned Investment Managers – Criteria**

As used in this Investment Policy, a minority-owned investment manager shall be defined as an investment manager 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 and defined as women-owned investment managers.

As used in this Investment Policy, minority-owned and/or women-owned investment managers are collectively defined as Minority-or-Women Business Enterprise (MWBE) Investment Managers. Any MWBE Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940.

**i. Process**

With regards to MWBE Investment Manager strategy, it is the Board's desire to have Fund assets managed by such qualified firms through a Manager-of-Manager (MoM) program. BWC will not place Fund assets directly with MWBE firms but will instead place Fund assets directly with MoM firms. BWC Investment Staff and the Investment Consultant will identify qualified MoM firms through a selection process approved by the Board. Any MoM firm approved by the Board will be defined as a BWC Investment Manager with all of the duties and responsibilities of Section III.C of this Investment Policy. Any MoM firm must be a registered investment advisor under the Investment Advisors Act of 1940.

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## **ii. Monitoring and Responsibilities**

Any MoM approved by the Board will be responsible for identifying and monitoring the selected MWBE investment managers in the MoM portfolio managed for BWC. While the Board is responsible for reviewing and approving this MoM Policy, the Board delegates authority to the MoM to implement this MoM Policy and the MoM acknowledges its fiduciary responsibility for the assets it manages for BWC.

The MoM is responsible for the management of BWC assigned assets within the guidelines and restrictions of this Investment Policy adopted by the Board. The MoM is responsible for identifying and monitoring MWBE compliance to the approved investment guidelines. MWBE managers are hired into or removed from the MoM's portfolio of BWC assets based on information reviewed by the BWC Investment Staff and the Investment Consultant.

## **iii. Eligible Asset Classes**

The Board may consider MoM programs that focus on one or more of the following approved asset classes:

1. Large Capitalization U.S. Equities
2. Small Capitalization U.S. Equities
3. Mid Capitalization U.S. Equities
4. Core U.S. Fixed Income
5. Non-U.S. Equities

## **iv. Target Asset Allocation**

The MoM investment manager program for MWBE asset allocation will have a 1% target for invested assets of the State Insurance Fund.

## **B. Qualified Ohio Investment Managers - Criteria**

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

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

Any qualified Ohio investment manager must be a registered investment advisor under the Investment Advisors Act of 1940.

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## APPENDIX A – Investment Category Performance Benchmarks

### I. Barclays Capital U.S. Aggregate Index

The Barclays Capital U.S. Aggregate Index consists of taxable fixed income securities that are SEC-registered and U.S. dollar denominated. The index covers the broad U.S. investment grade fixed coupon rate bond market with index components for government and corporate securities, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. Government and corporate securities include non-U.S. issuers, although non-U.S. issuers represent only a small portion of the index. Each security in the index must have at least one year to final maturity regardless of call features. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between three and five years which is considered to be intermediate-term in duration.

### II. Barclays Capital U.S. Long Government/Credit Index

The Barclays Capital U.S. Long Government/Credit Index consists of taxable fixed income securities that are publicly issued and U.S. dollar denominated. The index includes fixed coupon rate U.S. treasury securities, U.S. federal agency securities, U.S. municipal securities, non-U.S. government securities and both U.S. and non-U.S. corporate securities. Non-U.S. issuers represent only a small portion of the index. Each security in the index must have a final maturity of at least ten years. The index is a component of the broad Barclays Capital U.S. Aggregate Index. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between ten and twelve years which is considered to be long-term in duration.

### III. Barclays Capital U.S. Intermediate Government/Credit Index

The Barclays Capital U.S. Intermediate Government/Credit Index consists of taxable fixed income securities that are publicly issued and U.S. dollar denominated. The index includes fixed coupon rate U.S. treasury securities, U.S. federal agency securities, U.S. municipal securities, non-U.S. government securities and both U.S. and non-U.S. corporate securities. Non-U.S. issuers represent only a small portion of the index. Each security in the index must have a final maturity of at least one year and less than ten years. The index is a component of the broad Barclays Capital U.S. Aggregate Index. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between three and five years which is considered to be intermediate-term in duration.

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### **IV. Barclays Capital U.S. Treasury: U.S. TIPS Index**

The Barclays Capital U.S. Treasury: U.S. TIPS Index consists of all publicly issued U.S. dollar denominated Inflation-Protection securities (TIPS) issued by the U.S. Treasury that have at least one year to final maturity. The principal value of a TIPS increases with inflation and decreases with deflation, as measured by changes in the urban, non-seasonally adjusted consumer price index (CPI-U) calculated by the Bureau of Labor Statistics. The CPI-U index is a measure of the average change in prices paid by urban consumers for a fixed basket of goods and services. The principal value of a TIPS security is adjusted by a published index ratio reflecting the changes in the reference CPI-U index. TIPS securities have a stated fixed coupon rate of interest payable semi-annually that is applied to the inflation-adjusted principal value. Over the past several years, approximately one-third of the weighted market value of the index has been represented by issues in each of the maturity ranges of one-to-five years, five-to-ten years, and in excess of ten years. The index is considered to be intermediate-term in duration.

### **V. S&P 500 Index**

The S&P 500 Index is a market capitalization weighted equity index maintained by Standard & Poors that seeks to be a benchmark of the U.S. large cap universe of stocks. S&P first identifies important industry categories and allocates a representative sample of stocks to each group. The companies chosen to be in the S&P 500 generally have the largest market values within their industry group. The industry categories are grouped into ten sectors: consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, telecommunication services, and utilities. It is calculated on a total return basis with all dividends reinvested.

### **VI. Russell 3000 Index**

The Russell 3000 Index is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S., and represents 98% of the U.S. equity market. The Russell 3000 is comprised of stocks within the Russell 1000 and Russell 2000 Indices. Furthermore, the Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. It is calculated on a total return basis with all dividends reinvested.

### **VII. MSCI All Country World Index Ex U.S.**

The MSCI All Country World Index Ex U.S. is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World Index Ex U.S. includes both developed and emerging markets. The index attempts to replicate the industry composition of each local market and includes representative sampling of large, medium, and small capitalization companies. The index is calculated with net dividends reinvested in U.S. dollars.