Workers' Compensation Oversight Commission

AUDIT COMMITTEE

Agenda

Date: July 26, 2007
Time: 8:30 a.m.
Location: William Green Building, Second Floor, Room 2

Audit Committee

Denise M. Farkas, CFA, Chairman
Chief Investment Officer
Sigma Investments

Edwin McCausland, CFA
President
Investment Perspectives, LLC

Mary Beth Carroll
Vice President,
FirstEnergy

Opening remarks

Chairman's comments.....Denise Farkas

Old business

Approval of May 24, 2007 meeting minutes .....Denise Farkas

New business

Pharmacy Benefits Manager Audit - *review/discussion* ..... Joe Bell

Retrospective Rating Program Audit - *review/discussion* ..... Joe Bell

Medical Bill Payment Controls - *review/discussion* ..... Joe Bell

Adjourn

Adjourn .....Denise Farkas

WORKERS' COMPENSATION OVERSIGHT COMMISSION
AUDIT COMMITTEE

THURSDAY, MAY 24, 2007, 8:15 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Denise Farkas, Chairman
Mary Beth Carroll
Edwin McCausland

Other Oversight Commission Members Present:
Michael Koetters
Bill Sopko

Members Absent: None

OPENING REMARKS

Ms. Farkas called the meeting to order and the roll call was taken. Ms. Farkas reviewed the agenda for the meeting.

OLD BUSINESS

MINUTES OF MARCH 29, 2007

Mr. McCausland moved that the minutes of the meeting of March 29, 2007, be approved. Ms. Carroll seconded and the minutes were approved by unanimous voice vote.

NEW BUSINESS

FISCAL YEAR 2007 EXTERNAL AUDIT

Tracy Valentino, Chief Financial Officer, reported on selection of the vendor for the FY2007 external audit. She reported that seven firms attended the pre-bidding conference. Two firms responded to the Request for Proposals (RFP). The responses were scored by Joe Bell,

Chief Internal Audit; Barb Ingram, Manager, Financial Reporter; and Liz Bravender, Actuarial Director.

BWC has recommended to the Auditor of State that Schneider Downs & Co., Inc., be selected as external auditor for the next five years. Schneider Downs is scheduled to start field work in June, which is closer to a normal audit schedule. The fees are comparable to those of prior firms.

Ms. Farkas asked if there was any feed-back from firms which did not bid. Ms. Valentino replied that most firms who attended were too small to undertake an audit.

Mr. Koetters asked if there is a law requiring change of auditors every five years. Ms. Valentino replied it was a policy of the Ohio Auditor of State. John Williams, Assistant Attorney General, and Mr. Bell added they were unsure whether there was a statute which governed the practice.

INTERNAL AUDIT FISCAL YEAR 2007 THIRD QUARTER EXECUTIVE SUMMARY

Mr. Bell gave the Third Quarter Executive Summary of Internal Audit projects. The completed projects included: lump-sum advancements, compensation audit reviews, salary continuation, and return-to-work reports for Managed Care Organizations (MCOs).

Neal Baumeyer, Crowe Chizek, reported on the Information Technology audit. The weaknesses noted in the executive summary mirror those in public companies after passage of the Sarbanes-Oxley Act and the weaknesses required two to three years to resolve.

Mr. Bell further reported that the current form of scoring MCOs will not be used in further reports. As to outstanding comments from prior audits, the original thirty-four has been reduced by eleven and several more listed in the report are near completion. Future projects will include completion of the audits on retrospective rating and on JPMorgan Chase accounting.

FISCAL YEAR 2008 REVISED MCO AUDIT PROCESS

Mr. Bell reported that the MCO audits will change from contract-based rating to a risk based approach. Internal Audit has met with the MCO League and the MCOs explained the four stages of the audit approach.

ENDORSEMENT OF SELECTION OF EXTERNAL AUDITOR

Ms. Farkas stated she wanted affirmation by the Audit Committee of the choice for external auditor

Ms. Carroll moved that the Audit Committee recommend to the Workers' Compensation Oversight Commission that the Oversight Commission endorse the selection by BWC of Schneider Downs & Co., Inc., as the external auditor for the fiscal year 2007 external audit. Mr. McCausland seconded and the motion was approved by a unanimous voice vote.

PROPOSED INTERNAL AUDIT LEGISLATION

Mr. Bell reported that he was participating in legislative discussions on separate legislation concerning internal audit structure within all of state government. At the present time, BWC meets and exceeds the proposed standards under Substitute House Bill 100. However, the proposals of other legislation conflict with these existing standards.

ADJOURNMENT

There was a motion by Ms. Carroll, second by Mr. McCausland, and adjournment by Ms. Farkas.

Prepared by: Larry Rhodebeck, BWC Attorney
H:\Word\ldr\WCOC Audit 0507.doc
May 31, 2007

BWC Internal Audit Division

Pharmacy Benefits Manager Audit

May 2007

Distribution:
Marsha Ryan, Administrator
Bob Coury, Chief of Medical Policy and Compliance
Tina Kielmeyer, Chief Operations Officer
Greg Jewell, MD, Chief of Medical Services
James Barnes, Chief Legal Officer
Joel Donchess, Director, Managed Care Operations
Dora West, Director, HPP Systems Support

TA

TO: Greg Jewell, MD, Chief of Medical Services

FROM: Joe Bell, Chief of Internal Audit
Nancy Barber, Director, Internal Audit
Mukesh K. Singh, Manager, Internal Audit

DATE: May 30, 2007

SUBJECT: Pharmacy Benefits Manager Audit

As part of the 2006 Internal Audit Plan, the Internal Audit Division conducted an audit of the Pharmacy Benefits Manager (PBM) Program. In July of 2002, BWC awarded the PBM contract to ACS State Healthcare, LLC, with a two-year renewal beginning July 2003. The contract was re-bid in 2005 and ACS State Healthcare LLC was again the successful vendor.

The objectives of the audit were to ascertain the adequacy of internal controls over the pharmacy benefits processes, to determine the level of compliance with the contract, and to identify any opportunities that may improve the program. BWC management planned to issue an RFP in March 2007 to evaluate the overall adequacy of the PBM Program; however, this was delayed to enable management to incorporate Internal Audit's review and recommendations.

The audit scope included a review of the contract; however, due to time restrictions, testing for compliance was limited to the most recent six months of transactions. An on-site visit was conducted from December 11 through December 15, 2006 in Atlanta, Georgia. Additional fieldwork was conducted subsequent to the on-site visit via email, telephone, and regular mail. This was the first audit conducted of this vendor since the inception of the contract in 2002.

In observations one through ten, there is a significant lack of internal controls over the financial and operational processes of the PBM. Observations 11 through 22 denote that the PBM has not met several contract requirements. Observations 23 through 27 indicate significant opportunities for improvement. In summary, both BWC and ACS management have not implemented the necessary controls to provide reasonable assurance that BWC funds are safeguarded, that there is compliance with the contract, and that operations are efficient and effective.

BWC and ACS management have promptly responded to all observations and action plans have been submitted. Overall, BWC management agrees with the first 22 recommendations. Management has decided to hire a consultant to determine the significance of observations 23 through 27. In general, ACS is also in agreement.

Due to the assistance and cooperation by both BWC and ACS management, the audit objectives were substantially achieved. The willingness of both parties to assist the auditors greatly facilitated the audit process and is sincerely appreciated.

EXECUTIVE SUMMARY

The BWC Internal Audit Division conducted an audit of the Pharmacy Benefits Manager Program from the period October 2006 through March 2007, which included an on-site visit to Atlanta, Georgia from December 11 through December 15, 2006. The following briefly summarizes the audit objectives, observations, recommendations, management responses and overall auditor opinion.

I. Objectives:

- To ascertain the adequacy of internal control over financial and operational processes;
- To determine the level of compliance with the service level agreements as specified in the contract; and
- To identify any opportunities that may improve the effectiveness and efficiency of the program.

II. Observations:

1. The vendor does not maintain a separate bank account for BWC funds. (Comment Rating: Significant Weakness)
2. The vendor does not reconcile the bank statement to the financial records. (Comment Rating: Material Weakness)
3. Checks dated as early as 2002 are listed as outstanding and total $319,958.93. (Comment Rating: Significant Weakness)
4. The vendor does not track adjustments for refunds received. (Comment Rating: Significant Weakness)
5. Injured worker (IW) and pharmacy provider credit balances total over $55,000.00. (Comment Rating: Significant Weakness)
6. The vendor does not maintain adequate accounting records for BWC funds. (Comment Rating: Significant Weakness)
7. There is lack of standard internal controls over cash receipts. (Comment Rating: Significant Weakness)
8. BWC checks are printed and held for unspecified periods. (Comment Rating: Significant Weakness)
9. There is lack of separation of duties over check processing. (Comment Rating: Significant Weakness)
10. The bank statements requested in the engagement letter were not provided by the vendor; therefore, the status of BWC funds can not be determined. (Comment Rating: Significant Weakness)
11. Due to programming logic, some bills are paid to injured workers for drugs not dispensed. (Comment Rating: Significant Weakness)
12. The vendor's system does not identify reasons for denial of bills. (Comment Rating: Significant Weakness)
13. The vendor is not imaging the bills as required in the contract. (Comment Rating: Significant Weakness)
14. At least 68 bills were not entered within 30 days as required in the contract. (Comment Rating: Significant Weakness)
15. BWC management did not approve the program for desktop audits, which prevented vendor from conducting the 100 audits. (Comment Rating: Significant Weakness)
16. BWC management did not approve the program for on-site audits, which prevented the vendor from conducting the 25 audits. (Comment Rating: Significant Weakness)

17. BWC is not utilizing the retrospective drug utilization review (DUR) service of the vendor. (Comment Rating: Significant Weakness)
18. ACS did not meet the call center requirement for three months. (Comment Rating: Minor Weakness)
19. ACS did not meet the accuracy requirement for manual prior authorizations (PA) for two months. (Comment Rating: Minor Weakness)
20. ACS did not provide BWC with a monthly report of written inquiries as required. (Comment Rating: Minor Weakness)
21. ACS did not submit a root cause analysis (RCA) for seven days on a system issue. (Comment Rating: Minor Weakness)
22. ACS's check printing procedures prevented verification of payment timeliness. (Comment Rating: Minor Weakness)
23. Contract restrictions prohibit PBM from collecting rebates, which may represent lost opportunity for savings. (Comment Rating: Significant Weakness)
24. In comparison to other states, greater utilization of the vendor's technology may represent an opportunity for savings and improved customer service. (Comment Rating: Significant Weakness)
25. BWC should consider establishing appropriate benchmarks for clinical management issues. (Comment Rating: Significant Weakness)
26. BWC has not tested transactions to ensure that all savings are passed-through to BWC. (Comment Rating: Significant Weakness)
27. The BWC lacks adequate review and analysis over standard reports. (Comment Rating: Significant Weakness)

III. Recommendations:

1. Require vendor to maintain a separate bank account for BWC funds.
2. Reconcile the bank balance to the financial records monthly and submit to BWC.
3. Develop policy to ensure outstanding checks are resolved timely.
4. Develop tracking system to ensure all refunds are adjusted back to BWC.
5. Ensure the responsibility for resolving overpayments is specified and oversight is improved.
6. Require the vendor to maintain adequate accounting records for BWC funds that are separate from other clients.
7. Implement standard internal controls over cash receipts.
8. Strengthen internal controls to ensure payments are mailed timely.
9. Ensure segregation of duties over payments is adequate.
10. BWC management should immediately obtain complete bank statements and confirm account activity.
11. Develop payment structure that does not reimburse for drugs not dispensed.
12. Enhance current system to adequately reflect reasons for denials.
13. Require vendor to resume imaging of bills and increase oversight.
14. Improve review and oversight to ensure bills are processed timely.
15. Finalize audit materials to expedite the requirement for desktop audits of pharmacies.
16. Finalize audit materials to expedite the requirement for on-site audits of pharmacies.
17. Develop retrospective DUR criteria to enhance utilization of the services of the vendor.
18. Ensure staffing levels are adequate to meet call center requirements.
19. Ensure training is adequate to meet requirements for correct entry of manual PAs.
20. Ensure all correspondence is documented as required.
21. Require ACS to submit a timely root cause analysis for all system and application issues.
22. Ensure all payments are mailed within 24 hours as required.

23. Evaluate program resources, review contract, and require the vendor to submit an attestation letter stating that rebates and discounts have not been received.
24. Consider utilizing vendor's technology.
25. Develop action plan to strengthen oversight and improve management of the program.
26. Periodically test transactions to ensure discounts are passed-through to BWC.
27. Conduct sufficient review and analysis to identify opportunities.

IV. Management Responses:

- For observations one through ten, management agrees that internal controls over financial and operational processes should be strengthened and action plans have been submitted.
- For observations 11 through 22, both BWC and ACS management agree that review and oversight over contract compliance should be sufficient to timely identify and correct non-compliance and action plans have been submitted.
- For observations 23 through 27, BWC management does not necessarily agree that there are significant opportunities for savings, but has decided to hire a consultant to review the issues identified.

V. Auditor Opinion:

Overall, the Pharmacy Benefit Manager Program is inadequately monitored by BWC management. BWC management has not identified control weaknesses, non-compliance with the contract, and opportunities for improvement.

- ACS has not implemented the necessary controls to ensure all transactions are processed timely and accurately and may be verified by BWC.
- BWC management has not provided adequate guidance and oversight over the program to ensure objectives are met.
- The current contract is not comprehensive enough to ensure that all aspects of the program are addressed.
- There are opportunities for improved customer service and cost savings that should be evaluated by BWC management.

In general, both BWC and ACS management are in agreement with the recommendations regarding the financial and operational issues. With respect to the clinical observations, management intends to hire a consultant to explore the issues.

BWC Internal Audit Division

Retrospective Rating Program Audit

June 2007

Audit Team:
Joe Bell, Chief of Internal Audit
Fred Booker, Director of Internal Audit
Tom Davison, Assistant Director of Internal Audit
Crystal Norris, Staff Auditor
Pam Wellman, Staff Auditor

Distributed to:
Marsha Ryan, Administrator
Tina Kielmeyer, Chief Operations Officer
Keary McCarthy, Chief Communications Officer
Joy Bush, Executive Director of Employer Management Services
Todd Spence, Employer Consulting Manager

IA

TO: Tina Kielmeyer, Chief Operations Officer
Joy Bush, Executive Director of Employer Management Services
Todd Spence, Employer Consulting Manager

FROM: Joe Bell, Chief of Internal Audit
Fred Booker, Director of Internal Audit

DATE: June 29, 2007

RE: Retrospective Rating Program Audit

As part of the Fiscal Year 2007 Internal Audit Plan, the BWC Internal Audit Division conducted an audit of the Retrospective Rating Program processes. The audit focused primarily on the evaluation of internal controls, compliance with existing BWC policies and procedures outlined for the program, and the potential impact the program has on Ohio's employers.

The audit results indicate areas where improvements to the control environment may be considered. Such improvement will facilitate compliance with established rules, policies, and procedures; enhance customer service; improve efficiencies; reduce the probability of program losses; and improve program effectiveness.

We appreciate the timely response to the issues noted in this report. Also, thank you for the cooperation shown to us by all of the Employer Management Services staff that we engaged during this audit.

Executive Summary

As part of the Fiscal Year 2007 Internal Audit Plan, the BWC Internal Audit Division conducted an audit of the Retrospective Rating Program processes. The purpose of the audit was to assess the adequacy of the internal controls, determine compliance with policies and procedures, and measure the performance and effectiveness of the program.

The audit scope consisted of a review of policies and procedures applied to participants enrolled in the Retrospective Rating Program between the rating periods of 1994 through 2004. The audit included a review of the following:

I. Activity Reviewed:

- Compliance with BWC policies and procedures, including the requirement for certified audited financial statements;
- Management review process for overriding underwriters recommendations;
- Tier 2 participation effectiveness and compliance with the 10-Step Business Plan requirement;
- Claims management and the impact the program has on employers who have no control over claim cost (i.e. PEO); and
- Program effectiveness and management reporting.

II. Observations

1. Employer Services have some written policies and procedures documented; however, policies and procedures were either non-existent or outdated for critical operational functions and activities. (Comment Rating: Significant Weakness)
2. The program requirement of certified audited financial statements appears to have affected enrollment in the Retrospective Rating Program. Participation has declined by 54% from 1994 to 2004. (Comment Rating: Significant Weakness)
3. Employers were accepted into the Retrospective Rating Program that were originally considered to be questionable or noncompliant with the financial stability requirements established by BWC rule. In a majority of the questionable or ineligible policies, upper management overturned the recommendation of the underwriters and finance manager. (Comment Rating: Material Weakness)
4. Employers that experience financial difficulties and have outstanding balances owed to BWC are permitted to participate in the part pay program (Tier 2) for Retrospective Rating. (Comment Rating: Material Weakness)
5. The Retrospective Rating Unit was not notified about the performance or status of employer participation in the 10-Step Business Plan for Tier 2 employers. Documentation was unavailable regarding participation in the 10-Step Business Plan as required by BWC rule. (Comment Rating: Significant Weakness)
6. Employers, such as staff leasing/professional employer organizations (PEOs), that are unable to manage or control claim costs are currently permitted by rule to

participate in the Retrospective Rating Program. (Comment Rating: Significant Weakness)

7. Methods for determining the Retrospective Rating Program effectiveness did not exist in the form of management information or reports on critical measures. (Comment Rating: Significant Weakness)

III. Recommendations:

1. Update policies and procedures for more efficient and effective processing.
2. Evaluate additional alternatives to augment, compliment, or replace financial statement audit requirements.
3. Enforce provisions set forth in Ohio Administrative Code Section 4123-17-42 by establishing and implementing an effective procedure for the management review process.
4. Evaluate requirements and objectives of the program to ensure support exists for all goals and outcomes. Consider eliminating the allowance of any employer who is financially unstable, including employers who are in a part pay status from the program.
5. Enforce Ohio Administrative Code Section 4123-17-42(D) (2) concerning compliance with the 10-step business plan and communicate results to the Retrospective Rating Unit.
6. Consider drafting a rule to eliminate employers from participating in the program that are unable to manage retrospectively rated claims for their ten-year enrollment period.
7. Develop ongoing reporting and conduct detailed trending and analysis of pertinent program management data.

IV. Management Responses:

1. Management will update or develop all necessary policies and procedures, as well as, establish an annual review process to ensure that all policies and procedures remain current.
2. The Retrospective Rating Unit will meet with appropriate BWC departments to identify alternatives for employers desiring to participate in the Retrospective Rating who choose not to have certified audited financial statements.
3. The Retrospective Rating Unit will draft a summary report with recommendations submitted to executive staff. The report will identify options to ensure a consistent approach be used for the management review process.
4. Management concurs that alternatives such as a one-tiered program should be reviewed and considered, as well as limited liability levels for certain employers. Management does not agree all employers currently in a part pay plan be

restricted from participation, but instead feels part pay plans be reviewed very closely to determine financial adequacy.

5. Management has implemented a new procedure that requires Tier 2 participants to complete and submit a 10-step self-assessment progress report to their assigned BWC representative. This report will be reviewed at the end of the retro period and a recommendation will be submitted.
6. The recommendation to restrict a PEO from participating in the retro program will be discussed with Employer Operations' management to determine the most appropriate direction for BWC to take that is consistent with agency goals.
7. Management will create queries of premium data provided by the BWC actuarial vendor. This data will be analyzed to identify trends and ensure that appropriate premiums are collected from employers in the Retrospective Rating Program.

V. Auditor Opinion:

Overall, internal controls for the Retrospective Rating Program processes need improvement to enhance the efficiency and effectiveness of the program. There were several areas identified for improvement:

- Lack of adequate policies and procedures;
- Inadequate system design to evaluate policies, prioritize and support the movement of pertinent data to one system;
- Inconsistencies in management's review and overturning underwriter recommendations;
- Increased financial risk to BWC for most Tier 2 employers; and
- Insufficient information and reports to effectively monitor the Retrospective Rating Program.

However, there were areas identified that are note worthy. The application and annual evaluation processes appeared to have adequate controls in place.

MEMORANDUM

Date: June 27, 2007

To: Bob Coury, Chief of Medical Services
Greg Jewell, Medical Director

Cc: Marsha Ryan, Administrator

From: Joe Bell, Chief of Internal Audit
Keith Elliott, Manager, Internal Audit

Re: Medical Bill Payment Controls

During discussions with the BWC Fraud Department in early 2007, situations were identified in which keying errors resulted in substantial overpayments of hospital bills. The errors were communicated to management and subsequently adjusted.

In March of 2000, Internal Audit issued a hospital audit that recommended the establishment of billing limits for various review or procedure codes in order to provide controls to minimize the potential for this type of error; however, this recommendation was not implemented. The absence of these limits creates the potential for overpayments of hospital bills.

Internal Audit did not review the medical bill payment process; rather, this memo summarizes our analysis and recommendation based on information received from the Fraud Department.

The absence of preventative controls with upper limits for amounts billed by hospitals creates the opportunity for significant overpayments of hospital bills.

Keying errors were not identified by management and resulted in significant overpayments of hospital bills. In January 2007, BWC received a hospital bill that which was mis-keyed by a managed care organization and created an overpayment of $444,000. Another provider bill received in August 2006 was incorrectly keyed at $325,043 and paid at $178,773. In a third example, a provider bill received in July 2006 was keyed in error for $157,050 and paid at $87,948. All the errors were communicated to management and promptly adjusted.

Controls over medical bill payments should provide reasonable assurance against large overpayment of medical bills. Since the current payment methodology involves the payment of a percentage of the amounts billed by the hospital, controls should place upper limits on the amounts payable on the various revenue codes or procedure codes billed by hospitals.

Discussions with the Medical Division management indicate the current medical bill payments process does not include the use of clinical editing software, which can be an effective tool to prevent provider errors or irregularities. Medical Division management supports implementing

clinical editing software to improve monitoring of medical bills and included a request for funds in their FY2008 budget for clinical editing software implementation and training.

Recommendation:

The BWC Medical Services Division should implement preventive and detective controls to include caps or limits on the amounts reimbursable for hospital bill charges. Preventive controls, coupled with monitoring by management, will help guard against intentional or unintentional keying errors of billed amounts by either the hospitals or Managed Care Organizations (MCO).

Designated Chief: **Chief of Medical Services**
Comment Rating: **Material Weakness**

Management Response: **Agree**

The Medical Division's management has similar concerns regarding the lack of controls internally with bill payment and the use of edits by the MCOs. The Division requested funds in its FY08 budget to pay for implementation and training on clinical editing software. Management posted an RFP for vendors to provide information regarding their products, potential solutions, and costs. A recommendation for a clinical editing bill payment software is expected by July 2007. Of concern is the total costs and whether funds will be appropriated for this project.

In the interim, the Medical Division's management has requested a meeting with Cambridge, the vendor who processes BWC medical bill payments to determine what type of clinical edits exist or can be quickly implemented to avoid similar problems in the future. We expect this meeting to occur within the next two to three weeks and plan to have a potential short term solution implemented within 60 days. We will inform upper management and Internal Audit of the result of those meetings.

Also, the 2007 MCO contract added new requirements for clinical editing and specifically requires a supervisor with the MCO to review/sign for any reimbursement over $10,000. This control measure should help prevent inappropriate payments of high dollar amounts. The dates of two of the bills referenced above predated the January 1, 2007 effective date of the current MCO Contract. The bill paid for $444,079 was received after the effective date of the new contact and Medical Services is investigating to determine why the new control did not prevent this overpayment.

Additionally, BWC staff has reviewed and processed all inpatient hospital bills since January 1, 2007. This review is designed to prevent any similar payments in the future for inpatient bills only. The Compliance/Performance Monitoring department has been asked to review the bill payment process in this area and to monitor it for any problems.

Timeframe: Cambridge solutions, RFP results, budget decision (August 2007); implement and train on clinical editing software (January 2008).

We would like to thank representatives from the Fraud Department and Medical Management Division for their assistance and prompt attention to this matter. If you have any questions, please contact either Joe Bell (752-4078) or Keith Elliott (752-2780).

Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: July 26, 2007
Time: 9:00 a.m.
Location: William Green Building, Second Floor, Room 2

Investment Committee

Michael C. Koetters, Chairman
Managing Director
Strategic Asset Alliance

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives, LLC

Denise M. Farkas, CFA
Chief Investment Officer
Sigma Investments

Opening remarks

Chairman's comments.....Mike Koetters

Old business

Approval of May 24, 2007 meeting minutes .....Mike Koetters

Review schedule of projects.....Mike Koetters

New business

1. Portfolio Performance:

   JPMorgan Monthly – May 2007 and June 2007 ..... Bruce Dunn

2. Manage portfolio to approved asset allocation:

   Transition strategy overview..... Bruce Dunn

   Pert/Gant chart timeline ..... Bruce Dunn

3. Annual Investment Consultant Asset/Liability Valuation Study – State Insurance Fund, *first consideration, possible vote* ..... Mark Brubaker and Mike Patalsky

4. WCOC Investment Consultant Annual Review Report ..... Bruce Dunn

5. Investment Policy Update recommendation:

   House Bill 694 Campaign Contribution Policy amendment, *motion to amend* Appendix XIV of the BWC Investment Policy and Guidelines ..... Bruce Dunn and James Barnes

Workers' Compensation Oversight Commission

INVESTMENT COMMITTEE

Agenda

Date: July 26, 2007
Time: 9:00 a.m.
Location: William Green Building, Second Floor, Room 2

Investment Committee

Michael C. Koetters, Chairman
Managing Director
Strategic Asset Alliance

William E. Sopko
President,
STAMCO Industries

Edwin McCausland, CFA
President,
Investment Perspectives, LLC

Denise M. Farkas, CFA
Chief Investment Officer
Sigma Investments

6. Investment Division Projections:
   Fiscal Year 2008 Investment Income ..... Bruce Dunn

Report Updates

7. Investment Accounting RFP ..... Tracy Valentino

8. CIO report – May/June 2007 ..... Bruce Dunn

Adjourn .....Mike Koetters

Note: Written reports provided – *no prepared presentation*

Investment Division department budget

Investment Policy dated April 26, 2007

WORKERS' COMPENSATION OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

THURSDAY MAY 24, 2007, 9:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

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

Other Oversight Commission Members Present:
Mary Beth Carroll

Members Absent: None

Others in attendance at the invitation of the Committee:

Marsha Ryan, Administrator
Tracy Valentino, Chief Financial Officer
Bruce Dunn, Chief Investment Officer
John Williams, Esq., Assistant Attorney General
Larry Rhodebeck, Esq., Legal Operations & Secretary for the meeting
Mark E. Brubaker, Wilshire Consulting
Michael Patalsky, Wilshire Consulting

Public Meeting – Others in attendance not recorded

ROLL CALL/OPENING REMARKS

Mr. Koetters called the meeting to order and the roll call was taken. Mr. Koetters reviewed the agenda for the meeting.

OLD BUSINESS

MINUTES OF APRIL 26, 2007

Mr. Sopko moved that the minutes of April 26, 2007, be approved. Mr. McCausland seconded and the motion was approved by unanimous voice vote.

REVIEW OF SCHEDULE OF PROJECTS

Mr. Koetters reported that Bruce Dunn, Chief Investment Officer, requested that the secretary remove completed projects from the schedule. The project numbers will be retained.

NEW BUSINESS

PORTFOLIO PERFORMANCE

Mark Brubaker, Wilshire Consulting, reported on the performance of the capital markets for the first quarter. Michael Patalsky, Wilshire Consulting, reviewed BWC performance for the first quarter. BWC Total Fund assets were valued at $17.1 billion as of March 31, 2007. Assets grew 0.6% during the quarter, slightly more than the customized policy benchmark, which increased 0.3% for the period. The State Insurance Fund was valued at $15.7 billion, having returned 0.5% for the quarter. The Ancillary funds grew by 1.5%. Mr. Brubaker also reviewed the performance of the private equity investments. He noted that BWC overall private equity results are located in the second quartile of the private equity peer group benchmark.

Mr. McCausland asked what was the source of the discrepancy between the basis point returns in the reports of JPMorgan Chase and Wilshire. Mike Gillooley, JPMorgan Chase, replied that the two reports use a different methodology. Mr. Brubaker added that another factor was a large cash-flow for the quarter because of the transition of investments. Wilshire will reconcile the reports and submit a memorandum at the June meeting.

Mr. Dunn reported that the outside managers are performing well. He also reviewed the variance of performance versus the benchmarks.

MANAGE PORTFOLIO TRANSITION TO APPROVED ASSET ALLOCATION

Mr. Dunn reported on revision of the timelines in the BWC Investment Asset Allocation Transition Strategy. The Request for Proposal (RFP) for the active fixed income manager is now targeted for release in July because BWC must await selection of the investment accounting system and enactment of Substitute House Bill 79.

PROPOSED CALENDAR OF REPORTS FOR INVESTMENT COMMITTEE

Mr. Dunn reported that an assessment report on Wilshire is being moved to July to accommodate the renewal of the Oversight Commission investment consulting contract. He is also changing the timing of the Asset/Liability study and the annual budget review. BWC will spread out reports so they are not bunched-up in a few months.

PRIVATE EQUITY CONTRACT EXTENSION RECOMMENDATION

Mr. Dunn recommended that the contract with UBS Securities LLC to sell the private equity investments be extended beyond July 1, 2007, in order to complete the project. BWC expects completion of all sales by August or September. UBS will receive no additional fee for the extension. Mr. Brubaker concurred that the extension was appropriate.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission recommend to the Oversight Commission that it extend until June 30, 2008, the existing contract under which UBS Securities LLC serves as the private equity investment agent for BWC, and that the Commission direct the BWC staff to enter into such contractual revisions with UBS Securities as the staff deems necessary to implement the contract extension. Ms. Farkas seconded and the motion was approved in a unanimous roll call vote.

AON ACTUARIAL STUDY

Mr. McCausland reported on the ongoing study by Aon Risk Consultants. Aon has met with Mercer Oliver Wyman and BWC staff. Currently, Aon is focusing on capital adequacy.

John Williams, Assistant Attorney General, gave his opinion on the request by Aon to modify its contract. First, Mr. Williams acknowledged the help from Larry King, Acting Assistant to the Actuarial Director, in providing all pertinent documents to the Aon contract. Mr. Williams reported that Aon has requested that the Oversight Commission approve changes to the contract to devote fees to special studies in support of its projects. In his opinion, the contract did not require changes. However, Aon has requested Oversight Commission approval. Further, the approval may come from Investment Committee, without submission to the Oversight Commission. Mr. Sopko emphasized that the changes required no additional fees.

Mr. McCausland moved that the Investment Committee of the Workers' Compensation Oversight Commission approve the change in the allocation of funds among the various tasks identified in the BWC contract with Aon Risk Consultants signed April 26, 2007, with no increase in the total fees due under the contract, as requested in Aon’s letter of May 14, 2007, which is incorporated herein, and direct the BWC staff enter into such contractual revisions with Aon as they deem necessary to implement the committee’s approval. Mr. Sopko seconded and the motion was approved by unanimous roll call vote.

Mr. McCausland reported that he anticipated a draft report by next week. The final report will be presented at the June meeting by Joseph Kilroy, an actuary with Aon.

ANNUAL BWC INVESTMENT POLICY REVIEW AND UPDATE

The Ohio Revised Code requires an annual review of the BWC Investment Policy Statement (IPS). Although the IPS has been changed several times during this period, Mr. Dunn indicated that no specific changes are enumerated in his report of May 14, 2007. Mr. Koetters stated there is no recommendation to change the IPS and he is satisfied with it.

ANNUAL REVIEW OF INVESTMENT COMMITTEE CHARTER

Mr. Koetters noted that the Investment Committee Charter was adopted following the precedent set by the charter of the Audit Committee. He had no comments and the charter may stand as is. Other members of the Investment Committee discussed the charter and found it needed no change.

Ms. Carroll asked if the affirmation required a vote. Mr. Williams replied it did not; however, the charter will need significant changes after pending legislation becomes effective.

INVESTING ACCOUNTING REQUEST FOR PROPOSAL

Tracy Valentino, Chief Financial Officer, reported on the Investment Accounting RFP. The RFP was issued in November 2006 and had three responses. In December, an RFP for an external accountant was issued and also had three responses. Next week, BWC staff will have recommendations to give Ms. Ryan to select the vendors.

CIO REPORT—APRIL 2007

Mr. Dunn reported on the five principal goals for 2007.

The governor has withdrawn the hiring freeze and Ms. Ryan has authorized the hiring of additional Investment Division staff. This will allow the Investment Department to increase staff from seven to eleven. The finalists have been identified for the Investment Administration manager and the Assistant Investment Manager vacancies.

Mr. Dunn indicated the sale of the private equities will be completed this year. At the end of April, BWC was in compliance with all requirements of the Investment Policy. He also indicated that the Investment Division will assist in the establishing of a new investment accounting system.

Mr. Dunn reported that Substitute House Bill 100 was passed by the Senate on May 22 and the House approved the Senate version on May 23. HB 100 is now on its way to Governor Strickland for signature.

House Bill 79 concerns investment policy. BWC is working with Representative William Batchelder, the sponsor of HB 79, on responding to questions. Both Mr. Dunn and Lee Damsel, Director of Investments, have provided testimony on HB 79 before several legislative committees.

House Bill 151 would prohibit investments in Iran. The Ohio pension funds are against it. Mr. Koetters asked if BWC has taken a position. Mr. Dunn stated he does not believe in legislative restrictions nor that legislative restrictions are permitted in the Investment Policy. Mr. Sopko reported the Ohio Manufacturers Association is against the legislation because it is a federal matter, not a state matter.

Mr. Koetters thanked Mr. Dunn for preparing the monthly report for each meeting even if the Investment Committee was not able to address the report every time. Ms. Farkas thanked Mr. Dunn for work on the legislation.

ADJOURNMENT

There was a motion by Ms. Farkas for adjournment and Mr. Koetters adjourned the meeting.

Prepared by: Larry Rhodebeck, BWC Attorney
H:\Word\ldr\WCOC InvC 0507.doc
July 18, 2007

OHIO WORKERS' COMPENSATION
OVERSIGHT COMMISSION
INVESTMENT COMMITTEE

SCHEDULE OF PROJECTS

MAY 24, 2007

3. Project Area: Investment Division Requests for Proposal
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: September 28, 2006
Project Description: The Investment Division produced a chart regarding the asset allocation process and a timeline indicating anticipated completion dates for each item. The Investment Committee requested that the timeline chart be updated as each action is completed. December: The update is included with meeting materials. January 2007: The chart should include dollar amount of transfers to new managers as they occur.
Project Status: Ongoing

4. Project Areas: Disclosure of BWC RFP Scoring Documents to the Investment Committee
Personnel Responsible: John Williams, Assistant Attorney General
Date Assigned: September 28, 2006
Project Description: The Investment Committee has requested that it receive the scoring documents used by BWC to evaluated responders to RFPs prior to approving the contracts. The Attorney General has advised that disclosure prior to finalizing contracts may invite litigation. December status: AAG Williams provided a further report.
Project Status: Open request

5. Project Area: Portfolio Noncompliance to Investment Policy Statement
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: September 28, 2006
Project Description: The Investment Committee has requested that BWC ensure the investment manager follow the Investment Policy Statement. November status: The Oversight Commission approved three resolutions which modify the Investment Policy; BWC will be conducting an audit of the manager, including an on-site visit. December status: Because of the imminent transfer of BWC assets to other investment manager mandates, the site visit is cancelled as unproductive.
Project Status: Complete

7. Project Areas: Schedule of Projects, Investment Committee Minutes

Personnel Responsible: Larry Rhodebeck, Secretary to Investment Committee

Date Assigned: November 16, 2006

Project Description: The Investment Committee has requested that from the September meeting onward, the minutes include a schedule of projects including: description, responsible persons, date assigned, and status of progress. November status: The minutes of September and November have had schedules prepared for submission to the Investment Committee at its December meeting. December status: The Schedule for November was distributed to Investment Committee members and others at the meeting. In the future, the Schedule will be distributed with all other meeting materials.

Project Status: Ongoing

8. Project Area: Portfolio Certification Reports

Personnel Responsible: Bruce Dunn, Chief Investment Officer; Joseph Bell, Chief of Internal Audit

Date Assigned: November 16, 2006

Project Description: The Investment Committee needs four reports: a monthly report from the Chief Investment Officer; a monthly report from BWC accountants; a quarterly report by Internal Audit; and the annual external audit. December status: BWC reports are ongoing. The external audit reports for fiscal years 2005 and 2006 are now due January 31, 2007. March 2007: The external audit reports were completed by Schneider Downs and discussed by a representative of Schneider Downs at the March 29, 2007, Audit Committee Meeting.

Project Status: Ongoing

9. Project Area: Portfolio Transition to Approved Asset Allocation

Personnel Responsible: Bruce Dunn, Chief Investment Officer

Date Assigned: November 16, 2006

Project Description: At the November meetings, the Oversight Commission and the Investment Committee approved three resolutions: The portfolio to be held by one custodian; that securities lending be suspended until completion of transition; and that 20% of the portfolio be invested in the State Street Bank & Trust S&P Index Fund. The Investment Committee further requested that BWC confer on other recommendations to be acted on at the next committee meeting. At the December meeting, the Investment Committee approved a BWC request to select State Street Global Advisors as the only manager for Treasury Inflation Protected Securities (TIPS) and a request to select State Street as one of the managers for Long Duration Fixed Income Investments (LDFI). January 2007: Barclays Global Investors was selected as the second LDFI manager. March 2007: Northern Trust Global Investors was selected as the only manager for Large Cap U. S. Equity.

Project Status: Ongoing

13. Project Area: Investment Policy Statement Restriction on Investment Managers
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: December 14, 2006
Project Description: The Policy restricts investment of the State Insurance Fund to no more than 5% of the total portfolio of each manager, unless circumstances warrant a larger portion. The Investment Committee issued an ongoing request that all applicants for managers be evaluated for appropriateness of the waiver.
Project Status: Ongoing

14. Project Area: Manager Allocation
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: January 25, 2007
Project Description: BWC will provide a monthly report of allocation of the State Insurance Fund to investment managers.
Project Status: Ongoing

15. Project Area: Monthly Portfolio Performance Reports
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: January 25, 2007
Project Description: BWC will provide monthly performance reports of JPMorgan Chase. BWC staff is working with JPMorgan on an appropriate format to present relevant performance on a monthly basis starting in January 2007.
Project Status: Ongoing

16. Project Area: Active Asset Managers
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: March 29, 2007
Project Description: Position Paper on certain criteria for the Request for Proposals for selection of managers for the four active manager asset mandates
Project Status: Open request

17. Project Area: Portfolio Performance Report
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: April 26, 2007
Project Description: The CIO is to provide reports on portfolio performance to the Investment Committee for the prior month at each committee meeting
Project Status: Ongoing

19. Project Area: Internal Management of Funds
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: April 26, 2007
Project Description: The CIO is to prepare a white paper on whether BWC shall use internal or external management for the ancillary funds assets
Project Status: Open

20. Project Area: CIO Reports Calendar
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: April 26, 2007
Project Description: The revised calendar of reports by the CIO will incorporate all items into the calendar. May 2007: The CIO provided a revised calendar of reports to the Investment Committee which was discussed and accepted.
Project Status: Complete

14. Project Area: Ancillary Funds Assets
Personnel Responsible: Bruce Dunn, Chief Investment Officer
Date Assigned: April 26, 2007
Project Description: The CIO is to complete contract with JPMorgan Chase for management of assets of the ancillary funds assets
Project Status: Open

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July 17, 2007

Ohio Bureau of Workers' Compensation

Portfolio Market Value
Asset Allocation

June 30, 2007

Asset Sector		SIF	SIF % Assets	Non SIF	Non SIF % Assets	Total Fund	Total Fund % Assets
Bonds	$	12,147,728,017	78.7%	1,382,051,366	96.7%	13,529,779,383	80.3%
Public Equity	$	2,641,500,964	17.1%	-	0.0%	2,641,500,964	15.7%
Private Equity	$	449,912,523	2.9%	-	0.0%	449,912,523	2.7%
Lehman Agg Transition	$	-	0.0%	-	0.0%	-	0.0%
Miscellaneous	$	32,648,127	0.2%	-	0.0%	32,648,127	0.2%
Cash	$	153,900,352	1.0%	46,715,358	3.3%	200,615,710	1.2%
Total	$	15,425,689,983	100.0%	1,428,766,724	100.0%	16,854,456,707	100.0%
Total Fund Assets	$	15,425,689,983	91.5%	1,428,766,724	8.5%	16,854,456,707	100.0%

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

Prepared by JPMorgan Investment Analytics & Consulting

Ohio Bureau of Workers' Compensation

Summary Performance Net of Fees

June 30, 2007

Portfolio Name	Benchmark Reference		Market Value	BWC Monthly ROR	Bmk Monthly ROR	BWC YTD ROR	Bmk YTD ROR	BWC 3 Mo. Trailing ROR	Bmk 3 Mo. Trailing ROR	BWC 12 Mo. Trailing ROR	Bmk 12 Mo. Trailing ROR	BWC Inception to Date ROR	BWC 1 Month Variance	BWC YTD Variance	BWC 3 Mo. Variance	BWC 12 Mo. Variance
Total Fund	**NR**	$	16,854,456,707	(0.80)	NR	0.60	NR	(0.31)	NR	5.69	NR	5.74				
Total Fund ex Alternatives	**Interim Benchmark**	$	16,395,176,315	(0.89)	(0.93)	0.40	1.32	(0.42)	(0.13)	5.55	-	5.54	0.04	(0.92)	(0.29)	
	Target Benchmark				(0.94)		1.55		0.10		-		0.04	(1.16)	(0.52)	
Total SIF	**NR**	$	15,425,689,983	(0.85)	NR	0.55	NR	(0.30)	NR	5.65	NR	5.74				
Total SIF ex Alternatives	**Interim Benchmark**	$	14,966,409,590	(0.96)	(0.93)	0.34	1.32	(0.43)	(0.13)	5.51	-	5.52	(0.03)	(0.99)	(0.29)	
	Target Benchmark				(0.94)		1.55		0.10		-		(0.02)	(1.22)	(0.53)	
SIF Bond Composite	**Interim Benchmark**	$	12,147,728,017	(0.84)	(0.87)	(0.48)	0.25	(1.80)	(1.59)	-	-	(0.48)	0.03	(0.73)	(0.22)	
	Target Benchmark				(0.91)		0.23		(1.46)		-		0.07	(0.71)	(0.35)	
. **Long Duration**	**L.B. Custom Long G/C**	$	9,110,172,575	(1.08)	(1.11)	-	(0.92)	(2.16)	(1.86)	-	6.87	(2.16)	0.03		(0.30)	
. **TIPS**	**L.B. U.S. TIPS**	$	3,037,555,442	(0.12)	(0.15)	-	-	(0.71)	(0.76)	-	-	1.60	0.04		0.05	
SIF Cash	**M.L. 91 day T-Bill**	$	153,900,352	0.41	0.39	2.58	2.54	1.28	1.27	5.26	5.21	4.85	0.02	0.04	0.00	0.05
SIF Equity	**Interim Benchmark**	$	3,091,413,486	(1.01)	(1.58)	6.94	7.21	5.94	6.43	-	-	6.94	0.57	(0.27)	(0.48)	
	Target Benchmark				(1.13)		8.02		6.24		-		0.12	(1.08)	(0.29)	
. **Public Equity**	**S & P 500**	$	2,641,500,964	(1.65)	(1.66)	6.71	6.69	6.27	6.28	-	-	6.71	0.01	0.03	(0.01)	
. **Alternatives**	**Wilshire 5000 + 5%**	$	449,912,523	2.82	(1.10)	8.25	10.19	4.13	7.26	9.47	26.35	11.41	3.92	(1.94)	(3.13)	(16.87)
SIF Misc. Accounts		$	32,648,127	(0.55)		9.26		0.31		-		9.26				
Total Non-SIF	**Interim Benchmark**	$	1,428,766,724	(0.18)	(0.28)	1.07	1.02	(0.40)	(0.46)	6.12	-	3.63	0.09	0.05	0.07	
	Target Benchmark				(0.90)		1.53		0.11		-		0.72	(0.46)	(0.51)	
. **Non-SIF Bonds**	**Interim Benchmark**	$	1,382,051,366	(0.20)	(0.30)	1.02	0.98	(0.46)	(0.52)	-	-	1.02	0.09	0.04	0.06	
	Target Benchmark				(0.87)		0.28		(1.40)		-		0.67	0.74	0.94	
. **Non-SIF Cash**	**M.L. 91 day T-Bill**	$	46,715,358	0.42	0.39	2.59	2.54	1.29	1.27	-	5.21	2.59	0.03	0.05	0.02	

Note: Returns less than 12 months are cumulative and returns of 12 months or longer are annualized
Note: Interim and Target benchmarks began January 2007

Prepared by JPMorgan Investment Analytics & Consulting

Ohio Bureau of Workers' Compensation

Portfolio Market Value
Asset Allocation

May 31, 2007

Asset Sector		SIF	SIF % Assets	Non SIF	Non SIF % Assets	Total Fund	Total Fund % Assets
Bonds	$	12,250,483,160	77.8%	1,386,890,079	96.7%	13,637,373,239	79.4%
Public Equity	$	2,679,859,034	17.0%	-	0.0%	2,679,859,034	15.6%
Private Equity	$	449,085,148	2.9%	-	0.0%	449,085,148	2.6%
Lehman Agg Transition	$	298	0.0%	-	0.0%	298	0.0%
Miscellaneous	$	32,827,616	0.2%	-	0.0%	32,827,616	0.2%
Cash	$	324,369,998	2.1%	47,184,104	3.3%	371,554,103	2.2%
Total	$	15,736,625,254	100.0%	1,434,074,184	100.0%	17,170,699,437	100.0%
Total Fund Assets	$	15,736,625,254	91.6%	1,434,074,184	8.4%	17,170,699,437	100.0%

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

Prepared by JPMorgan Investment Analytics & Consulting

Ohio Bureau of Workers' Compensation

Summary Performance Net of Fees

May 31, 2007

Portfolio Name	Benchmark Reference		Market Value	BWC Monthly ROR	Bmk Monthly ROR	BWC YTD ROR	Bmk YTD ROR	BWC 3 Mo. Trailing ROR	Bmk 3 Mo. Trailing ROR	BWC 12 Mo. Trailing ROR	Bmk 12 Mo. Trailing ROR	BWC Inception to Date ROR	BWC 1 Month Variance	BWC YTD Variance	BWC 3 Mo. Variance	BWC 12 Mo. Variance
Total Fund	**NR**	$	17,170,699,437	(0.82)	NR	1.40	NR	0.07	NR	6.76	NR	6.44				
Total Fund ex Alternatives	**Interim Benchmark**	$	16,712,246,419	(0.85)	(0.66)	1.31	2.27	(0.04)	1.05	6.71	-	6.29	(0.19)	(0.97)	(1.09)	
	Target Benchmark				(0.52)		2.51	0.57	0.57	-	-		(0.33)	(1.21)	(0.61)	
Total SIF	**NR**	$	15,736,625,254	(0.82)	NR	1.42	NR	0.10	NR	6.78	NR	6.47				
Total SIF ex Alternatives	**Interim Benchmark**	$	15,278,172,236	(0.86)	(0.66)	1.31	2.27	(0.02)	1.05	6.74	-	6.31	(0.20)	(0.96)	(1.07)	
	Target Benchmark				(0.52)		2.51	0.57	0.57	-	-		(0.34)	(1.20)	(0.59)	
SIF Bond Composite	**Interim Benchmark**	$	12,250,483,160	(1.78)	(1.63)	0.36	1.13	(0.78)	(0.66)	-	-	0.36	(0.15)	(0.77)	(0.12)	
	Target Benchmark				(1.48)		1.14	(1.54)	(1.54)	-	-		(0.30)	(0.78)	0.76	
. **SSGA Bond CTF ***	**NR**	$	4,182	1.16		4.40		3.55		10.02		7.35				
. **Transition - L.B. Agg**	**NR**	$	12,176	0.00		1.57		0.39		-		1.57				
. **Transition - US Treas**	**NR**	$	339	0.00		1.60		1.73		-		1.60				
. **Long Duration**	**L.B. Custom Long G/C**	$	9,209,415,554	(1.93)	(1.74)	-		-		-		(1.10)	(0.19)			
. **TIPS**	**L.B. U.S. TIPS**	$	3,041,050,910	(1.32)	(1.31)	-	-	(0.41)	(0.37)	-	-	1.72	(0.02)		(0.04)	
SIF Cash	**M.L. 91 day T-Bill**	$	324,369,998	0.44	0.44	2.16	2.14	1.30	1.34	5.46	5.20	4.84	(0.00)	0.02	(0.03)	0.26
SIF Equity	**Interim Benchmark**	$	3,128,944,182	3.03	3.57	8.03	8.92	8.51	9.40	-	-	8.03	(0.54)	(0.89)	(0.89)	
	Target Benchmark				3.19		9.26		9.05		-		(0.16)	(1.23)	(0.53)	
. **Public Equity**	**S & P 500**	$	2,679,859,034	3.48	3.49	8.51	8.49	9.27	9.29	-	-	8.51	(0.01)	0.02	(0.01)	
. **Alternatives**	**Wilshire 5000 + 5%**	$	449,085,148	0.37	4.02	5.28	11.42	4.20	10.08	7.12	28.50	10.45	(3.65)	(6.14)	(5.88)	(21.39)
. **Lehman Agg Transition #2**	**NR**	$	298	0.00		-		(1.03)		-		(0.30)				
SIF Misc. Accounts		$	32,827,616	0.23		9.86		1.20		-		9.86				
Total Non-SIF	**Interim Benchmark**	$	1,434,074,184	(0.74)	(0.72)	1.26	1.30	(0.21)	(0.17)	6.58	-	3.89	(0.02)	(0.05)	(0.04)	
	Target Benchmark				(0.49)		2.46		0.57		-		(0.25)	(1.20)	(0.78)	
. **Non-SIF Bonds**	**Interim Benchmark**	$	1,386,890,079	(0.78)	(0.76)	1.22	1.28	(0.27)	(0.22)	-	-	1.22	(0.02)	(0.05)	(0.05)	
	Target Benchmark				(1.45)		1.16		(1.46)		-		0.67	0.06	1.20	
. **Non-SIF Cash**	**M.L. 91 day T-Bill**	$	47,184,104	0.44	0.44	2.15	2.14	1.31	1.34	-	5.20	2.15	(0.01)	0.01	(0.03)	

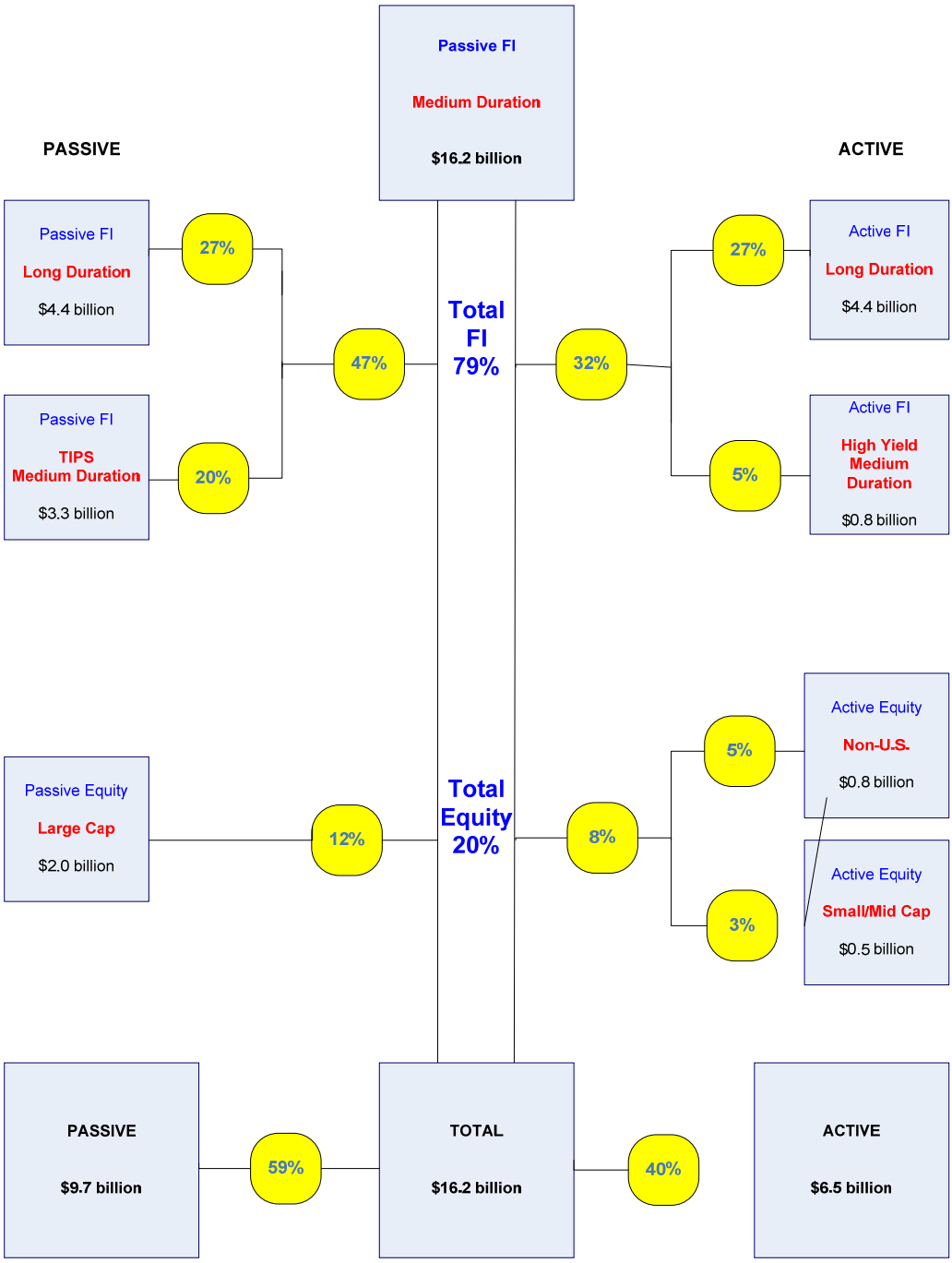
Note: Returns less than 12 months are cumulative and returns of 12 months or longer are annualized

Note: Interim and Target benchmarks began January 2007 * Account in transition

Prepared by JPMorgan Investment Analytics & Consulting

BWC INVESTED ASSET SECTOR TRANSITION FUNDS

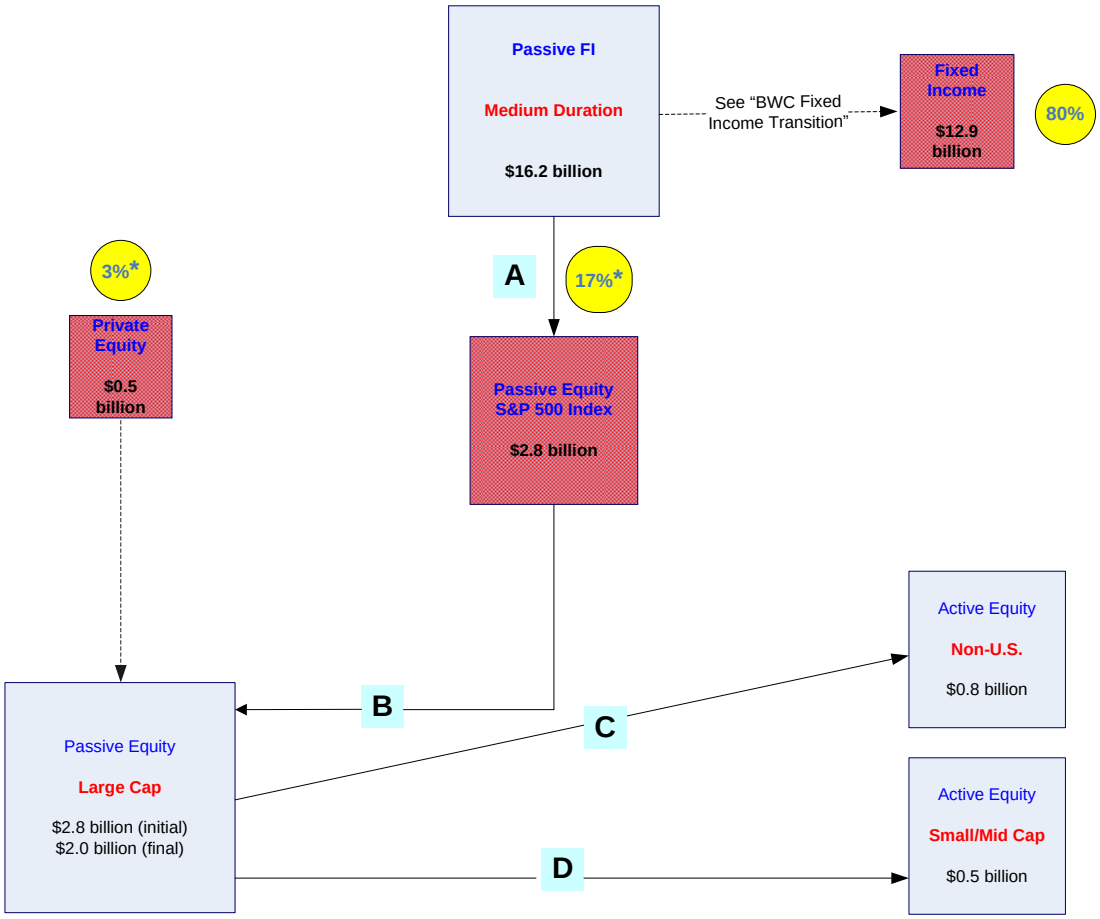
July 2007



Above excludes Cash Assets targeted at 1% of Total Assets

Above reflects Transition Funds for State Insurance Fund, Disabled Workers Fund and Coal Workers Fund combined

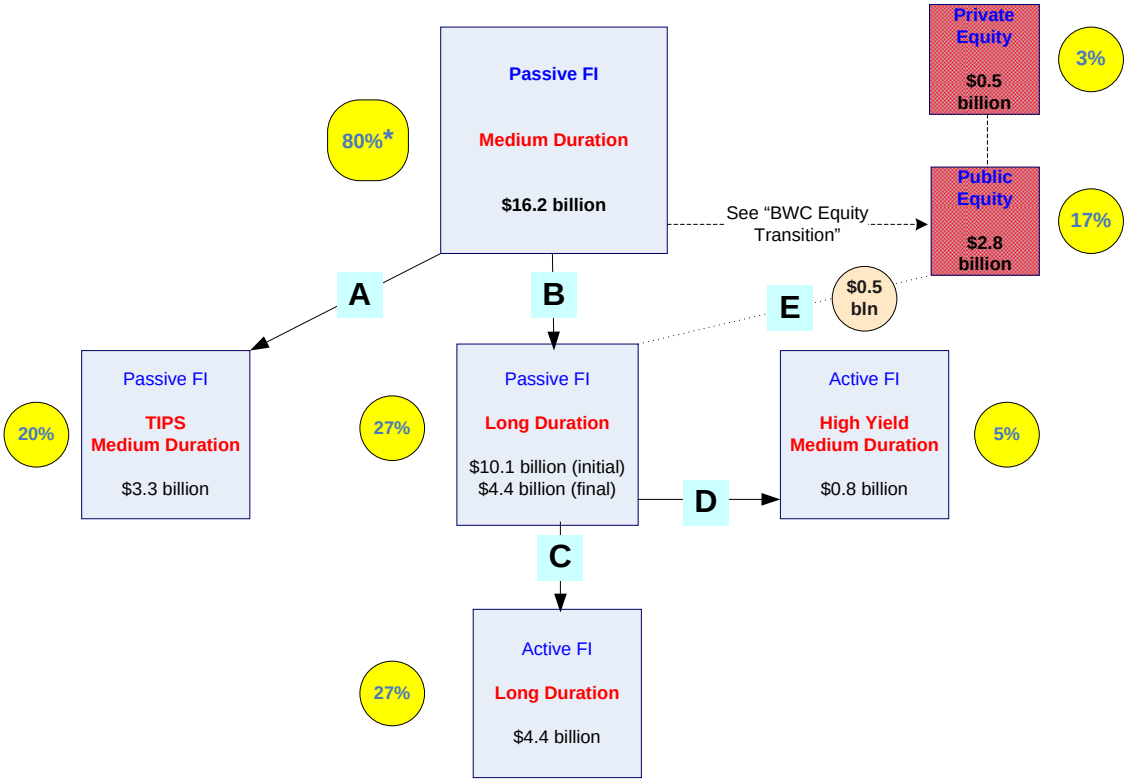
BWC EQUITY TRANSITION
July 2007



*** BWC will maintain a full 20% equity allocation per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

A	Transition into S&P 500 Passive Equity Index
B	In-kind transfer to approved S&P 500 Passive Equity Index Manager(s)
C	Transition to approved Active Non-U.S. Equity Manager(s)
D	Transition to approved Active U.S. Small/Mid Cap Equity Manager(s)

BWC FIXED INCOME TRANSITION
July 2007



*** BWC will maintain a full 80% fixed income allocation (includes 1% cash) per the Investment Policy Statement throughout all transitions and selling of Private Equity funds**

A Transition to approved TIPS Medium Duration Passive Manager

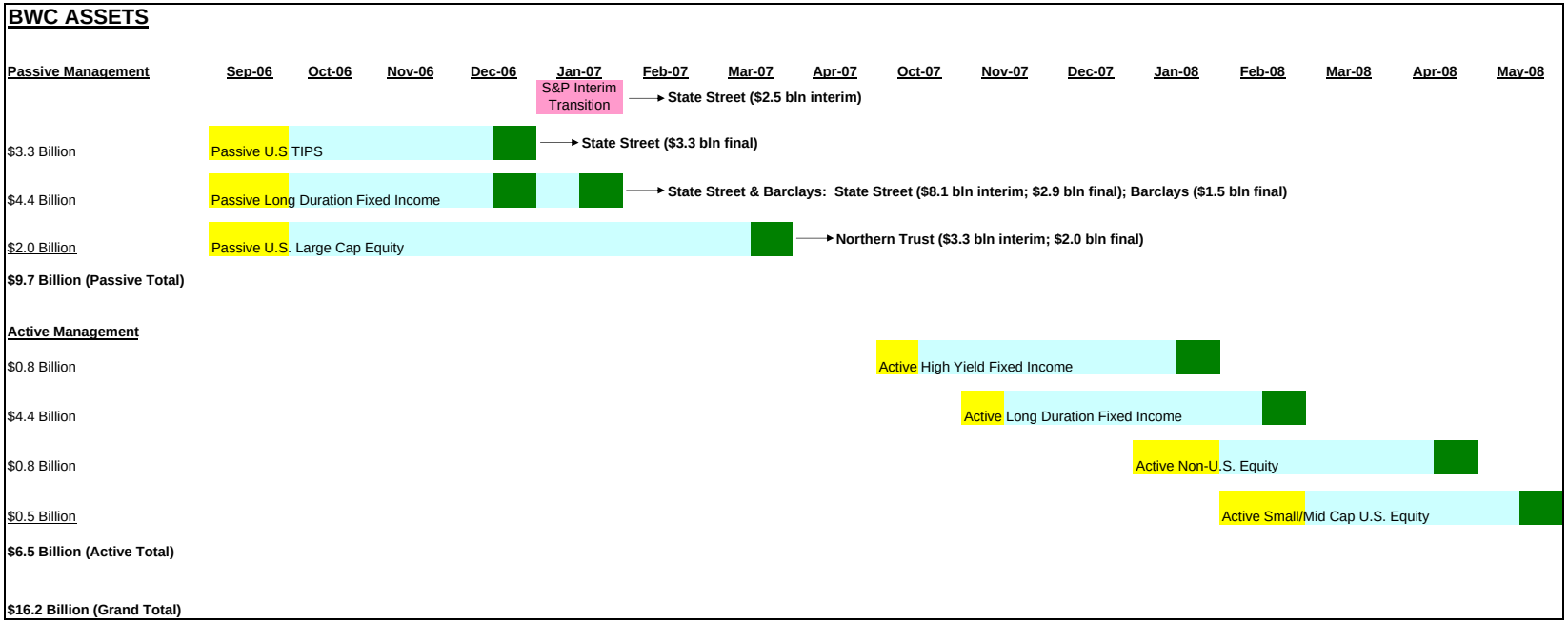
B Transition to approved Long Duration Fixed Income Passive Managers

C Transition to approved Long Duration Fixed Income Active Manager(s)

D Transition to approved High Yield Fixed Income Active Manager(s)

E Transition to approved Equity Manager(s)
(Represents $0.5 billion holdback until Private Equity sale completed)

BWC Transition Funds
RFP Timelines
July 2007



Future RFP Timelines shown are estimated time periods from RFP issuance to RFP completion with respective recommendation for approval to the BWC Investment Committee and WCOC.

Transition Funds include State Insurance Fund (SIF), Disabled Workers Fund, and Coal Workers Fund Combined.

Asset sized based on approximate valuation of transition funds.

- Issue RFP
- Evaluate/Recommend RFP
- Approval at WCOC monthly meeting
- Interim Transition of approximately $2.5 Billion to S&P 500 at State Street for SIF. This represents full 20% equity allocation per current IPS ex 3% for SIF Private Equity

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

I. Recommended Asset Mix **Slide 2**

II. Asset-Liability Valuation Background **Slide 3**

III. Wilshire's Capital Market Expectations and Efficient Portfolios **Slide 7**

1. Historical Return Perspective
2. Wilshire's 2007 Capital Markets Expectations
3. Efficient Portfolios

IV. Asset-Liability Modeling **Slide 13**

V. Asset Class Structure **Slide 19**

VI. Appendix – Wilshire's 2007 Asset Allocation Report **Appendix**

WILSHIRE CONSULTING

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

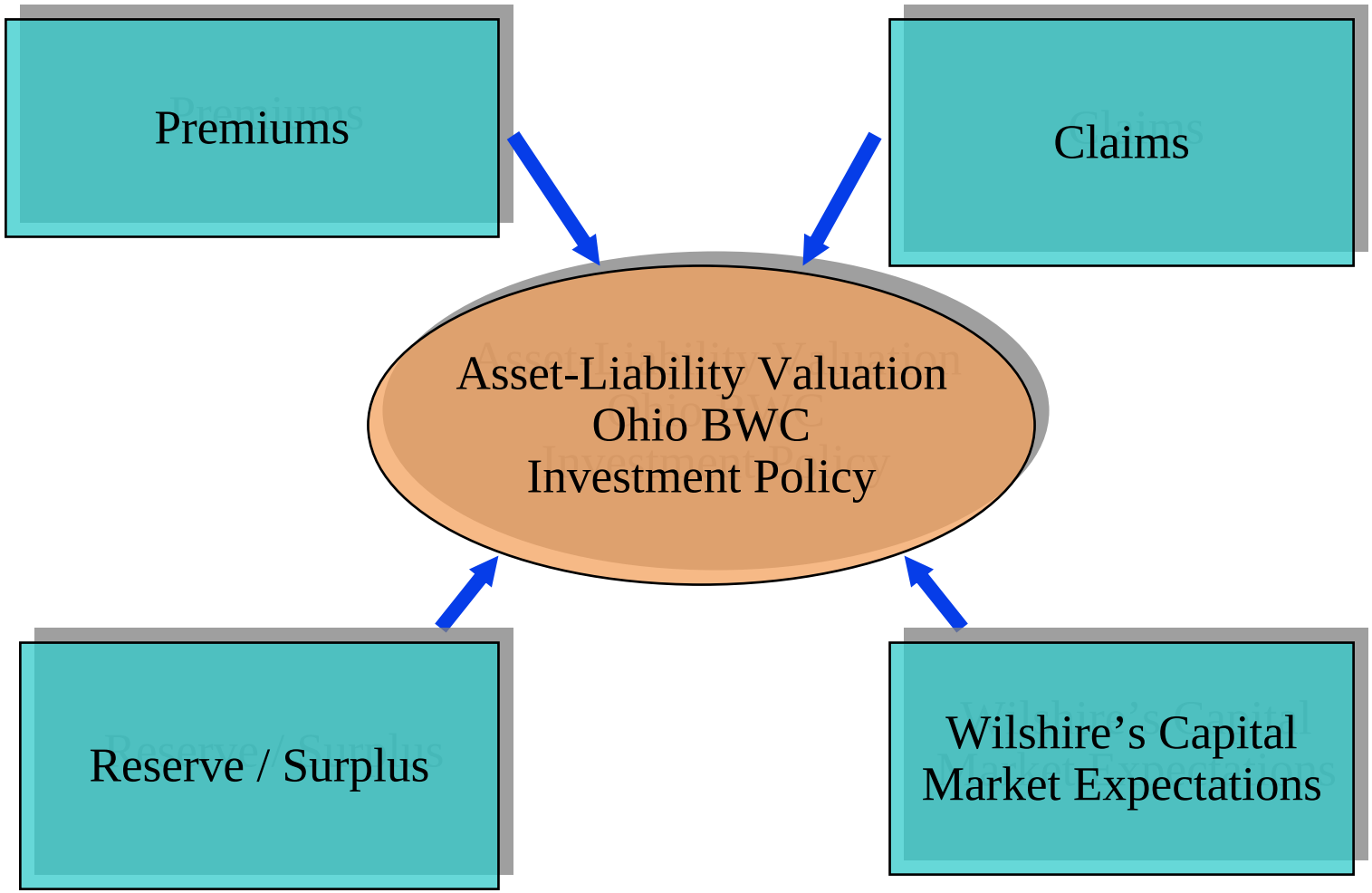
Purpose of the Study

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

Wilshire's 10-Year Capital Market Assumptions

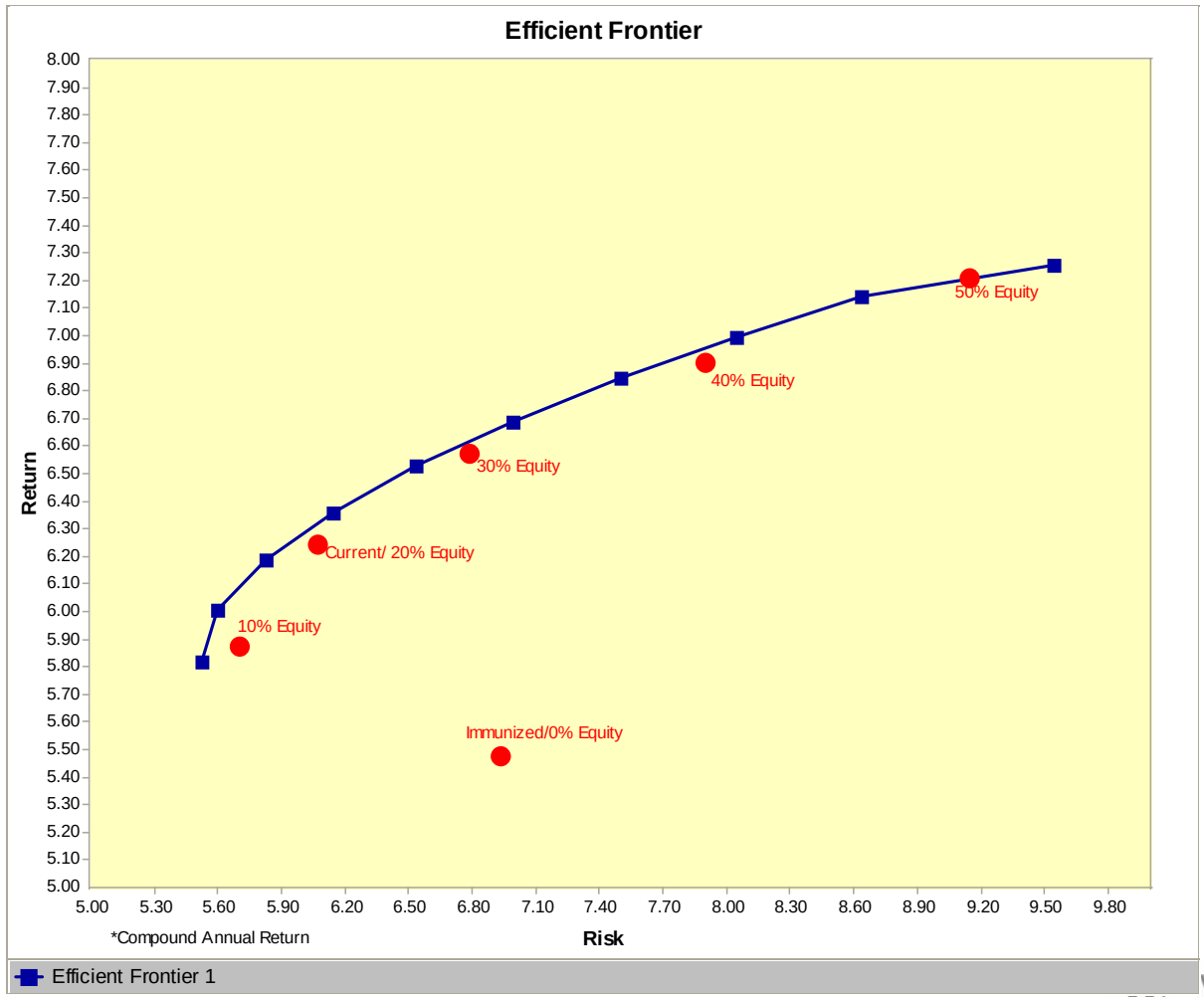
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.25	5.50	6.75	5.00	3.00
Risk	16.00	18.00	5.00	7.00	10.00	6.00	1.00
Yield	1.70	2.45	5.25	5.50	6.75	5.00	3.00
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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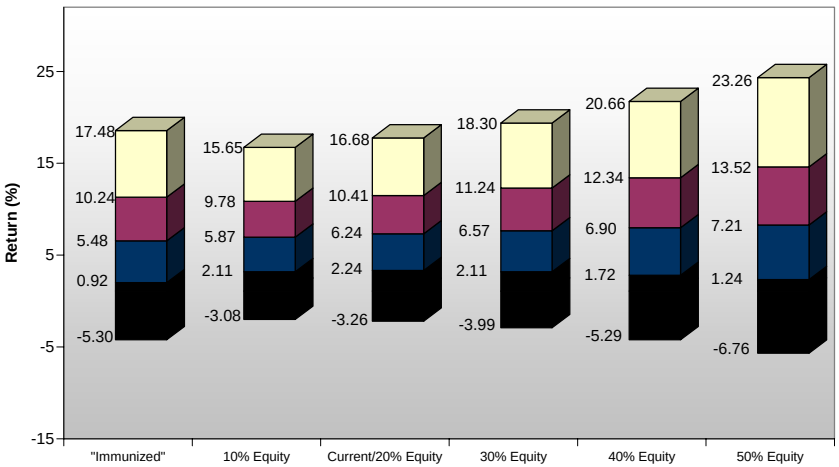
Efficient Portfolios

	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%**

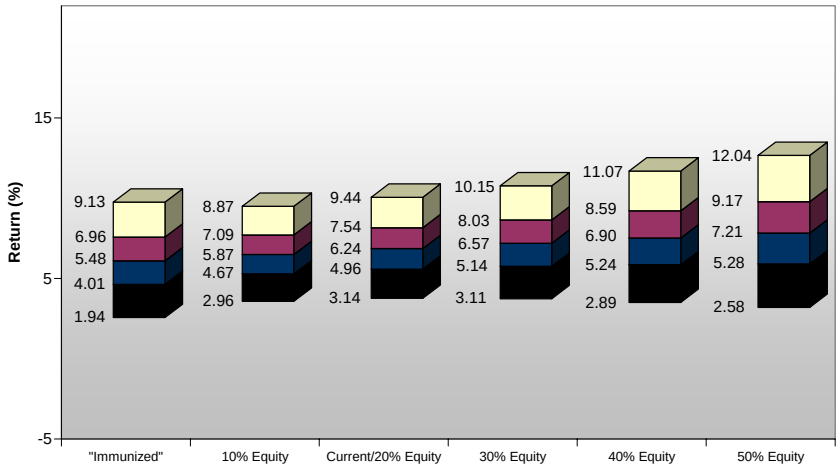
- Constraints:
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.
- Risk represents 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

Distribution of Returns
Year 1, Compound Annual Return



Distribution of Returns
Year 10, Compound Annual Return



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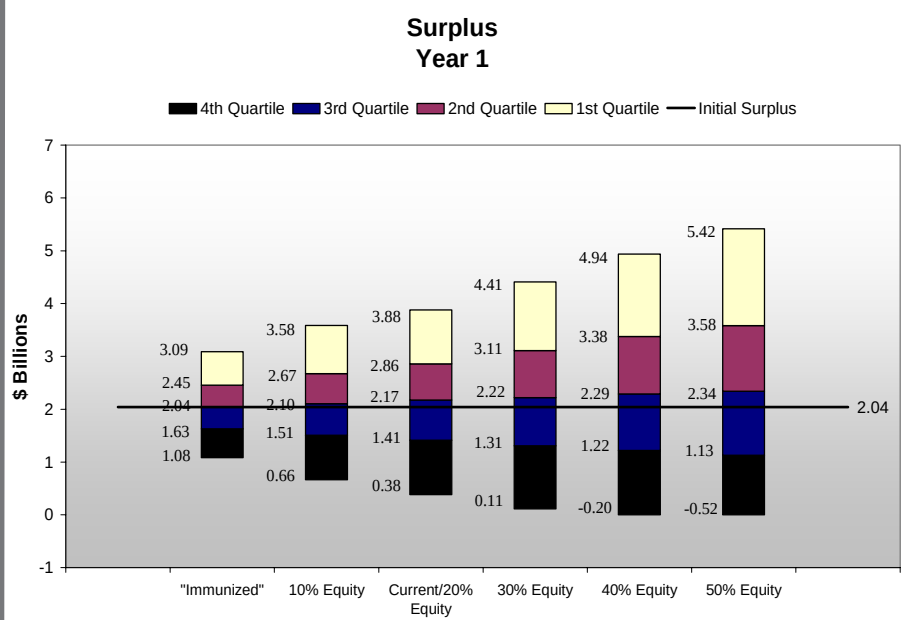
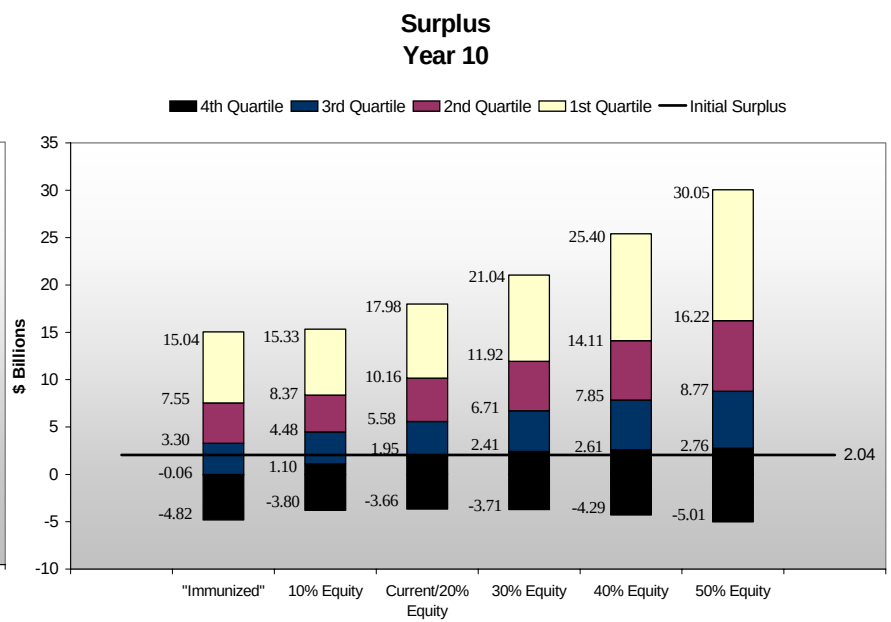
IV. Asset-Liability Modeling

Stochastic Simulation of Surplus: Year 1 and Year 10

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





Source: Mercer and Wilshire

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Potential Outcomes: Surplus

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

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

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

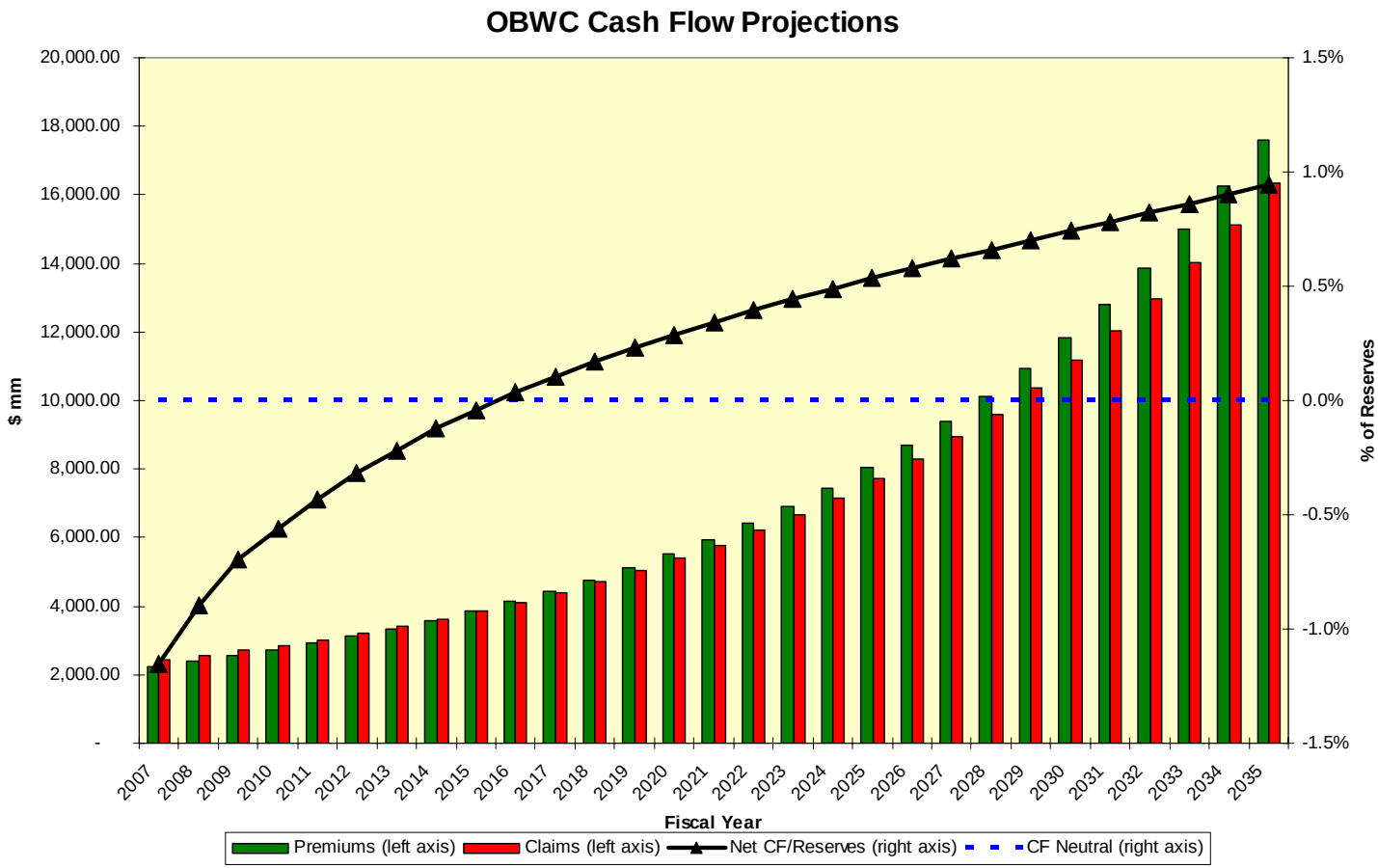
	"Market Environment"	"Immunized"	10% Equity	Current/20% Equity	30% Equity	40% Equity	50% Equity
Year 3	Bottom 5%	0.37	-0.13	-0.48	-0.94	-1.39	-1.78
	Bottom Quartile	1.42	1.46	1.43	1.36	1.20	1.04
	Median	2.35	2.52	2.75	2.94	3.14	3.35
	Top Quartile	3.28	3.69	4.12	4.65	5.18	5.77
	Top 5%	4.75	5.55	6.45	7.41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

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

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

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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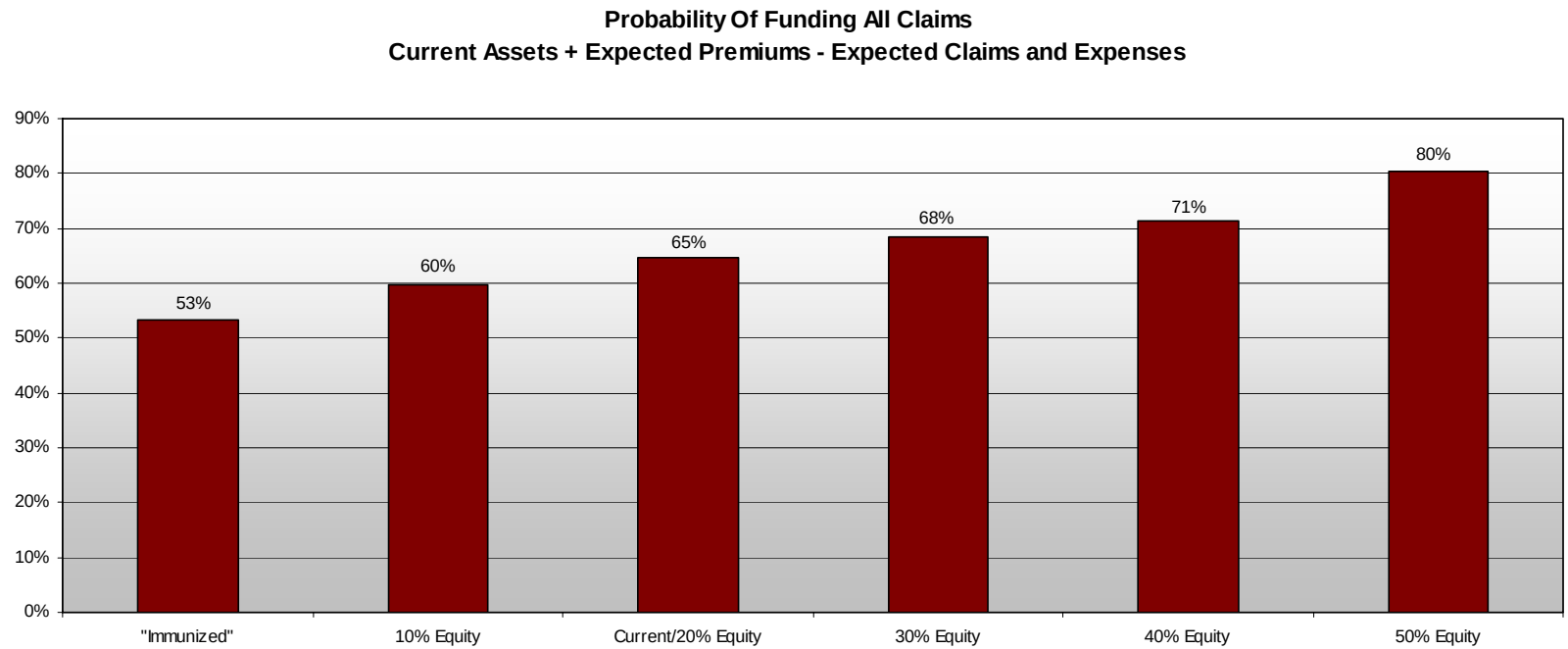
Probability of Success

- 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.

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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.

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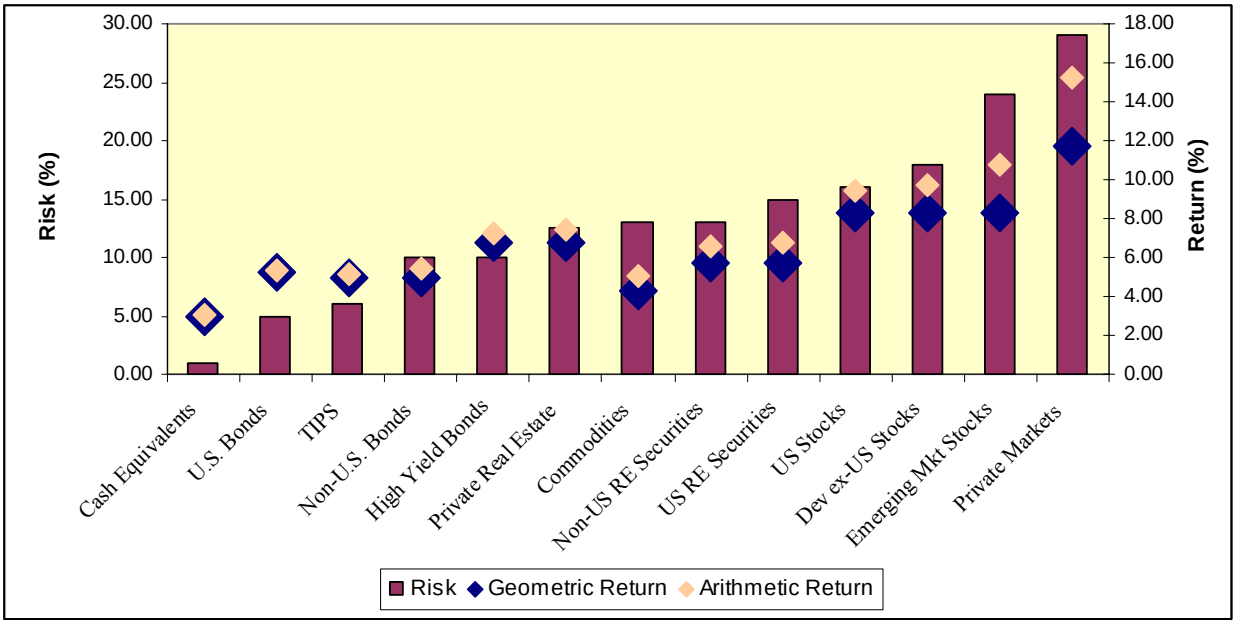
Exhibit 2
Wilshire's Expected Return and Risk Assumptions



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 *	1926-2006	High Inflation 1970-1979	Bull Market 1980-1999	Wilshire Forecast
Total Returns:					
Stocks	8.2 %	10.4 %	5.9 %	17.8 %	8.3 %
Bonds	4.9	5.6	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*

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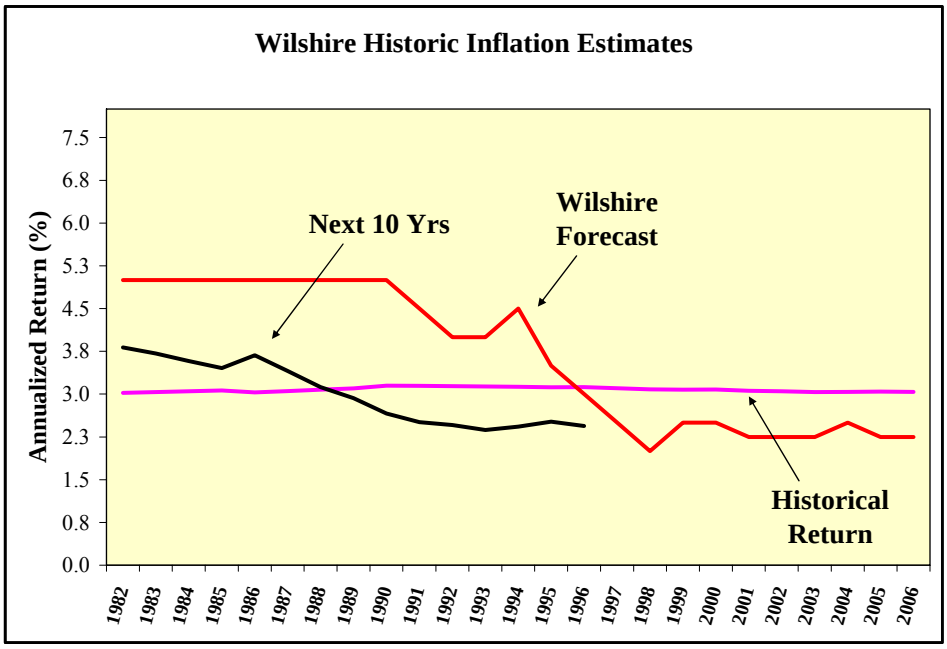
There are several relationships worth noting. Wilshire's stock and bond return forecasts, 8.3% and 5.3%, respectively, are close to the actual returns achieved over the 205-year period ending 2006. However, the relative return forecasts for stocks versus both inflation and bonds of 6.0% and 3.0% fall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



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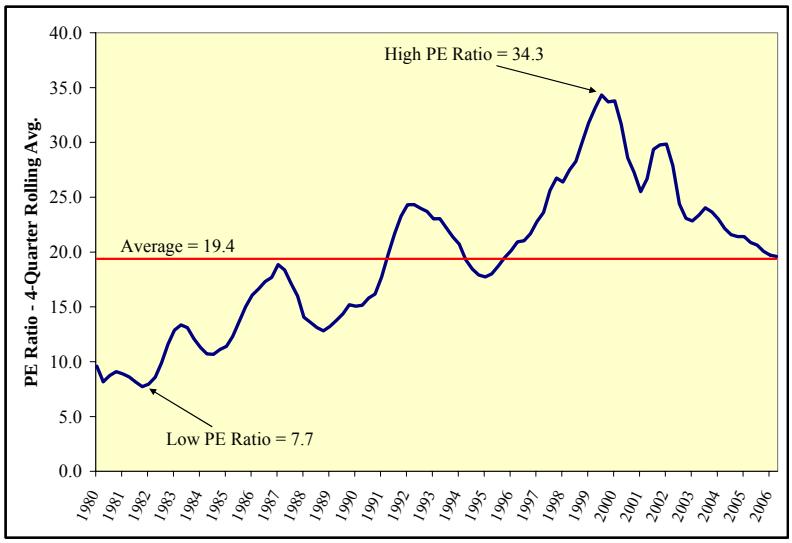
Equity

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.

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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

		Dividend Payout Ratio (Long Term)					
	(%)	25	30	35	40	45	50
5-Year EPS Growth	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.

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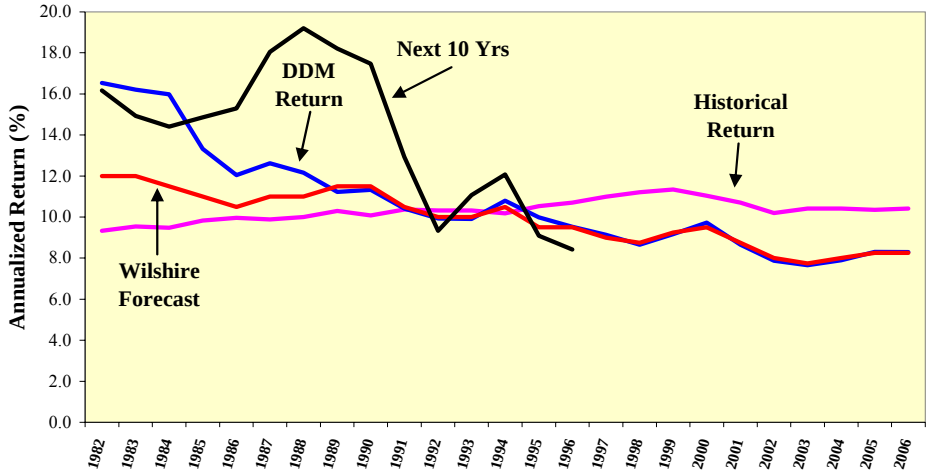
Exhibit 7
Wilshire Stock Return Forecast vs.
DDM Return, Historical Return, & Actual 10-Year Return Following Forecast



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	

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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.

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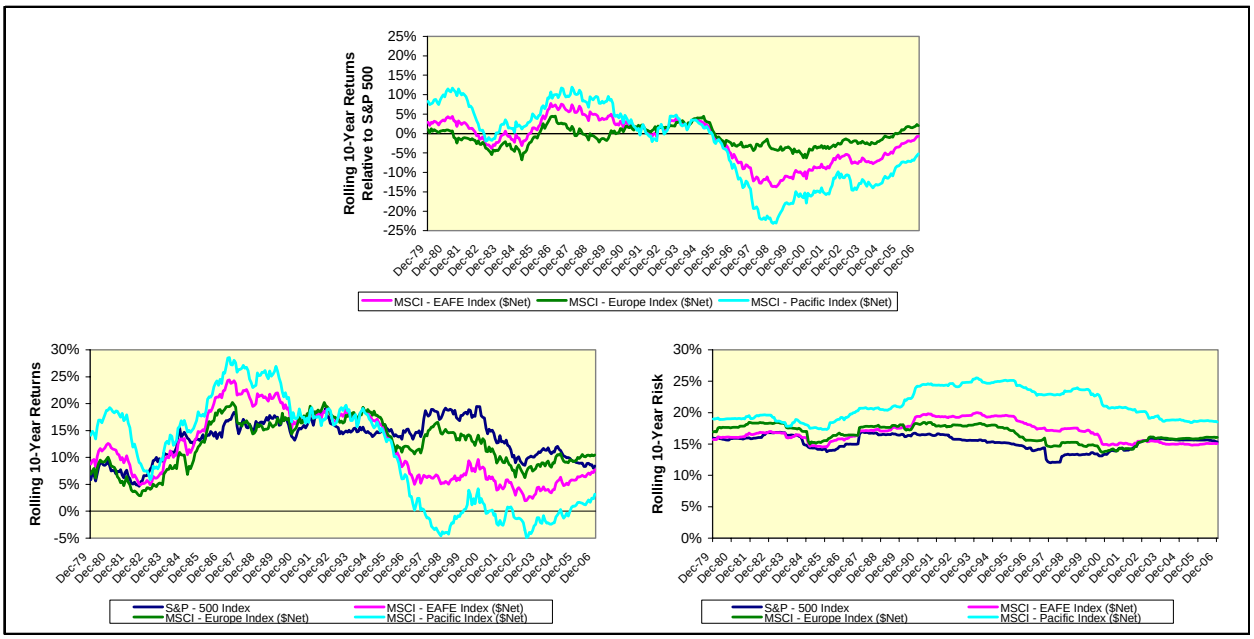
Exhibit 9
Rolling 10-Year Return & Risk Comparisons



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.

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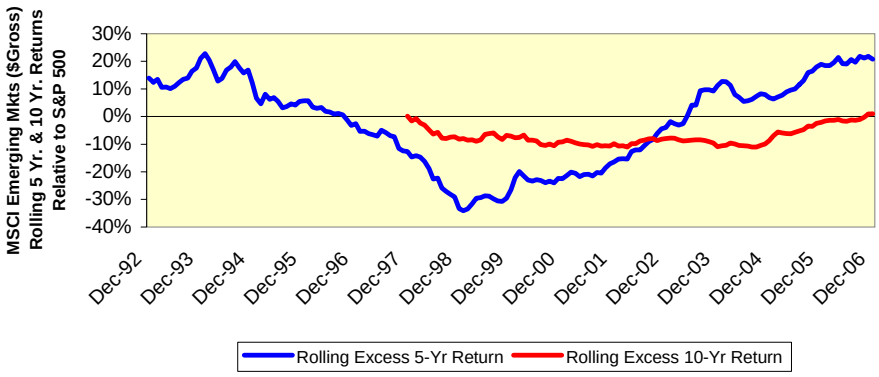
Exhibit 10
Emerging Market Returns (1988 through 2006)

	U.S. Dollar	
	Return	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.

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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

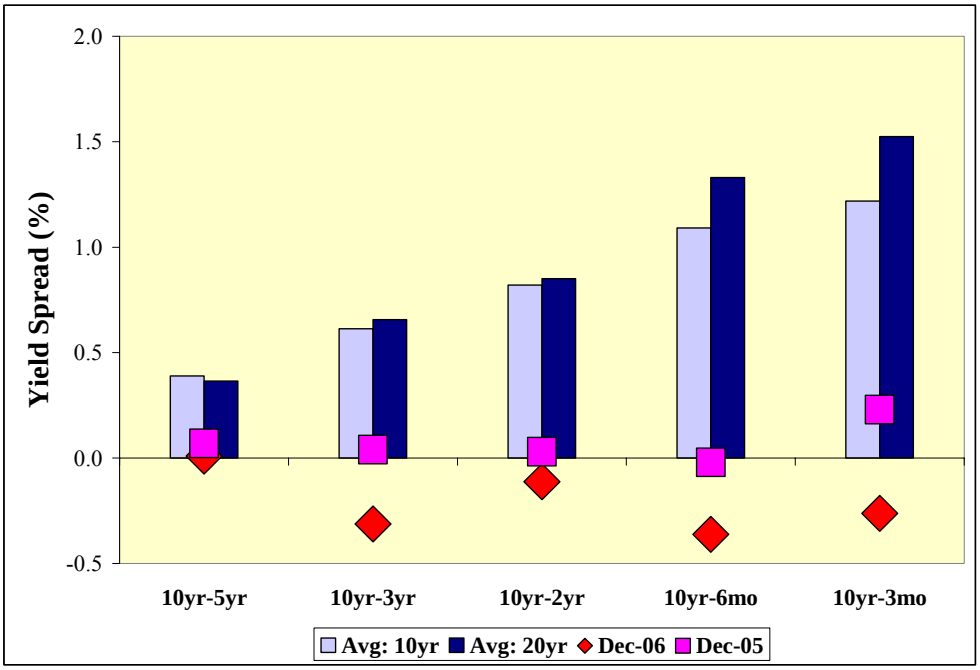

Exhibit 12 below compares Wilshire's past bond return assumptions with historical returns, yields, and the rolling returns for the ten year period following each forecast. The accuracy of Wilshire's forecast methodology of future long-term returns is confirmed by the tight relationship between the forecast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

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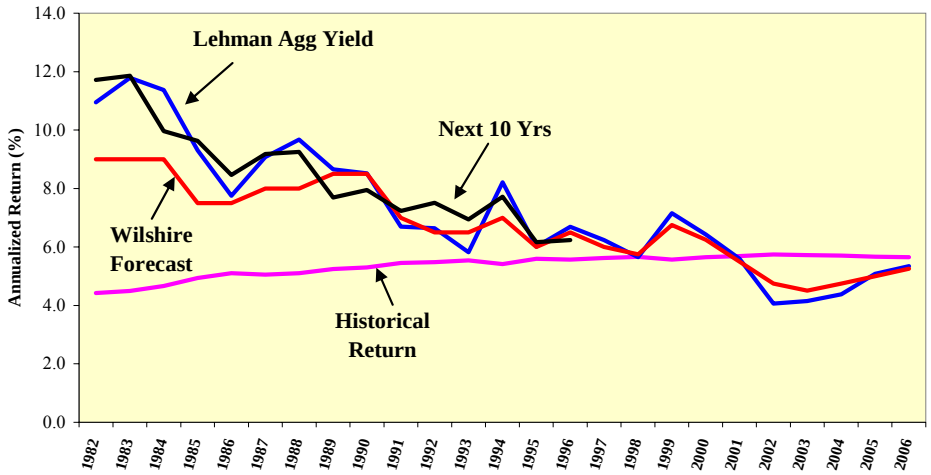
Exhibit 12
Wilshire Bond Return Forecast vs.
Current Yield, Historical Return, & Actual 10-Year Return Following Forecast



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	

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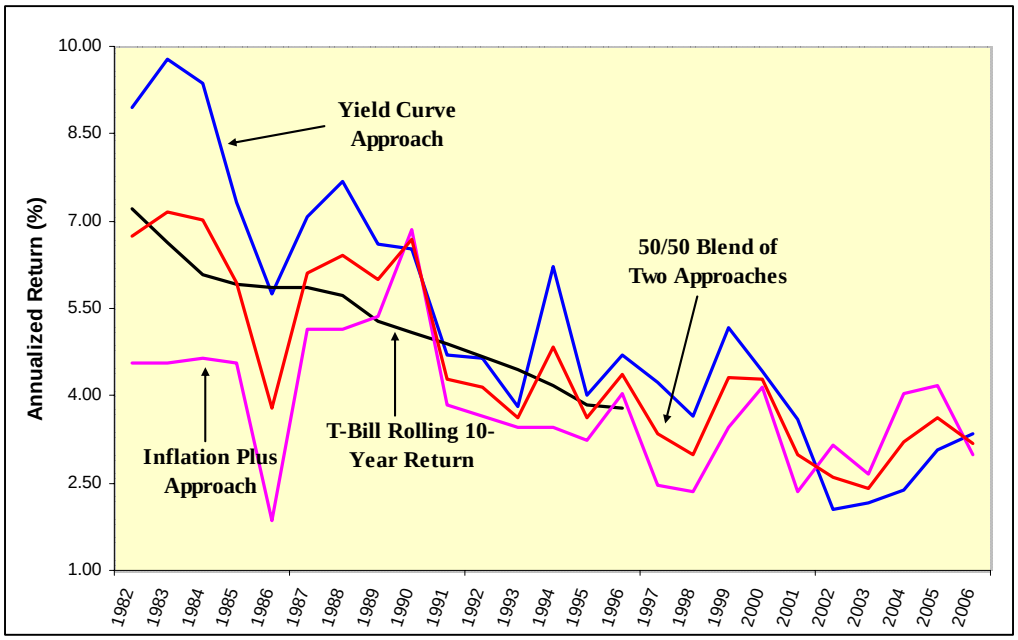
Cash Equivalents

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



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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.

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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.

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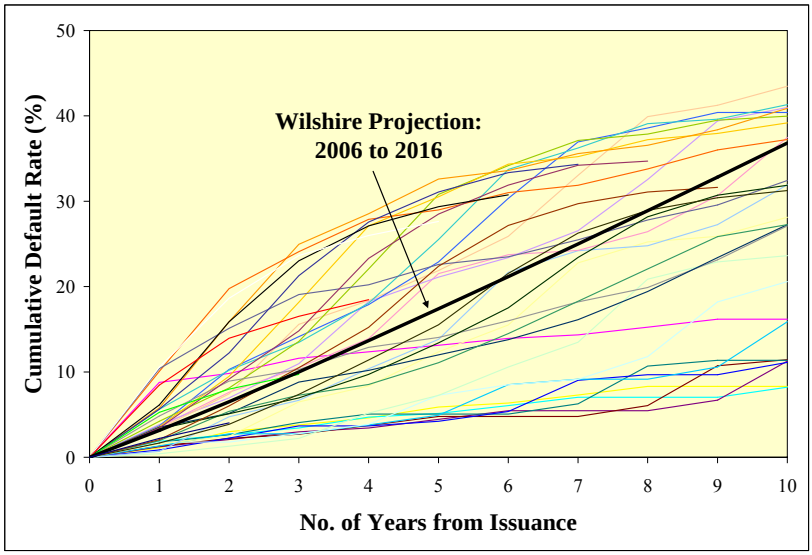
Exhibit 15
Historical Cumulative Default Paths - 1970 to 2005

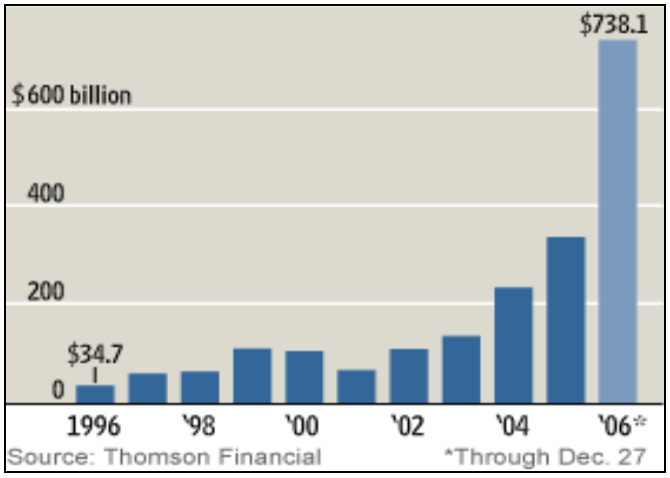


Our previous research on high yield bonds[4] explains the rationale behind Wilshire's long-term return forecasting methodology in greater detail.

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.

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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.

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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.

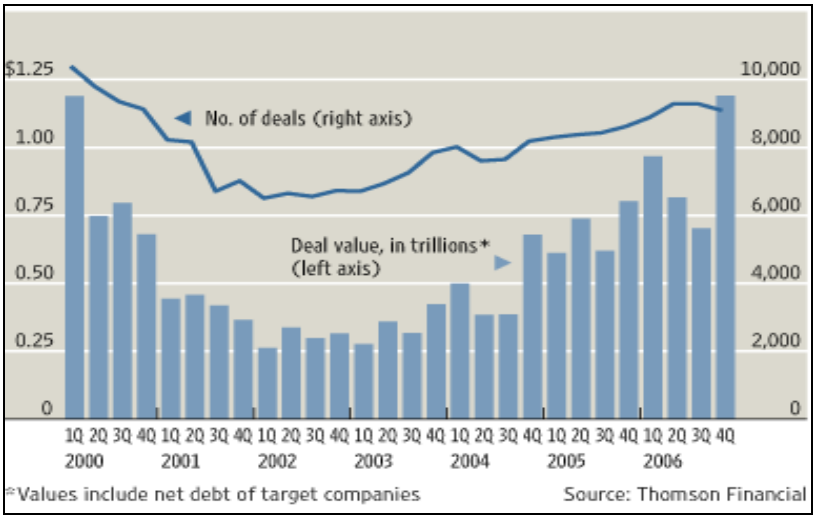
$E(r) = 1.7(8.25 - 3.00) + 3.00 = 11.93\%$, which we round to 12.00%.

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.

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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.

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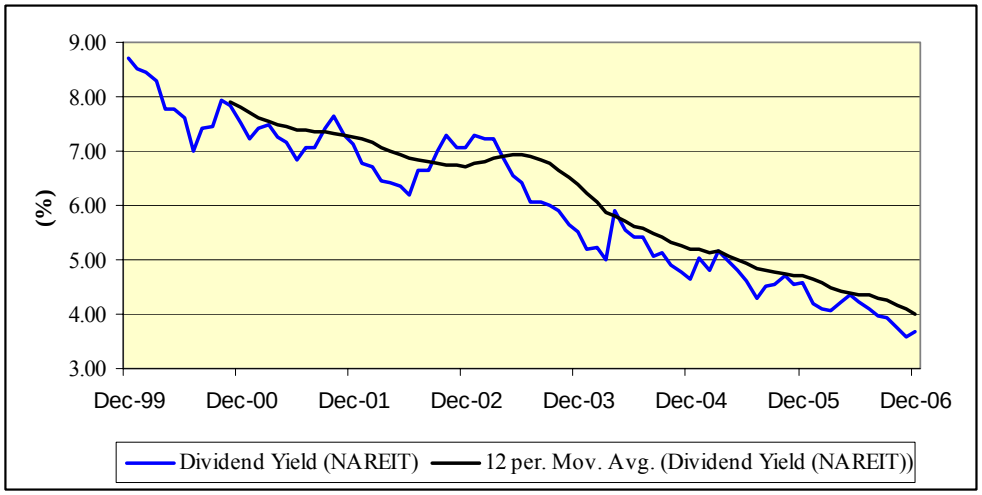
Real Estate Investments

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.

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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.

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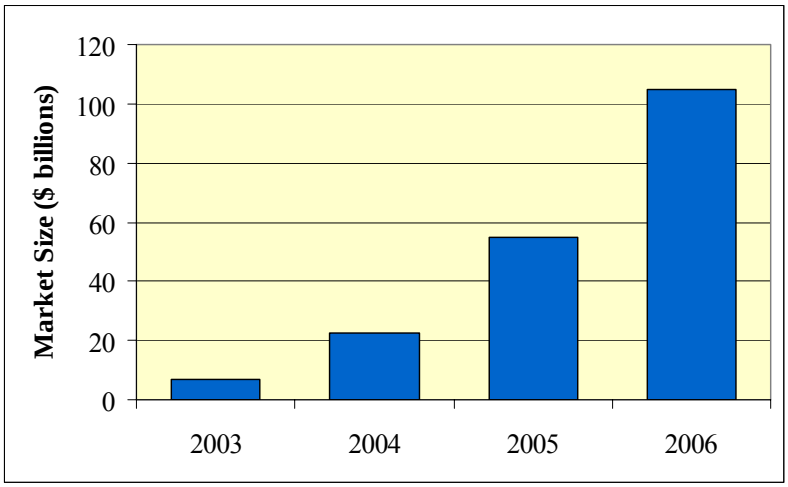
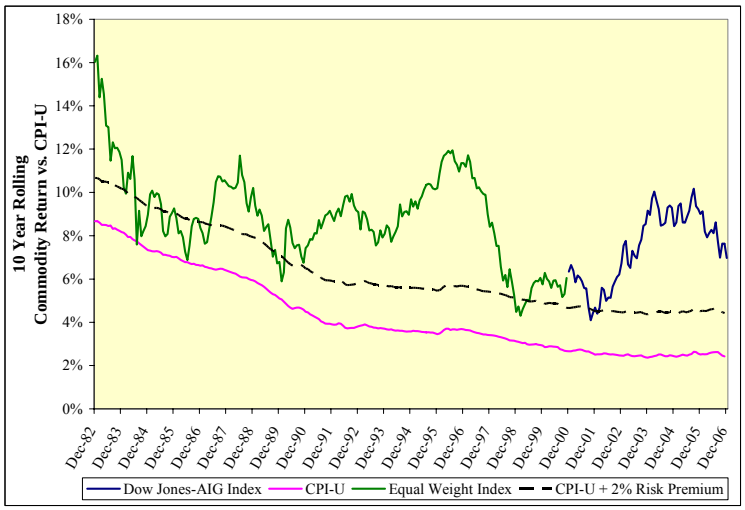
Exhibit 19
Commodity Index Investments



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



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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.

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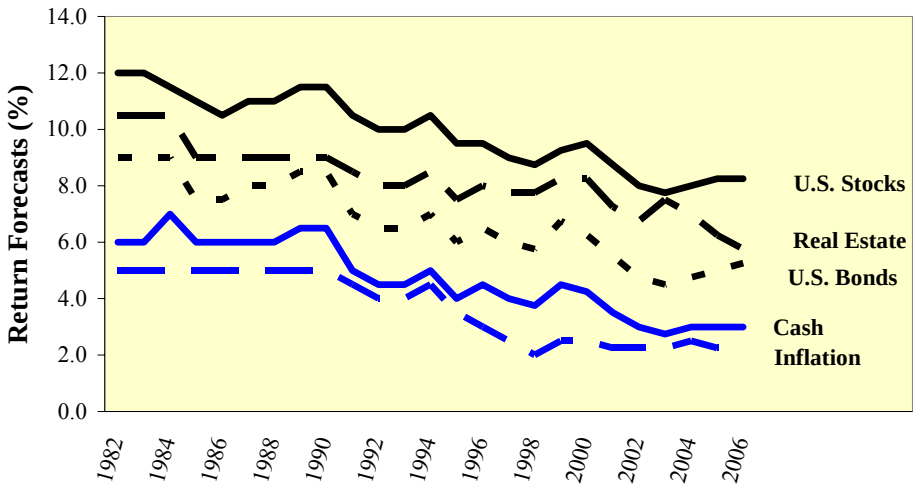
Exhibit 21
Wilshire's Past Forecasts for Asset Class Returns



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

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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.

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Appendix A: Wilshire 2007 Correlation Matrix

	Equity				Fixed Income								Alternative					
		Dev ex-US Stock					LT				Non-US Bond		Real Estate					
	US Stock	(USD)	(LC)	Emg Stock	Cash	Core Bond	Bond (LPF)	LT Treas	TIPS	High Yield	(USD)	(LC)	US RES	Prvt RE	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.

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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

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Appendix C: Wilshire 2007 Private Real Estate Correlation Matrix

	---------- Private RE ----------											
	US RES	Non-US RES	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

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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%**	

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

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

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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%**	

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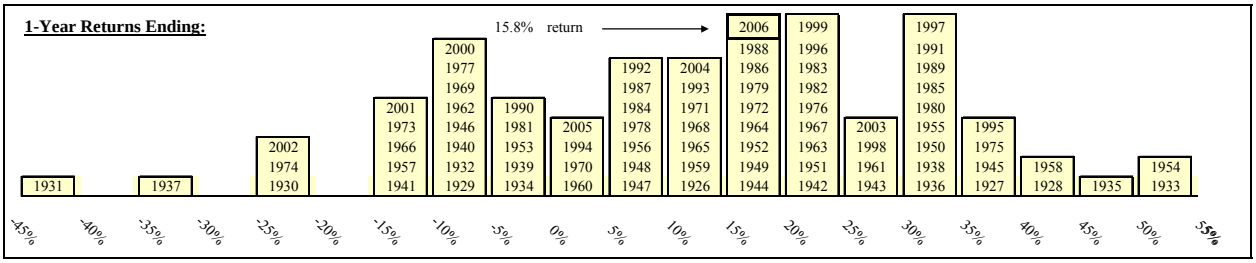
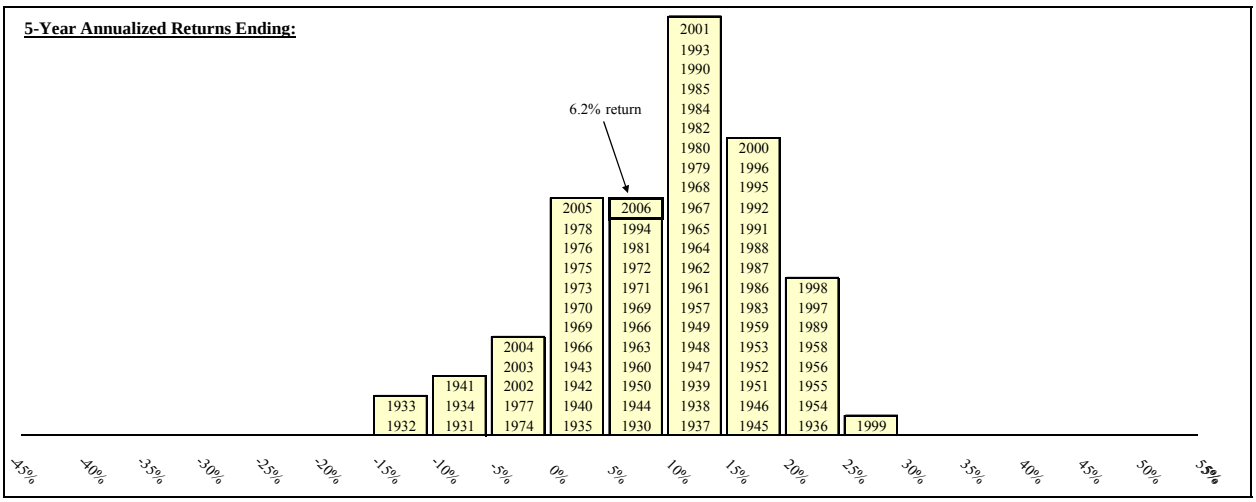
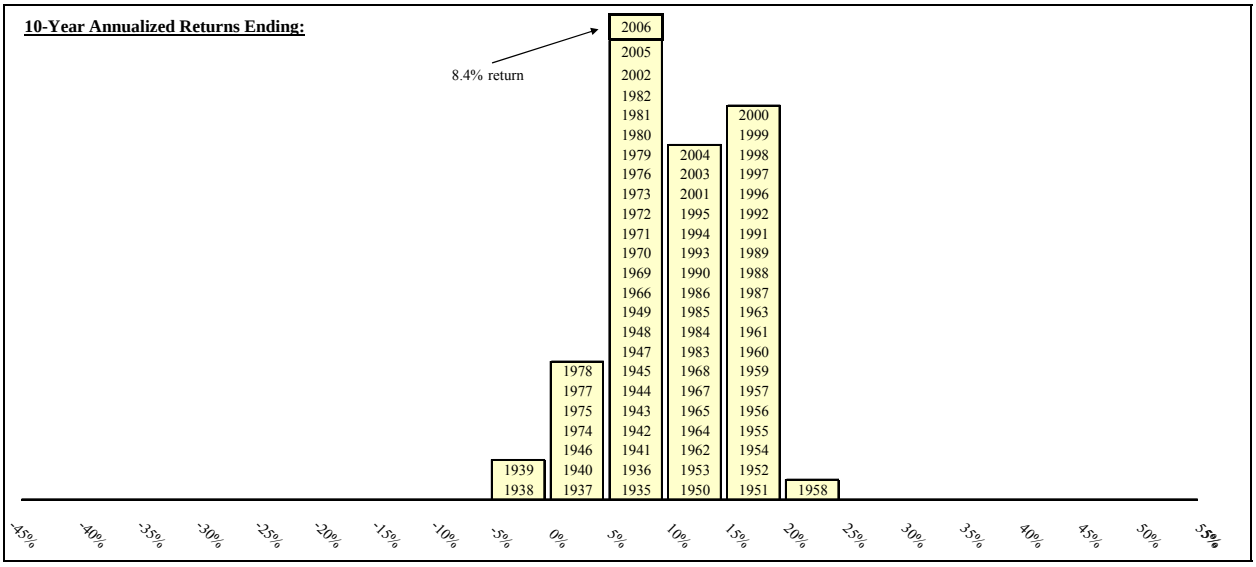
Appendix E: Histogram of 1-, 5-, 10-Year S&P 500 Index Returns







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DATE: July 16, 2007

TO: Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Wilshire Associates Investment Consultant Annual Review July 2006 to June 2007 (BWC Fiscal Year 2007)**

The following are comments on the services provided to the BWC Investment Division (ID) by Wilshire Associates, serving in its role as Investment Consultant to the WCOC, for the fiscal year period July, 2006 through June, 2007.

Asset/Liability Valuation Study

The initial Wilshire asset/liability valuation (ALV) report in final form was delayed until the July, 2006 formal presentation due to requests for additional quantitative supporting information made by the investment experts of the WCOC. The quality of this ALV report which focused on the State Insurance Fund portfolio was very good. Asset class analysis and asset class allocation structure presented in the ALV report were well done and thorough with sufficient supporting information, including actuarial reviews. The firm utilized proprietary models to build long-term asset allocation risk/return assumptions with a proper emphasis given to historical correlations between alternative asset class sectors. The much more condensed ancillary portfolio ALV study with asset allocation recommendations was presented in September, 2006.

Performance Reporting

Presentation content of quarterly performance reports presented in fiscal year 2007 was an improved product compared to reports provided in prior fiscal year. Reconciliation of Wilshire performance reports with JPMorgan performance reports was challenging and confusing at times. Although performance results for private equity partnerships have a timing lag, performance figures and peer group fund comparisons provided with quartile performance rankings of each partnership were very useful for analysis. Monthly flash reports were also provided by Wilshire for most of the fiscal period but discontinued with the consent of the Investment Committee.

Investment Manager Searches

BWC consulting team made many good contributions in assisting the CIO and ID staff in the review process for selecting finalist candidates and the ultimate finalists for recommendation to the IC/WCOC. RFP directed searches in FY07 included private equity sales agent, transition managers and passive index managers for four distinct asset classes. Consultants provided insightful comments on manager candidates under review at Evaluation Committee meetings. Also assisted in both the Q&A interview stages conducted by the ID and in the on-site visit with the finalist(s) emerging from the RFP processes. Could have been somewhat more proactive in level of questioning of candidates during the finalists review stage.

Private Equity

Helpful in the selection of the RFP finalist investment banking sales agent representing BWC in its goal to sell all 68 private equity partnerships at an acceptable value. Supportive of the many challenges the ID confronted during the progression stages leading up to the final sale auction. Exercised the proper discretion during sensitive periods of the sale process so as to not jeopardize the goal. Fulfilled contractual duties to authorize capital call requests, review management fees and GP reports, participate as needed in conference calls and partnership meetings, and provide performance calculations.

Wilshire Compass

This proprietary software on portfolio analytical research capabilities and investment managers maintained by Wilshire is an excellent resource. The ID staff has received several well-organized training sessions for Compass and now has an appreciation of its many capabilities. Wilshire has been very responsive to staff inquiries on this product. As the ID begins the process of issuing active manager RFPs and selecting active manager candidates, it is expected that the extensive database of Compass will be of great value to the ID staff.

Topical Projects

Over the course of the period, Wilshire evidenced their broad consulting knowledge and perspective on many different subjects involving institutional clients and, specifically, public funds. Specific topics such as interest rate sensitivity analysis, surplus/actuarial analysis, benchmarking, derivatives, securities lending, custodial structure, asset sector targeting, asset class correlations, emerging managers and various other specific requests were addressed by Wilshire to the satisfaction of the CIO. The annual Wilshire Client Conference attended by the CIO in April, 2007 addressed many diverse investment topics and trends. This conference revealed first hand to the CIO the breadth of investment knowledge and resources that can be offered by the firm in servicing its many clients.

Responsiveness of Consultants

The BWC Wilshire team has exhibited an improved and overall satisfactory level of responsiveness to the many demands asked of the firm by the BWC WCOC/Investment Committee and ID. At least two Wilshire representatives have attended all IC/WCOC meetings in fiscal 2007 and provided reports and information as requested (sometimes on short notice) before or at scheduled meetings. The core BWC consulting team has been receptive to the viewpoints of the CIO and ID staff when revisions to the Investment Policy Statement were desired by the CIO that required a change from previous Wilshire recommendations (examples include benchmark indices, credit ownership limits, active/passive style mix of certain asset classes). The consulting team was conscientious in responding to requests made by the CIO within an acceptable time period. When the lead consultant was unavailable due to time demands placed on servicing other clients, a satisfactory backup process was in place to service the BWC.

Consultant Team Quality

The relationship between the CIO and Mark Brubaker as lead consultant has evolved positively over the past year. The lead consultant has a very good understanding and sensitivity for the challenges faced by the BWC in general and by both the BWC Investment Committee and ID more specifically. It is especially helpful that the lead consultant has experience in servicing other public fund clients and has direct knowledge of best practices employed by many Wilshire public fund clients. Mark Brubaker has a very good working knowledge of all the important institutional asset classes and of a large number of investment managers. Marc Friedberg, as the backup senior consultant, has been focused more on private equity activities but was helpful in the ultimate selection of the BWC passive index managers. Mike Patalsky is a senior associate with the firm who assists both Mark Brubaker and Marc Friedberg in all aspects of the BWC servicing relationship. He has grown professionally over the past twelve months and has provided many valuable insights to the ID team in the due diligence process of manager selection. Mike Patalsky has had the most involvement of the three consultants in assisting the ID staff in the finalist stages of the RFP process involving manager interviewing and direct assessment.

DATE: July 18, 2007

TO: BWC Investment Committee
Workers' Compensation Oversight Commission

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Revision to BWC Investment Policy and Guidelines**
Appendix XIV: Campaign Contribution Policy

It is necessary to update the BWC Investment Policy Statement to reflect the passage of House Bill 694 by the 126th Ohio General Assembly. HB 694 pertains to political contribution restrictions applicable to owners and certain family member of owners of businesses or entities seeking to enter into or be awarded contracts with state agencies. The language is reflected in Ohio Revised Code Section 3517.13 and includes section pertaining specifically to the BWC that are more restrictive than for other state agencies.

HB 694 was approved by the Ohio Senate on 12/19/06 and by the House of Representatives on 12/29/06. It was signed by former Governor Taft on 1/02/07 and became effective 90 days thereafter on 4/02/07.

It is requested that the BWC Investment Committee and Workers' Compensation Oversight Commission approve amendment of Appendix XIV of the BWC Investment Policy and Guidelines to reflect the current Political Campaign Contribution language reflected in Section 3517.13 of the Ohio Revised Code. The changes in this ORC Section 3517.13 are attached and highlighted in red. Also attached is a clean unmarked version of the language to be included in this referenced Appendix XIV.

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 competitively bid 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,

(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.

Deleted: (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.¶

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(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.¶

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.

The Ohio Bureau of Workers' Compensation

Appendix to Statement of Investment Policy and Guidelines

Adopted by the WCOC: April 26, 2007

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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: Asset/Liability Valuation in Separate File. Insert Here.

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

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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.
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Appendix XIII: Legal Requirements Summary

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

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

I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

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

III. Administrator's Investment Duties

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

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

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

IV. Chief Investment Officer Duties

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

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

(B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and

regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. Fiduciary Requirements

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

R.C. 4121.126: Except as provided in this chapter, no member of the workers' compensation oversight commission or employee of the bureau of workers' compensation shall have any direct or indirect interest

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR
(May, 2007)

Monthly Reports

- CIO Report
  Progress on Goals
  - Updates (RFPs, actions)
  - Compliance
  - Legislative
- JPMorgan Performance Reports

Quarterly Reports

- Quarterly and YTD Actual vs. Budget
  - Investment Division Budget
  - Investment Expenses – Manager and Operational Fees
- Investment Division Staffing
- Wilshire quarterly performance reports
- JPMorgan quarterly manager performance reports

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR
(May, 2007)

July

- Annual Budget for new fiscal year
    - Net Income
    - Cash Flow
    - Assets under management
    - Operational Expenses
        - Staff Expenses
        - Consultants
        - Custodian
        - Others
    - Capital Expenditures
    - Personnel staffing positions (additions/deductions)
- Annual Investment Consultant Asset/Liability Valuation Study
- WCOC Consultant Annual Report Card

August

- Quarterly Reports
- WCOC Consultant Renewal/RFP

September

- Annual CIO Report
    - Year in Review – portfolio performance
    - Asset Allocation
    - FY Goals
    - Environment
    - CIO certification: Sarbanes-Oxley

October

- Annual Custodial Review

November

- Quarterly Reports
- Annual Auditor Report
    - Internal auditor
    - External auditor

December

- Annual Review of Investment Manager benchmarks
- Annual economic and interest rate outlook

Ohio Bureau of Workers' Compensation
FY 2008 Investment Income Projections

Interest Income	Projected July 2007	Projected August 2007	Projected September 2007	Projected October 2007	Projected November 2007	Projected December 2007
Bond Interest	$61,400,000	$61,400,000	$61,400,000	$61,400,000	$61,400,000	$61,400,000
Dividend Income	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000
Money Market/Comm Paper Income	$1,040,000	$1,040,000	$1,040,000	$1,040,000	$1,040,000	$1,040,000
Miscellaneous Income (Corp Actions, etc.)	$300,000	$300,000	$300,000	$300,000	$300,000	$300,000
Private Equity	$400,000	$200,000	$100,000	$0	$0	$0
Securities Lending Income	$0	$0	$0	$0	$0	$0
Total Interest Income	**$67,940,000**	**$67,740,000**	**$67,640,000**	**$67,540,000**	**$67,540,000**	**$67,540,000**
Realized & Unrealized Capital Gains and (Losses)						
Net Realized Gain (Loss) Stock	$0	$0	$0	$0	$0	$0
Net Realized Gain (Loss) Bonds	$0	$0	$0	$0	$0	$0
Unrealized Gain (Loss) Stocks	$17,880,000	$17,880,000	$17,880,000	$17,880,000	$17,880,000	$17,880,000
Unrealized Gain (Loss) Bonds	$0	$0	$0	($55,000,000)	($55,000,000)	($55,000,000)
Gain (Loss) PE	$0	$0	$0	$0	$0	$0
Change in Portfolio Value	**$17,880,000**	**$17,880,000**	**$17,880,000**	**($37,120,000)**	**($37,120,000)**	**($37,120,000)**
Investment Expenses	$850,000	$1,374,000	$5,350,000	$300,000	$1,075,000	$281,000
TOTAL INVESTMENT INCOME	**$84,970,000**	**$84,246,000**	**$80,170,000**	**$30,120,000**	**$29,345,000**	**$30,139,000**

Interest Income	Projected January 2008	Projected February 2008	Projected March 2008	Projected April 2008	Projected May 2008	Projected June 2008
Bond Interest	$61,400,000	$61,400,000	$63,300,000	$63,300,000	$63,300,000	$63,300,000
Dividend Income	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$5,500,000
Money Market/Comm Paper Income	$1,040,000	$1,040,000	$1,040,000	$1,040,000	$1,040,000	$1,040,000
Miscellaneous Income (Corp Actions, etc.)	$300,000	$300,000	$300,000	$300,000	$300,000	$300,000
Private Equity	$0	$0	$0	$0	$0	$0
Securities Lending Income	$0	$0	$0	$0	$0	$0
Total Interest Income	**$67,540,000**	**$67,540,000**	**$69,440,000**	**$69,440,000**	**$69,440,000**	**$70,140,000**
Realized & Unrealized Capital Gains and (Losses)						
Net Realized Gain (Loss) Stock	$0	$0	$0	$0	$0	$0
Net Realized Gain (Loss) Bonds	$0	$0	$0	$0	$0	$0
Unrealized Gain (Loss) Stocks	$17,880,000	$17,880,000	$17,880,000	$17,880,000	$17,880,000	$19,020,000
Unrealized Gain (Loss) Bonds	($55,000,000)	($55,000,000)	($39,500,000)	($39,500,000)	($39,500,000)	($39,500,000)
Gain (Loss) PE	$0	$0	$0	$0	$0	$0
Change in Portfolio Value	**($37,120,000)**	**($37,120,000)**	**($21,620,000)**	**($21,620,000)**	**($21,620,000)**	**($20,480,000)**
Investment Expenses	$281,000	$1,083,000	$281,000	$281,000	$1,347,000	$281,000
TOTAL INVESTMENT INCOME	**$30,139,000**	**$29,337,000**	**$47,539,000**	**$47,539,000**	**$46,473,000**	**$49,379,000**

TOTAL YEAR FORECAST FY 2008

Interest Income	TOTAL
Bond Interest	$744,400,000
Dividend Income	$58,300,000
Money Market/Comm Paper Income	$12,480,000
Miscellaneous Income(Corp Actions, etc)	$3,600,000
Private Equity	$700,000
Securities Lending Income	$0
Total Interest Income	**$819,480,000**
Realized & Unrealized Capital Gains and (Losses)	
Net Realized Gain (Loss) Stock	$0
Net Realized Gain (Loss) Bonds	$0
Unrealized Gain (Loss) Stocks	$215,700,000
Unrealized Gain (Loss) Bonds	($433,000,000)
Gain (Loss) PE	$0
Change in Portfolio Value	**($217,300,000)**
Investment Expenses	**$12,784,000**
TOTAL INVESTMENT INCOME	**$589,396,000**

Prepared by: Investment Division
Completed: July 17, 2007

INVESTMENT DIVISION

TO: Marsha Ryan, Administrator
Mike Koetters, Chairman, Investment Committee
Denise Farkas, Investment Committee
Win McCausland, Investment Committee
Bill Sopko, Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

DATE: July 17, 2007

SUBJECT: CIO Report for May/June, 2007

The Investment Division in May/June, 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. Focus is now 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 "Fund"). BWC utilized this 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 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 Fund, and the investment manager unit of JPMorgan, as investment adviser to the 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 can now proceed with the transition of approximately $1.4 billion of assets involving four ancillary portfolios being shifted from the Ohio Bond Fund passively managed by SSGA to the targeted asset allocation strategy for each respective ancillary portfolio approved by the BWC Investment Committee and WCOC.

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 will join the Investment Division in late July, 2007.

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 the administrative assistant position will be filled in the third quarter 2007 and the senior investment manager position will be filled in the fourth quarter 2007. These four additions to staff 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 was made to BWC Administrator Marsha Ryan for the outsource solution vendor finalist. Administrator Ryan approved this recommendation in mid-June, 2007. BWC is currently in the services contract completion stage with the expectation that such contract will be signed this month. It is the goal that implementation of this web-based system to conversion can be completed by the first half of 4Q2007. 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 new 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 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. Additional private equity fund sales are expected to close in stages throughout the third quarter 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 of the 68 private equity funds as well as the bond index fund, 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 and Barclays were in compliance on June 30, 2007 with the BWC Investment Policy and their respective investment management agreement guidelines imposed by BWC under management contract.

There was one action in the management of the JPMorgan U.S. Government Money Market Fund (the "Fund") utilized by BWC that was an unintentional violation of the BWC guideline not permitting any securities lending of BWC assets. The JPMorgan asset management funds relationship manager reported to the BWC Chief Investment Officer on July 6, 2007 that she and the Fund portfolio manager just became aware that one security held by the Fund ($5 million par of Fannie Mae notes due 8/10/07) was out on loan between 5/14/07 and 6/25/07. The Fund had total assets of $16.5 billion on June 30, 2007 and BWC had a balance of $310 million invested in the Fund on this date. This Fannie Mae note went out on loan under the supervision of the Securities Lending group of JPMorgan responsible for all securities lending activity of the managed funds of JPMorgan. This isolated loan was made after an inadvertent internal software error coding error occurred within JPMorgan operations. Although the Fund is permitted to conduct securities activity per its prospectus, the Fund has not been engaged in any securities lending for over one year. It was represented to the BWC CIO by JPMorgan that securities lending activity would not occur in this Fund unless BWC was given sufficient advance notice. Subsequent corrective internal action by JPMorgan has been taken within its internal compliance procedures to give the BWC CIO sufficient satisfaction that such a securities lending error will not be repeated. In addition, the BWC CIO has requested that JPMorgan provide written assurance that the BWC be given sufficient advance notice by JPMorgan before any securities lending activity can occur.

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.

Legislative Updates

The first major segment of the 127th General Assembly wound up with the passage of House Bill 119, Ohio's Biennial Budget.

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 become effective 90-days after the governor's signature.
- 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.
  - Since Governor Strickland's signature, operational implementation of this legislation has begun.

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.
  - At the request of Representative Batchelder, Marsha Ryan plans to appear before the House Insurance Committee following summer recess in order to introduce herself and update the committee on changes that have taken place at BWC as a result of the passage of House Bill 100.

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.
- Current Status.
  - Three hearings in House Commerce and Labor (6/26/07).
- 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;
    - Specifying Moody's, Standard and Poor's, or Fitch rating services for rating certain corporate 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.
  - 5/08/07At 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. The Committee is poised to adopt the -6 version of the bill which expressly eliminates BWC Revised Code Chapters from the scope of the legislation.
- Current Status.
  - Nine hearings in House Civil and Commercial Law Committee (6/20/07).
- 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.

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.

Support continues in providing supporting documentation for the following legal/investigative activity:

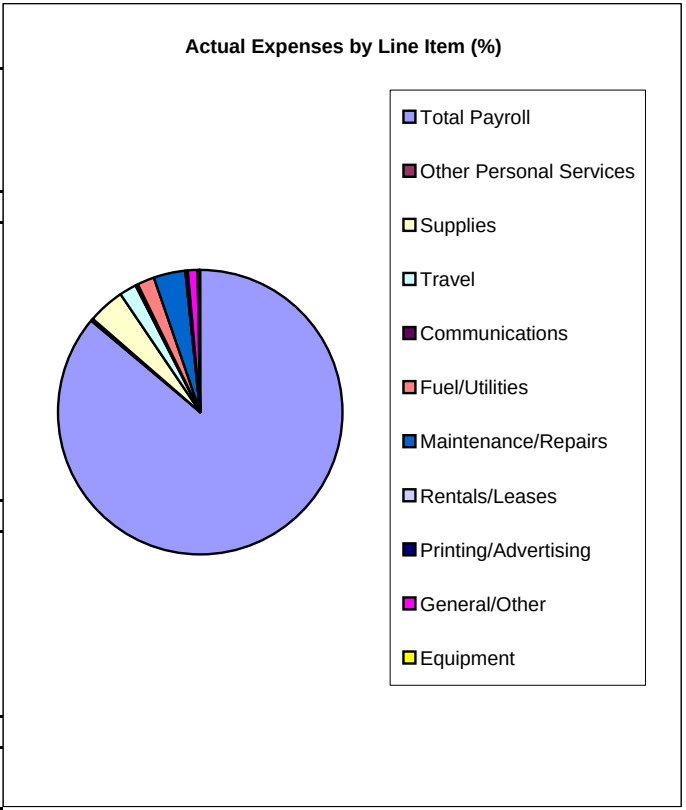
Coin Liquidation
MDL
Private Equity Declaratory Judgement
Inspector General, et al

Investment Division
Budget and Expenses Summary for Fiscal Year 2007
Fiscal 4Q07 (April - June 2007)

	Fiscal 4Q07			Total 2007		
	[2]	[3]	[4]		[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	206,739	208,775	2,036	995,814	995,814	-
Maintenance (200)	31,744	82,188	50,444	589,451	589,451	-
Equipment (300)	955	-	(955)	300,000	300,000	-
Total	**239,438**	**290,963**	**51,525**	**1,885,265**	**1,885,265**	-

Actual vs Budget By Object Class

Object Class	**QTR Actual $**	**QTR Budget $**	**Variance $**
Total Payroll (10)	206,341	205,972	(369)
Purchased Services (13)	(4,151)	-	4,151
Other Personal Services (15)	4,549	2,803	(1,746)
Total Personal Services	**206,739**	**208,775**	**2,036**
Supplies (21 +21I)	9,764	3,109	(6,655)
Travel (23)	4,775	11,565	6,790
Communications (24 + 24I)	569	1,666	1,097
Fuel/Utilities (25)	4,922	4,922	-
Maintenance/Repairs (26)	8,866	11,887	3,021
Rentals/Leases (27)	-	9,860	9,860
Printing/Advertising (28 +28I)	165	23,238	23,073
General/Other (22 +22i +29 + 29I)	2,683	15,941	13,258
Total Maintenance	**31,744**	**82,188**	**50,444**
			-
Office Equipment (31)	-	-	-
Communic. Equipment (34)	955	-	(955)
Data Process Equipment (37)	-	-	-
Other Equipment (30+32+35+36+38+39)	-	-	-
Total Equipment	**955**	**-**	**(955)**
Grand Total	**239,438**	**290,963**	**51,525**

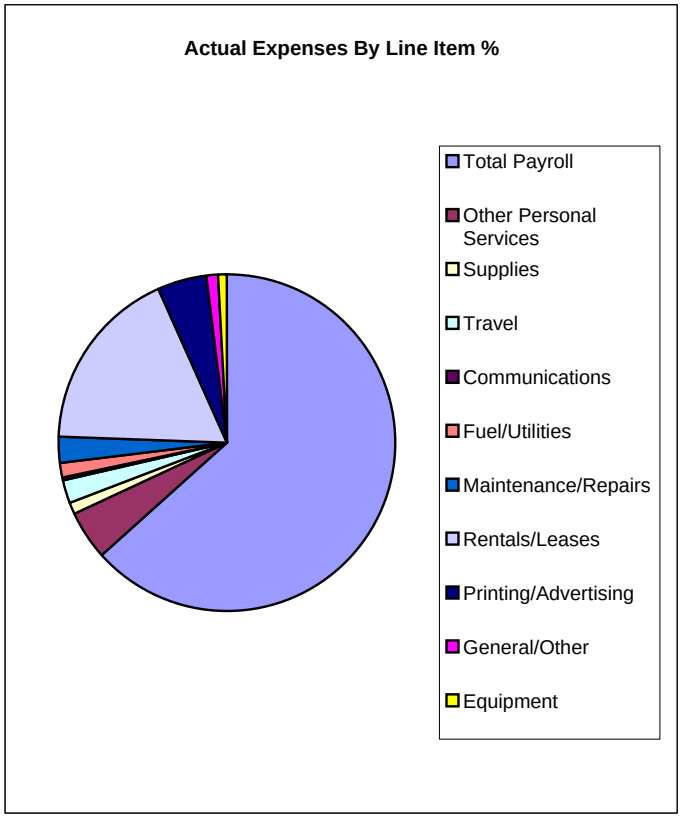


Investment Division
Budget and Expenses Summary for Fiscal Year 2007
As of June YTD 2007

	Year-to-Date			Total 2007		
	[2]	[3]	[4]	[3]	[7]	
Category	**Actual $**	**Budget $**	**Variance $**	**Forecast $**	**Annual Budget $**	**Variance $**
Personal Service (100)	982,170	995,814	13,644	995,814	995,814	-
Maintenance (200)	450,400	589,451	139,051	589,451	589,451	-
Equipment (300)	11,913	300,000	288,087	300,000	300,000	-
Total	**1,444,483**	**1,885,265**	**440,782**	**1,885,265**	**1,885,265**	-

Actual vs Budget
YTD By Object Class

Object Class	**YTD Actual $**	**YTD Budget $**	**YTD Variance $**
Total Payroll (10)	915,204	914,835	(369)
Purchased Services (13)	60,287	69,779	9,492
Other Personal Services (15)	6,679	11,200	4,521
Total Personal Services	**982,170**	**995,814**	**13,644**
Supplies (21 +21I)	18,455	12,424	(6,031)
Travel (23)	29,979	46,260	16,281
Communications (24 + 24I)	4,219	6,670	2,451
Fuel/Utilities (25)	19,270	19,270	-
Maintenance/Repairs (26)	39,095	51,179	12,084
Rentals/Leases (27)	255,836	295,279	39,443
Printing/Advertising (28 +28I)	66,552	92,952	26,400
General/Other (22 +22i +29 + 29I)	16,994	65,417	48,423
Total Maintenance	**450,400**	**589,451**	**139,051**
Office Equipment (31)	-	-	-
Communic. Equipment (34)	955	-	(955)
Data Process Equipment (37)	10,958	-	(10,958)
Other Equipment (30+32+35+36+38+39)	-	300,000	300,000
Total Equipment	**11,913**	**300,000**	**288,087**
Grand Total	**1,444,483**	**1,885,265**	**440,782**



The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: April 26, 2007

PROPOSED MONTHLY INVESTMENT COMMITTEE CALENDAR
(May, 2007)

January

- Administrator's Investment Agenda Goals

February

- Quarterly Reports
- Annual Outside Investment Manager Review

March

- Annual Legal Review
- Annual IT Review
- Annual Proxy Voting Review

April

- Annual Investment Policy Review and Update
- Annual Investment Committee Charter Review

May

- Quarterly Reports

June

- Annual BWC Investment Personnel Review
    - CIO Certification
    - Ethics/Conflict of Interest/Compliance

C. Bruce Dunn, CFA
Chief Investment Officer
May 15, 2007

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C. Marine Industry Fund (MIF)
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The Ohio Bureau of Workers' Compensation
Statement of Investment Policy and Guidelines

I. INVESTMENT OBJECTIVES

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

II. BACKGROUND

A. Purpose

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

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

B. Fiduciary Standard

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

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

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

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: April 26, 2007

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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

OBWC State Insurance Fund Asset-Liability Valuation – Final

WCOC Presentation

July 20, 2006

Mark E. Brubaker, CFA
Managing Director

Julia Bonafede, CFA
Senior Managing Director

Agenda

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II. **Legislative Background and Purpose** **Slide 4**

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2. Roles and Fiduciary Responsibilities
3. What is OBWC?

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2. Wilshire's 2006 10-Year Forward Looking Capital Markets Expectations
3. Efficient Portfolios

V. **Asset-Liability Modeling** **Slide 20**

VI. **Industry Peer Comparisons** **Slide 26**

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Appendix – Wilshire's 2006 Capital Markets Expectations

I. Recommended Asset Mix

Recommendation

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

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

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

II. Legislative Background and Purpose

Legislative Background: OBWC Purpose and WCOC Duties

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

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

Legislative Background: Premiums and Surplus

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

Definitions

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

What is Ohio Bureau of Workers' Compensation?

- **Insurance Company**
  - OBWC's primary role is to pay compensation and medical expenses for injured workers, but…
    - It is not subject to statutory accounting standards and capital requirements
    - It is not subject to regulation by the state insurance department
    - It incurs longer-tailed liabilities than typical workers' compensation insurance company
    - It is run solely for the benefit of Ohio employers and employees – there is no profit motive
- **Other?**
  - 10.4 year duration of claims stream comparable to the benefit stream of pension funds, which typically have a duration of 11-13 years
  - Medical claims and indemnity claims each account for roughly 50% of the discounted loss reserves

III. Asset-Liability Valuation Background

What is Asset Allocation?

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

A Multitude of Risks

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

Example 1 - Risk of an Asset Loss

- It is undesirable to lose money.

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

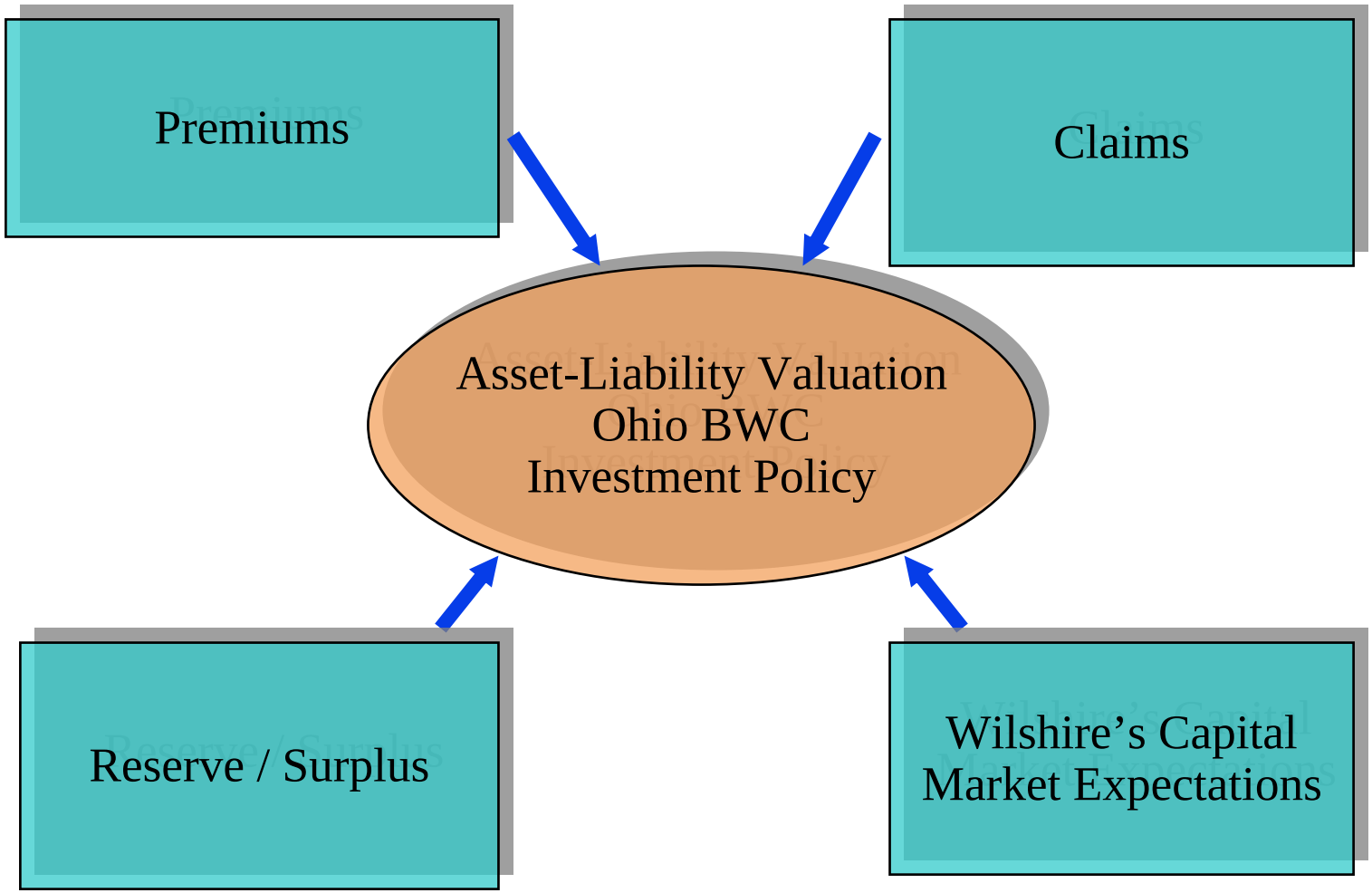
- It is undesirable to have a negative surplus as defined by GASB accounting standards.

Example 3 - Insufficient Asset Risk

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

Asset-Liability Valuation Methodology

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



Current BWC Accounting Status

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

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

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

Net Assets ($ mm)	870.00

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

Source: BWC Financial and Operational Report – March 2006

IV. Capital Markets Expectations and Efficient Frontier

A Long Term Capital Market Perspective

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

Wilshire's 10-Year Capital Market Assumptions

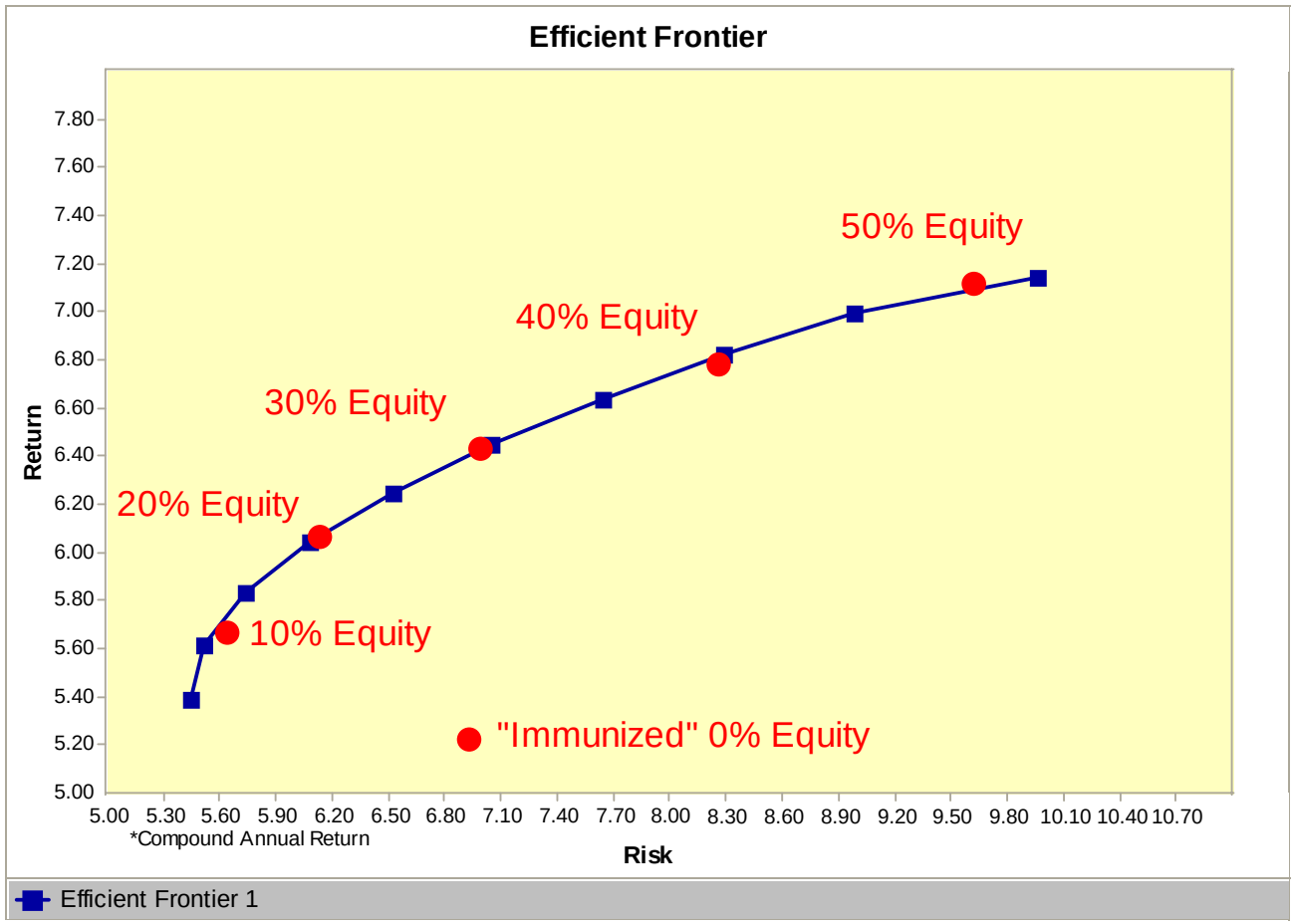
Asset Class	U.S. Equity	Non-U.S. Equity	Fixed Income - Core	Fixed Income - Long Duration/Dedicated	Fixed Income - High Yield	Fixed Income - Inflation Protected	Cash Equivalents
Return	8.25	8.25	5.00	5.25	6.50	4.75	3.00
Risk	17.00	19.00	5.00	7.00	10.00	6.00	1.00
Yield	1.80	2.50	5.00	5.25	6.50	2.50	3.00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

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

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

Efficient Frontier

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



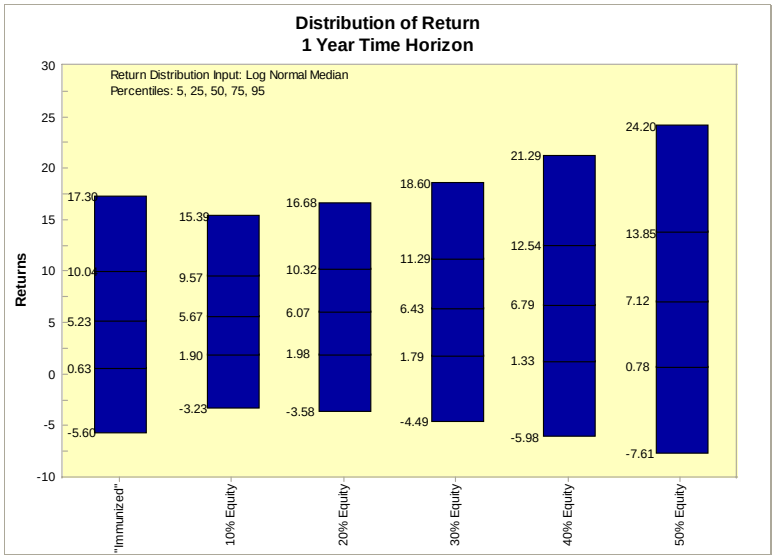
Efficient Portfolios

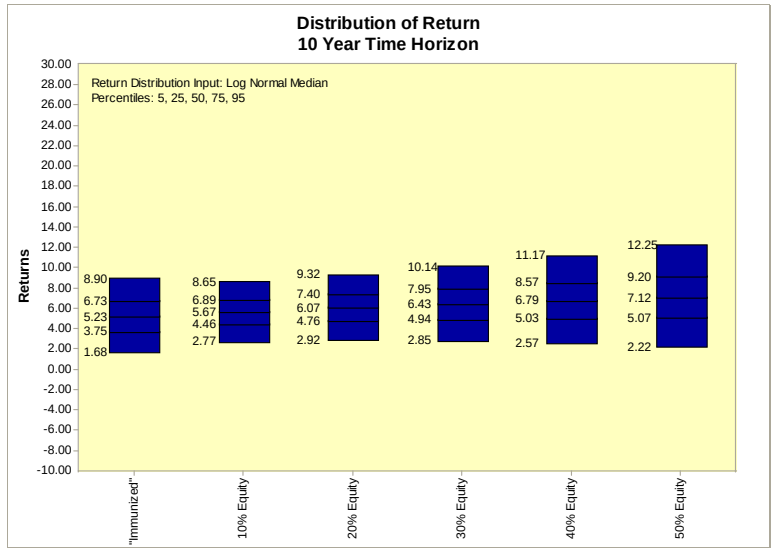
	Portfolio Weights					
	"Immunized"	Total Return				
Asset Class	***0% Equity***	***10% Equity***	***20% Equity***	***30% Equity***	***40% Equity***	***50% Equity***
U.S. Equity	0	8	15	22	30	38
Non-U.S. Equity	0	2	5	8	10	12
Total Equity	***0***	***10***	***20***	***30***	***40***	***50***
Fixed Income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

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

1 and 10-Year Distribution of Expected Returns

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





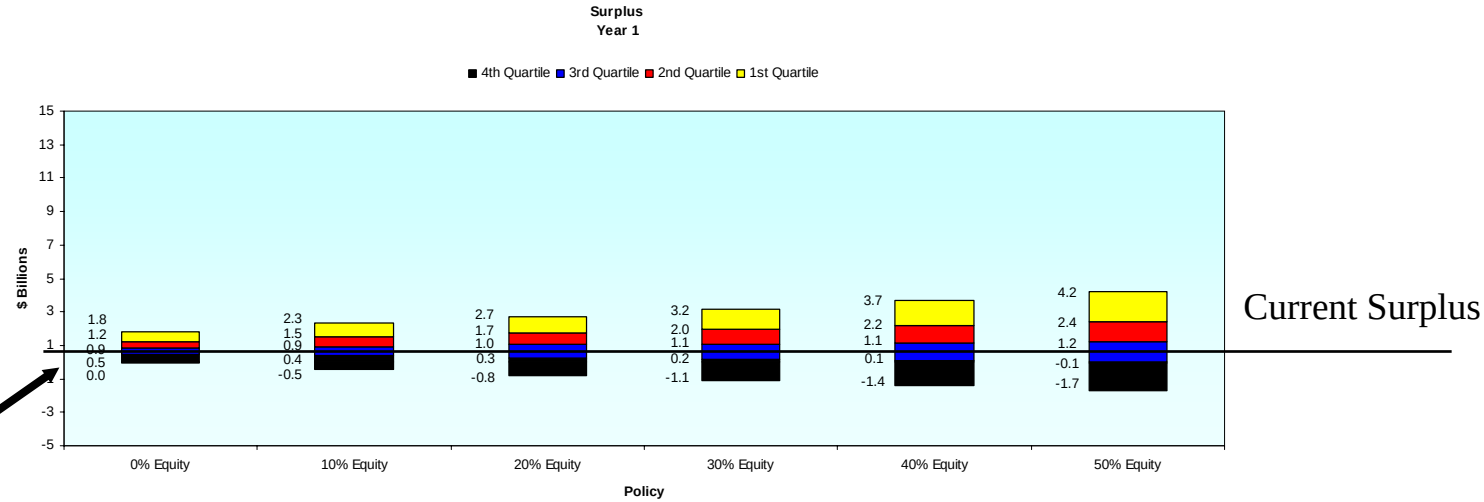
	"Market Enviornment"	0% Equity	10% Equity	20% Equity	30% Equity	40% Equity	50% Equity
1 Year	Top 5%	17.3	15.4	16.7	18.6	21.3	24.2
	Top Quartile	10.0	9.6	10.3	11.3	12.5	13.9
	Median	5.2	5.7	6.1	6.4	6.8	7.1
	Bottom Quartile	0.6	1.9	2.0	1.8	1.3	0.8
	Bottom 5%	-5.6	-3.2	-3.6	-4.5	-6.0	-7.6

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

V. Asset-Liability Modeling

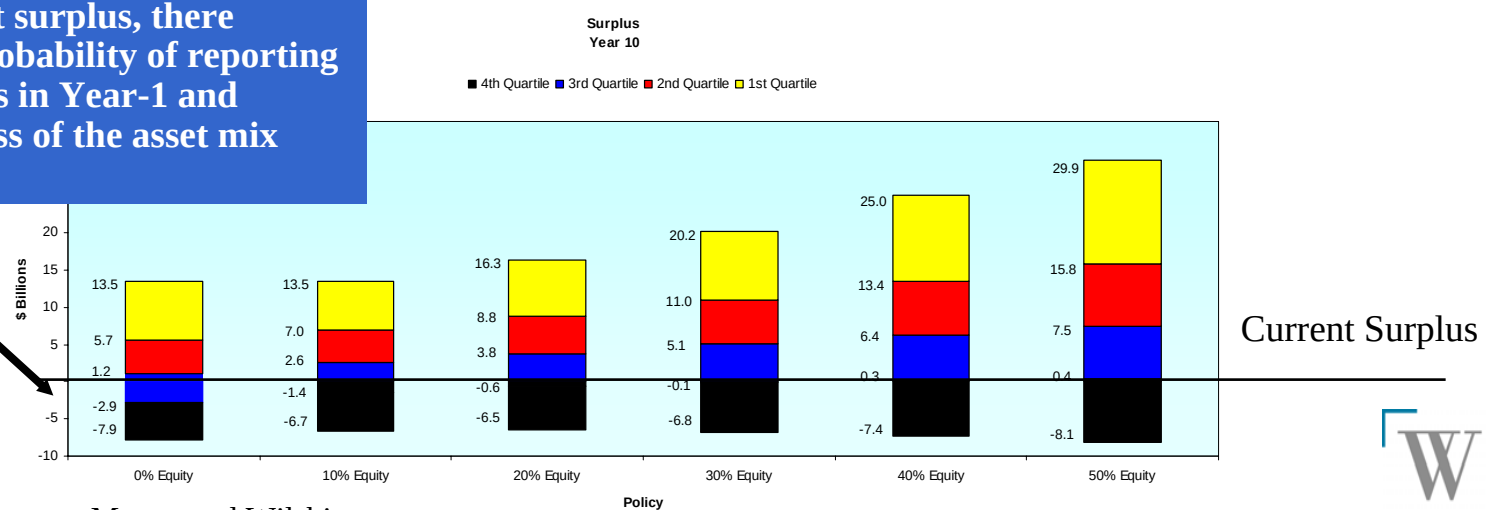
Stochastic Simulation of Surplus: Year 1 and Year 10

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



Current Surplus

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



Current Surplus

Source: Mercer and Wilshire

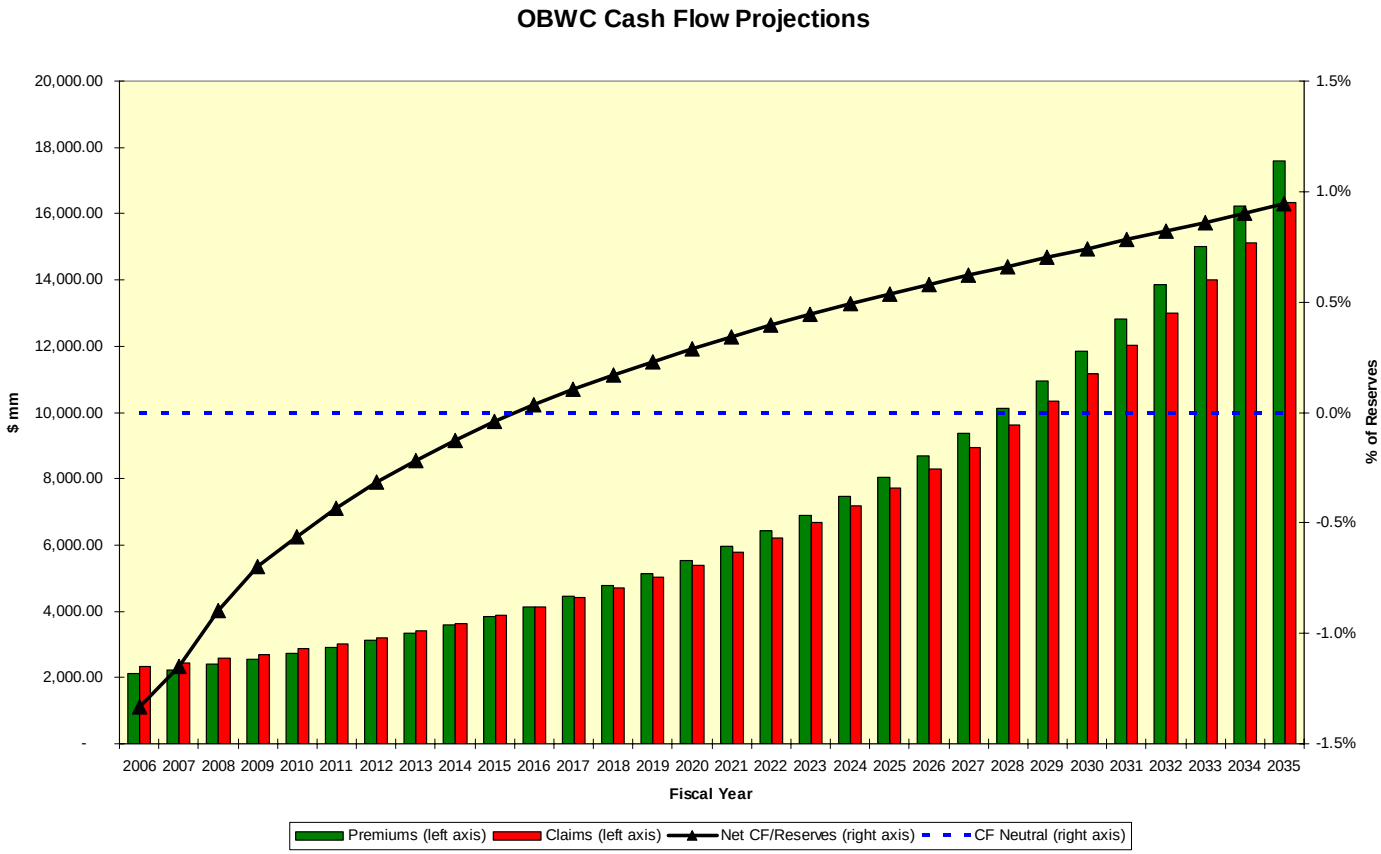
Potential Outcomes: Surplus

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

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

OBWC Cash Flow Projections

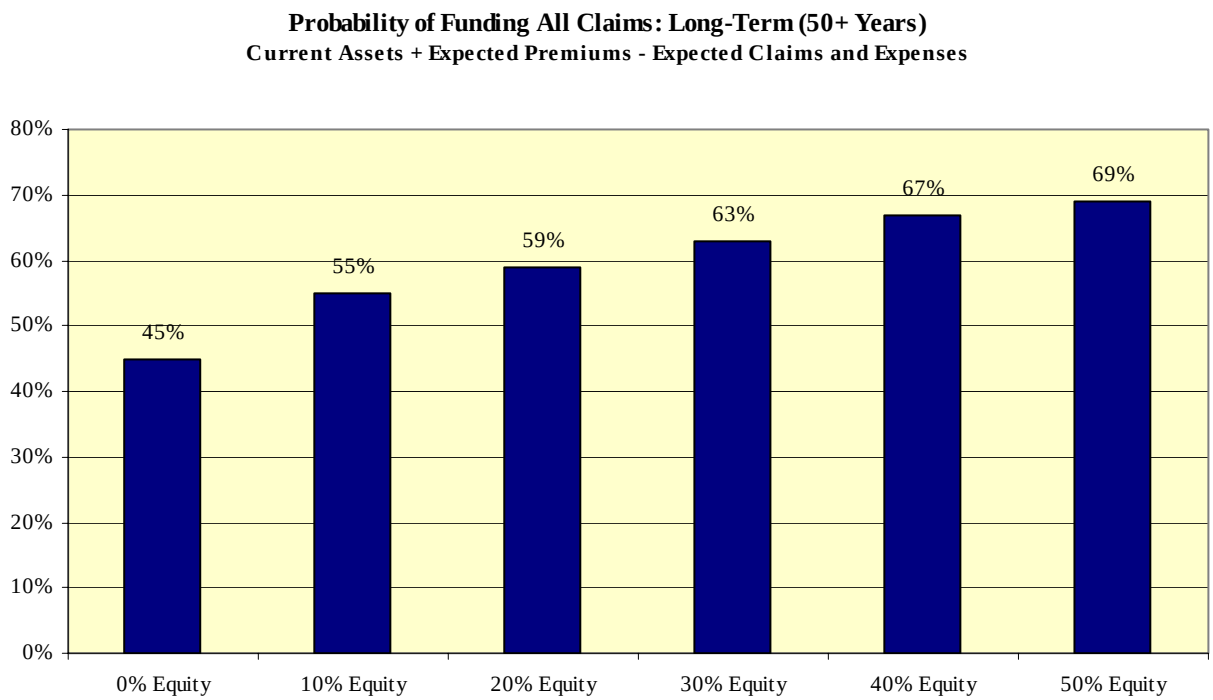
- **Modest negative cash flows (premiums less claims) are expected over the next 10 years, followed by positive cash flows**
- **This illustration excludes expected investment income**



Source: Mercer Oliver Wyman Projections

Probability of Success

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



Observations

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

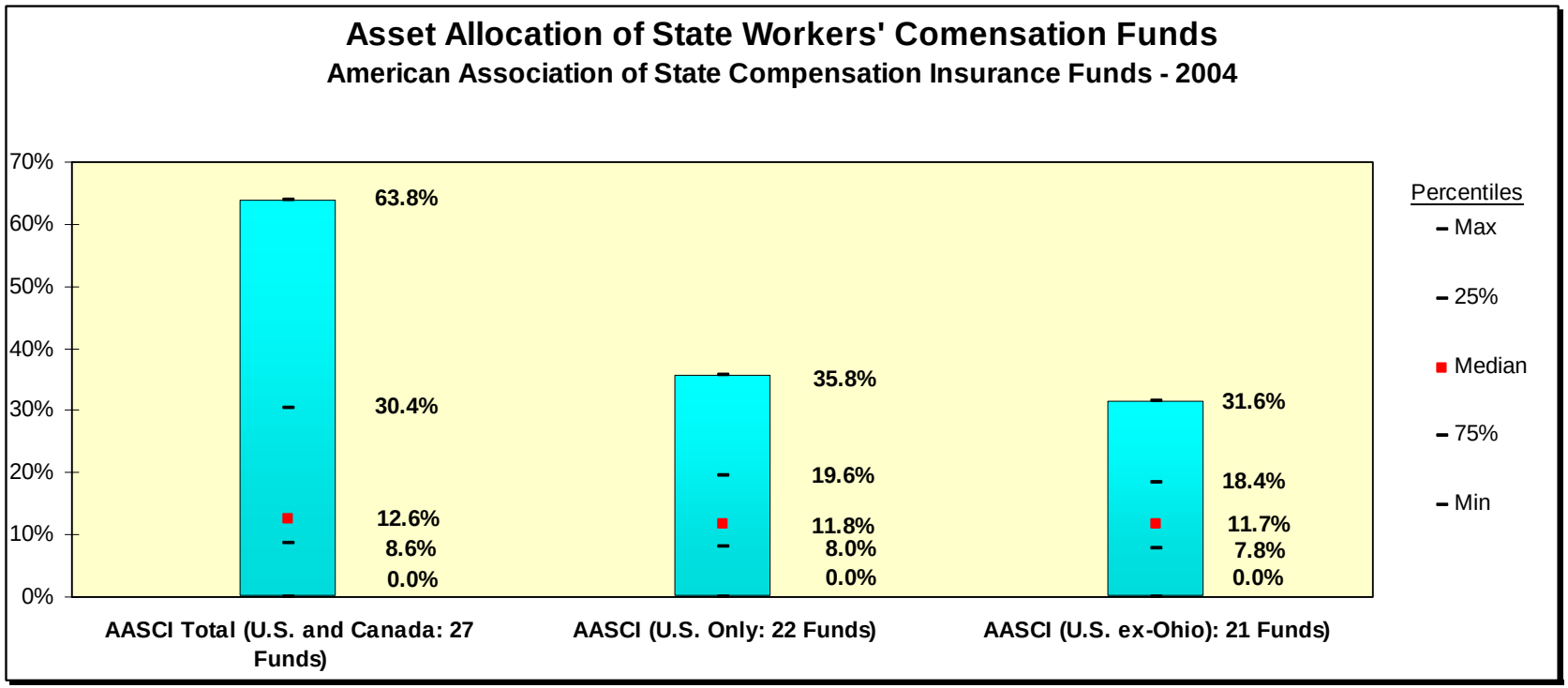
VI. Industry Peer Comparisons

Legislative Background: Industry Standards

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

Industry Comparison

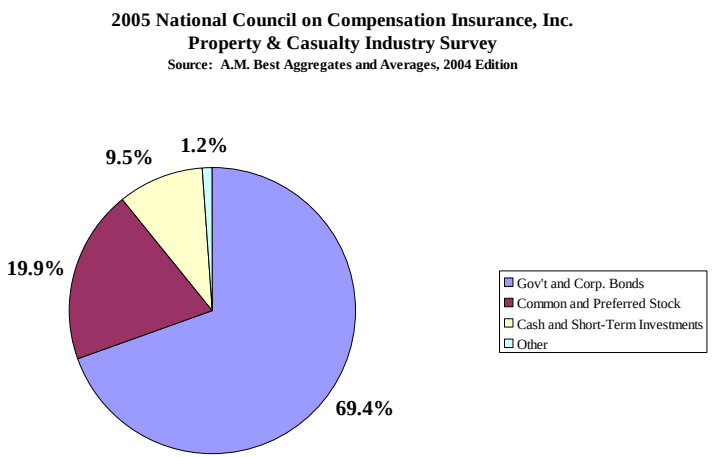
- **The American Association of State Workers' Compensation Funds 2005 Survey (based on year-end 2004 data) provides the range of equity allocations of 27 U.S. and Canadian State and Province-run funds:**



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

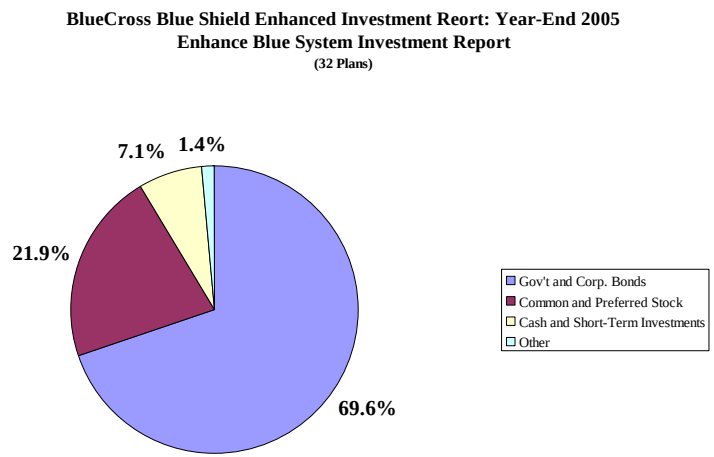
Industry Comparison

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



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

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



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

Peer Comparison: State Monopoly Funds

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

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

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

VII. Proposed Dividend / Adequate Surplus Policy

Ohio Revised Code: Dividends

- **Ohio Revised Code § 4123.32**

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

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

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

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

VIII. Asset Class Structure and Implementation

Investment Structure

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

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

Illustrative Transition Timeline

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

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

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

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

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

Julia K. Bonafede, CFA
Senior Managing Director and Principal

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

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

Mark E. Brubaker, CFA
Managing Director

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

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

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

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BWC Better Workers' Compensation Built with you in mind

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**

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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

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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.
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Appendix XIII: Legal Requirements Summary

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

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

I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

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

III. Administrator's Investment Duties

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

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

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

IV. Chief Investment Officer Duties

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

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

(B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and

regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. Fiduciary Requirements

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

R.C. 4121.126: Except as provided in this chapter, no member of the workers' compensation oversight commission or employee of the bureau of workers' compensation shall have any direct or indirect interest

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix XIV: Campaign Contribution Policy

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

APPENDIX XIV: CAMPAIGN CONTRIBUTION POLICY

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

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

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

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

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

Appendix XV: Investment Committee – Financial and Operational Requirements

Model of infrastructure data to be provided to the IC

To: The Commissioners of the Investment Committee

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

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

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

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

Respectfully submitted,

Michael C. Koetters

Monthly Report to IC - 12 reports annually

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

Quarterly Report to IC – 4 reports annually

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

1st Quarter Reporting - July, August and September

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

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

2nd Quarter Reporting - October, November and December

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

3rd Quarter Reporting - January, February and March

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

4th Quarter Reporting - April, May and June

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

Legislative Updates

The first major segment of the 127th General Assembly wound up with the passage of House Bill 119, Ohio's Biennial Budget.

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 become effective 90-days after the governor's signature.
- 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.
  - Since Governor Strickland's signature, operational implementation of this legislation has begun.

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.
  - At the request of Representative Batchelder, Marsha Ryan plans to appear before the House Insurance Committee following summer recess in order to introduce herself and update the committee on changes that have taken place at BWC as a result of the passage of House Bill 100.

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.
- Current Status.
  - Three hearings in House Commerce and Labor (6/26/07).
- 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;
    - Specifying Moody's, Standard and Poor's, or Fitch rating services for rating certain corporate 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.
  - 5/08/07At 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. The Committee is poised to adopt the -6 version of the bill which expressly eliminates BWC Revised Code Chapters from the scope of the legislation.
- Current Status.
  - Nine hearings in House Civil and Commercial Law Committee (6/20/07).
- 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.

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.

Support continues in providing supporting documentation for the following legal/investigative activity:

Coin Liquidation
MDL
Private Equity Declaratory Judgement
Inspector General, et al

Workers' Compensation Oversight Commission

OVERSIGHT COMMISSION

Agenda

Date: July 26, 2007
Time: 11:00 a.m.
Location: William Green Building, Second Floor, Room 3

Oversight Commission

William E. Sopko, Chairman
President,
STAMCO Industries
representing state-fund employers

William A. Burga
President
Ohio AFL-CIO
representing organized labor

Mary Beth Carroll
Vice President,
FirstEnergy
representing self-insured

Michael C. Koetters
Managing Director
Strategic Asset Alliance
representing the public

Denise M. Farkas, CFA
Chief Investment Officer
Sigma Investments
representing investments

Edwin McCausland, CFA
President,
Investment Perspectives, LLC
representing investments

Charles W. Kranstuber, LPA
President,
The Law Offices of Kranstuber
representing injured workers

Chairman's comments..... William Sopko

Administrator's comments ..... Marsha Ryan

Old Business

Approval of the June 14, 2007 meeting minutes..... William Sopko

New Business

1. CFO financial statement package ..... Tracy Valentino

2. FY08 Financial Statement projections ..... Tracy Valentino

3. Audit Committee *(update)* .....Denise Farkas

4. Investment Committee *(update)* .....Mike Koetters

5. Annual Investment Consultant Asset/Liability:
   Valuation Study – State Insurance Fund, *first consideration, possible vote*..... Mark Brubaker and Mike Patalsky

6. Investment Policy Update recommendation:
   House Bill 694 Campaign Contribution Policy amendment, *first consideration, possible vote*..... Bruce Dunn and James Barnes

Rules

1. Long Term Care Loan Program (4123-17-31 OAC) *first consideration, possible vote* .....Todd Spence and Carol Morrison

2. $15K Medical Only Program (4123-17-59 OAC) *first consideration, possible vote* .....Tom Sico

Adjourn ..... William Sopko

WORKERS' COMPENSATION OVERSIGHT COMMISSION

THURSDAY JUNE 14, 2007, 10:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Bill Sopko, Chairman
Mary Beth Carroll
Charles Kranstuber
William Burga
Denise Farkas
Edwin McCausland

Members Absent: Michael Koetters
Senator Steve Stivers
Senator Eric Kearney
Representative Tom Brinkman
Representative Kenny Yuko

ROLL CALL

Mr. Sopko called the meeting to order at 10:00 a.m. and the roll call was taken.

OPENING REMARKS

Mr. Sopko reported that there were no meetings today of the Investment Committee or the Audit Committee. Mike Patalsky and Marc Friedberg, Wilshire Consulting, however, are present today and have filed investment performance reports with the Oversight Commission.

ADMINISTRATOR'S REMARKS

Marsha Ryan, Administrator, reported that Dave Bush, Chief Ombudsperson, died suddenly on June 13. She extended condolences on behalf of BWC to his wife Joy, Chief of Employer Services.

Ms. Ryan announced that Robert Coury, Esq., had been appointed Chief, Medical Policy and Compliance, effective June 4. He is a former Cuyahoga County Assistant Prosecutor and has backgrounds in accounting, law, and the nursing home industry. Dr. Greg Jewell will report to him.

Ms. Ryan announced that John Pedrick will be appointed as Chief Actuary. He is currently the Chief Actuary of the Ohio Department of Insurance and a fellow of the Academy of Actuaries.

With respect to rating rule for state agencies and universities, Ms. Ryan stated that BWC will be timelier in the future in notifying them of rates. The rules as proposed today include the cost of the Managed Care Organization (MCO) fees in the current contract. Also, the caps on rates were removed because they created artificially low rates.

BWC held its first group rating forum on June 13, with stakeholders providing comments. BWC will now gather additional data.

OLD BUSINESS

MINUTES OF MAY 24, 2007

Mr. Burga moved that the minutes of May 24, 2007, be approved. Ms. Carroll seconded and the minutes were approved by a unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: ADMINISTRATIVE COST FUND CONTRIBUTIONS, OHIO ADMINISTRATIVE CODE RULE 4123-17-36

Tracy Valentino, Chief Finance Officer, recommended amendment of Ohio Administrative Code Rule 4123-17-36 regarding new rates for the Administrative Cost Fund (ACF). The rates will be effective on July 1, 2007.

The Ohio Revised Code requires that BWC conduct a cost study each year to apportion expense between each of the four employer groups. The rates for BWC are the same as in 2006, although there has been a shift of responsibility within BWC. The rates for the Industrial Commission are reduced slightly for three groups and increased for self-insuring employers. The amount derived from assessments does not equal appropriations of the new budget because of other sources of income. Also, the Ohio Revised Code requires that the ACF have a maximum cash balance, which is adjusted annually.

The rate recommendation by the Actuarial Department was higher, but adjustments within the agency enable BWC to live within its budget. The Industrial Commission takes the same approach. With respect to amendment of Administrative Code Rule 4123-17-36, the only

changes are the dates for BWC assessments and the dates and rates for the Industrial Commission.

Mr. Sopko asked how BWC can keep the same amount in its budget if employees in the bargaining units will get raises on July 1. Ms. Valentino replied that BWC will pay for the raises out of savings in other parts of its budget.

Mr. Sopko stated that the Oversight Commission had been asked to approve ACF increases in past years to fund computer projects for the Industrial Commission. John Georgiton, Industrial Commission Fiscal Officer, reported that the increase had been needed for completion of the imaging project. The project has been completed. Currently, funds are needed for ongoing maintenance.

Mr. Burga moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-18 relating to the Administrative Cost Fund Rule 4123-17-36 of the Administrative Code. The resolution consents to the Administrator adopting the Administrative Cost Fund Assessment Rule as presented today. Mr. Kranstuber seconded and the motion was approved by unanimous roll call vote of four ayes and no nays.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: PUBLIC EMPLOYER STATE AGENCY – MCO ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-35

Liz Bravender, Actuarial Director, recommended amendment of Ohio Administrative Code Rule 4123-17-35 for public employer state agencies. The Oversight Commission approved a rate change at its April meeting. The rule is being brought to add MCO fee rates effective July 1, 2007. The rule will be revised in December to reflect the rate in the next MCO contract.

Ms. Carroll moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-19 relating to rule 4123-71-35 of the Administrative Code. The resolution consents to the Administrator adopting the state agency rates with respect to MCO fees as presented today. Mr. Burga seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: PRIVATE EMPLOYER RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-05 & 4123-17-06

Ms. Bravender recommended amendment of Ohio Administrative Code Rules 4123-17-05 and 4123-17-06 for private employer premium rates. The Oversight Commission approved an overall rate at its April meeting and BWC has calculated a base rate for each manual. The overall rate has not changed over 2006. However, some classifications have increased and some have decreased. BWC policy restricts both increases or decreases by 30%. Rates for 2007 are still 26.5% les than those of 1994. The average collectible rate is $1.85. BWC expects to collect $1.7 billion in premiums. The average collectible rate including premiums and assessments is $2.24.

BWC requests amendment of Rule 4123-17-05, which has the credibility rates. This is the last of a three-year agreement with service companies to gradually move the maximum creditability to 90%. Rule 4123-17-06 implements the base rates and deletes the provision on non-group discounts. After adoption, BWC will notify all employers.

Ms. Farkas asked if a manual has actually been raised or lowered by 30%. Ms. Bravender replied that it has happened in the past, but that she would have to research to identify individual manuals. Ms. Farkas requested that BWC review the issue because the 30% cushion seems large.

Mr. Kranstuber moved that the Workers' Compensation Oversight Commission approve WCOC resolution 07-20 relating to rules on private employer rates beginning July 1, 2007. The resolution consents to the Administrator adopting Rules 4123-17-05 and 4123-17-06 of the Administrative Code as presented today. Ms. Carroll seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: COAL WORKERS' PNEUMOCONIOSIS FUND RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-20

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-20 regarding the Coal Workers' Pneumoconiosis Fund. BWC has conducted a premium moratorium since 1999 for existing subscribers because the fund has $175 million in excess of assets. There are thirty-six subscribers, with seven paying premiums. Oliver Wyman has recommended no change in the premium rate and there will be no change in the rule.

Mr. Sopko moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-21 relating to the Coal Workers' Pneumoconiosis Fund premium rates effective July 1, 2007. The resolution consents to the Administrator retaining the rates for the Coal Workers' Pneumoconiosis Fund as currently established by Ohio Administrative Code Rule 4123-17-20. Mr. Burga seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: MARINE INDUSTRY FUND RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-19

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-19 for employer coverage under the Longshore and Harbor Workers Act. Ninety-four employers participate in the Marine Industry Fund. Oliver Wyman has recommended a decrease in the rates and the Administrator has determined it will be 10%.

Mr. Burga moved that the Workers' Compensation Oversight Commission approve WCOC resolution 07-22 relating to the Marine Industry premium rates effective July 1, 2007. The resolution consents to the Administrator adopting the rates for the Marine Industry Fund as established in Ohio Administrative Code Rule 4123-17-19. Mr. Kranstuber seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: DISABLED WORKERS' RELIEF FUND (DWRF 1 AND DWRF 2), OHIO ADMINISTRATIVE CODE RULE 4123-17-29

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-29 for the Disabled Workers Relief Funds (DWRF). DWRF 1 is terminally funded and collects enough to pay current year's benefits. Permanent total claims have dropped in past years for public employers and has dropped also this year for private employers. Therefore, DWRF 1 will be reduced from 0.1 % per hundred dollars of payroll to 0.09% per hundred. There is no change recommended for the DWRF 2 fund, which remains at 0.1% per hundred dollars.

Mr. Kranstuber moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-23 relating to the Disabled Workers' Relief Fund premium rates effective July 1, 2007. The resolution consents to the Administrator reducing the rates for the Disabled Workers' Relief Fund as provided by Ohio Administrative Code Rule 4123-17-29. Ms. Carroll seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: SELF-INSURED ASSESSMENT RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-32 for self-insuring employer assessment rates. There are seven different rates, of which four are mandatory. The Surplus Fund pays for claims of bankrupt employers with dates of injury prior to 1987 and for certain medical expenses. BWC recommends a 2.5% decrease. The Self-Insuring Employers Guaranty Fund covers bankrupt claims after 1986 and all DWRF payments of bankrupt employers. It will be reduced to 0.0527, a decrease of $0.08 per hundred dollars. The ACF was described earlier. There is no change to the Safety and Hygiene rates.

Of the optional assessments, there are no employers participating in handicap reimbursement, so no change is recommended. Six employers still participate in rehabilitation services, so there is no change. A new assessment for the Surplus Fund under Senate Bill 7 reimburses employers for overpayments to injured workers. Of all self-insuring employers, 468 have opted not to participate and 673 will participate.

Ms. Carroll stated she had spoken to other stakeholders and the Self-Insurers Association and they have no objections to the changes.

Ms. Carroll moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-24 relating to rules on self-insured employer assessments. The resolution consents to the Administrator adopting Rule 4123-17-32 of the Administrative Code as presented today. Mr. Burga seconded and the motion was approved by unanimous roll call vote.

RULES/RESOLUTIONS FOR FIRST CONSIDERATION: HOSPITAL OUTPATIENT REIMBURSEMENT RATES, OHIO ADMINISTRATIVE CODE RULE 4123-6-37.2

Dr. Greg Jewell recommended adoption of Ohio Administrative Code Rule 4123-6-37.2 for hospital outpatient reimbursement rates. The rule parallels Rule 4123-6-37.1 on in-patient treatment. The rule provides that unless an MCO has negotiated a different rate, reimbursement for outpatient services with a 2004 total outpatient cost-to-charge ratio as reported to Ohio Medicaid shall be equal to the hospital's allowable billed charges multiplied by the by the hospitals' reported cost-to-charge ratio plus sixteen percentage points, not to exceed sixty percent of the hospital's allowed billed charges. BWC has used this formula since October 2005 and now asks the Oversight Commission for approval. In a recent meeting with the Ohio Hospital Association (OHA), the OHA has not opposed the rule, but has recommended use of a more recent schedule.

Ms. Carroll asked if BWC should not want to use a more recent schedule. Dr. Jewell replied that there is little change in schedules. However, to be consistent, BWC will be changing the schedule in the future.

Mr. Burga asked why BWC met with the OHA. Dr. Jewell reported that BWC meets with the OHA on a monthly basis to discuss several issues.

Mr. Burga moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 07-25 relating to rules on the reimbursement of out-patient hospital bills. The resolution consents to the Administrator adopting Rule 4123-6-32.2 of the Administrative Code as presented here today. Ms. Carroll seconded and the motion was approved by unanimous roll call vote.

NEW BUSINESS

AON ACTUARIAL PRESENTATION

Mr. McCausland introduced actuaries from Aon Risk Consultants, who provided a summary of their report to the Oversight Commission. Mr. McCausland thanked Ms. Bravender, the Actuarial Department Staff, and actuaries of Oliver Wyman. The task of Aon was to take a fresh look at several financial issues under the mandate of HB 7 that members of the Oversight Commission act as fiduciaries of the State Insurance Fund.

Joe Kilroy, Aon Actuary, described the three tasks: provide an analysis of the BWC underwriting profit for the past five years and identify underlying drivers; evaluate the current BWC surplus adequacy and premium ratemaking methodologies; and evaluate the BWC's current practices relative to industry standards in the areas of ratemaking and reserving.

Mark Brissman, Aon Actuary reported on BWC profitability. Aon found no real surprises. Aon reviewed historical financial and actuarial documents; conducted personal interview of BWC staff; tested the financial performance by restating results based on the

underlying drivers; reviewed individual fund performance after cost allocation of the ACF; and compared key performance metrics to those of two current and two former state monopolistic insurance funds.

The BWC insurance results are stable and predictable. Financial aspects were more variable because of shifting levels of carried loss reserves, premium discounts and refunds, and fluctuations in investment returns. The biggest of these was the restatement of the balance sheet in 2005. Group rating is inequitable, but has a neutral overall financial effect. The expense of administering the group rating plan has a slightly negative, but immaterial effect.

Aon compared Ohio to peer funds in North Dakota, Washington, Nevada, and West Virginia. From an insurance operations viewpoint, as measured by the "underwriting ratio", Ohio's recent results are in line with its peer group. Underwriting ratios were much higher in 2002 (at 350%) because of discounts and refunds; by 2006, they were close to the other funds. Of the five monopolistic funds, Ohio has the second lowest expense ratio of 4%, which is very good for other state or private insurance entities.

Ms. Farkas asked if the low expense ratio is the result of economies of scale. Mr. Brissman replied that economies of scale are one factor and also BWC does not pay agent commissions. Mr. McCausland asked if the expense ratio included out-sourcing of services, such as managed care. Mr. Brissman replied that was a possibility.

Mr. Brissman further stated that Ohio had no premium leverage because 100% of its investments in 2006 were in passive managers. Because the ACF supports other funds, it must be allocated. Between the Public Workers' Relief Fund, DWRF, and the Marine Industry Funds, there is a positive return on assets; the State Insurance Fund has a negative return. BWC resembles a social insurance mechanism rather than a private insurer due to different goals and risk tolerances.

Ohio has limited contingency funding. The three principal risks going forward are that limited contingency funding could adversely affect the credit rating of the State of Ohio; a sudden adverse change in the environment creates a need for large market-disruptive price increases; and privatization would require an infusion of capital from the state.

In summary, there were no red flags in analyzing historical financial results; BWC operates as a social insurance mechanism with low net assets, large returned premiums, and premium collection in arrears; Ohio has understandable differences with private insurers' financials; variability of the State Insurance Fund financial statements is driven by financial/accounting changes, not insurance operations; and BWC has extremely low cost of operation.

Mr. Burga asked if BWC stopped issuing discounts and refunds, could it reduce premium rates. Mr. Brissman replied reduction of rates was possible, but stopping discounts would stabilize rates.

Ms. Farkas stated that the Investment Committee (IPS) has reserved a place in the Investment Policy Statement for a dividend policy. The Aon study was needed to determine if a policy was appropriate.

Matt South, Aon Actuary, reported on BWC surplus adequacy. The State Insurance Fund surplus is the reserve of last resort. As of June 30, 2006, it was negative because of an accounting change. If the State Insurance Fund had surplus of $5 billion, then the accounting change could have been absorbed. The cause of the negative surplus was the return of $10 billion of surplus to employers as dividends over the past decade.

Mr. Sopko asked if there has been a legislative change regarding the accounting change. Ms. Valentino replied that the General Assembly gave BWC authority in HB 100 to move assets to match the DWRF liabilities. Mr. Sopko added that this would result in a $1.8 billion positive change.

Mr. South also reported BWC could get higher rates of return by investing in riskier assets. BWC could also raise premiums and discourage employers from locating in Ohio. It is also inequitable for new groups of employers. Moreover, BWC could increase surplus by reducing benefits, but this is would also be unpopular. Thus, a dividend policy which targets positive surplus is the best means of building surplus.

There are three sources of target surplus methods. The best short-term recommended benchmark is from NAIC Risk Based Capital. Because BWC is a state agency subject to government accounting standards—distinct from private insurers following statutory accounting standards—a modified NAIC approach suggests at least an additional $2.8 billion in surplus. In the long-term, BWC should adopt a probabilistic model. Among other reasons for adoption, is a trend within the insurance industry. A NAIC surplus requirement is not a fixed target. A mixed asset investment plan has a minimal effect on RBC.

Mr. McCausland asked if Aon made a distinction between public funds and private funds in this recommendation. Mr. South replied that it had not.

Ms. Farkas stated that the IPS allocates 20% of assets to equities. She asked if 40% equity would change the growth. Mr. South replied if BWC moved more of its assets into equities, then the State Insurance Fund would need a much larger surplus to react to contingencies. The surplus would have to increase geometrically.

Mr. Kilroy reported on BWC ratemaking methodologies. When Oliver Wyman generates rate indications, it provides three scenarios: baseline, optimistic, and conservative. Because losses are fixed, group rating and other programs change employer rates.

Mr. Kilroy observed that ratemaking methods employed by Oliver Wyman and BWC are reasonable and appropriate. Aon found the following transparency issues: The rate recommendation reports are derived from the reserve studies, so more linkage needs to be made. Because the rate recommendations increased for 2006 and the recommendation decreased for 2007, there should be reconciliation between the recommendations.

Aon compared BWC with other states, especially California and Massachusetts, and found that Oliver Wyman uses a ten-year look-back for data, when most states use one or two years. The Ohio group rating program results in much larger off-balance rates than the industry, leading to high base rates.

Aon did not conduct an independent analysis of group rating, but relied on prior studies by Oliver Wyman and Pinnacle. Group rated employers consistently produce loss ratios much higher than non-group rated employers; current group rating program results in rates that are not actuarially sound; and non-group rated employers are subsidizing group rated employers. From an actuarial perspective, the group rating program should not continue in its current form.

Mr. Sopko noted that BWC has made changes in the credibility table to adjust group rating. Mr. Kilroy replied that these steps were reviewed, but these changes will not lead to equitability.

Mr. Kilroy further reported that Aon reviewed reserving methodologies. For the three largest employer groups, separate analyses are performed for each benefit types. BWC uses two general approaches: persistency method and weeks of benefits method. The analyses rely mainly on paid loss data because incurred development history under the MIRA system is not yet sufficient.

Aon finds that the reserving methods employed by Oliver Wyman are reasonable and appropriate. Aon identified several issues with the reserve analyses: constant persistency rate selections for certain development ages, whereas data would seem to support individual selections; certain factors used in the analyses cannot be derived from the report; and BWC should look to consider methods that rely on incurred development in the future.

Aon suggests use of an alternative method, the ICRFS-Plus Actuarial Software. In applying ICRFS to the three employer groups of the State Insurance Fund, Aon found that ICRFS point estimate reserves higher than Oliver Wyman for private employers; reserves lower than Oliver Wyman for the two public employer groups; for the three employer segments combined, the ICRFS point estimate was slightly lower than Oliver Wyman; the ICRFS analysis confirms that the individual benefit types should continue to be analyzed separately as they exhibit different trend structures; there is significant positive correlation among the reserve distributions; and the latest Oliver Wyman reserve estimate for all segments combined is at the high end of the reserve distribution.

Mr. McCausland asked what the industry acceptance of the ICRFS software is. Mr. Kilroy replied than Aon used the software for ten years, but changed because of expense and lack of internal support. However, it is widely used in the industry, including State Auto Insurance. In the present age, actuaries need several tools.

Ms. Ryan stated that she was pleased to hear there were no red flags in the Aon report. She was also pleased to hear that the Oversight Commission had undertaken an independent

review that is cogent and helpful. The comparison of methodologies will be useful in review of rates mandated by HB 100.

Mr. Sopko commented that if Aon recommends a surplus of $2.8 billion, then BWC is still $1 billion short for adequate surplus at this time. In past years, BWC looked only to the size of the surplus before determining a dividend. If BWC could build an even larger surplus, then its return on investments would enable significant lowering of workers' compensation rates and help create jobs in Ohio.

ADJOURNMENT

Mr. Burga moved to adjourn and Mr. Sopko adjourned the meeting.

Prepared by: Larry Rhodebeck, BWC Attorney
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June 20, 2007

Financial**Report**

July '07

Ohio Bureau of Workers' Compensation

Printed within BWC

Financial **Report**

July '07

Combined net assets have increased from a $127 million deficit at June 30, 2006 to a $361 million combined surplus at June 30, 2007.

Net investment income contributed $912 million to the growth of net assets. This growth is partially offset by an operating loss of $424 million.

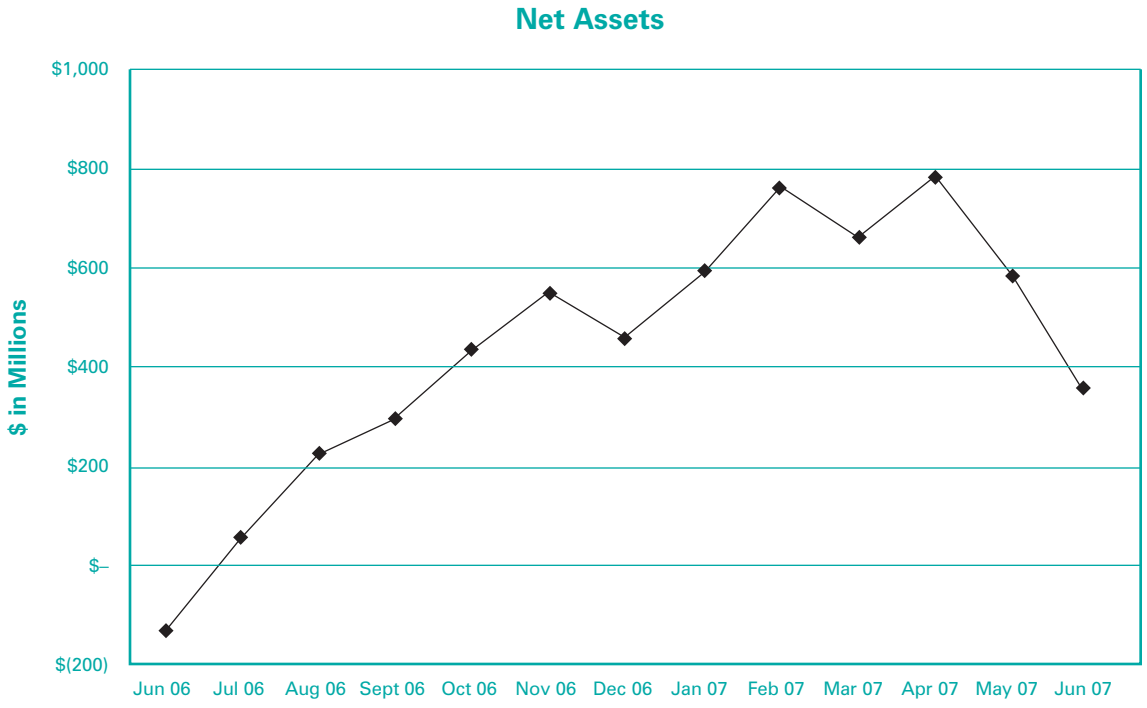
Fiscal year 2007 results are being positively impacted by growth in the estimated collectible premium for private employers resulting from the 3.9 percent increase in private employer rates for the July 1, 2006 policy period.

Medical payments in fiscal year 2007 are $54 million lower than in the same period of fiscal year 2006. Temporary total payments have declined by $14 million, while lump sum settlement payments have increased by $84 million in fiscal year 2007 compared to last fiscal year.

The net investment income ratio is being impacted by higher interest earnings resulting from the transition of the investment portfolio to a bond index fund during the third quarter of fiscal year 2006. During the third quarter of FY 2007, the bond index fund units owned by the State Insurance Fund were liquidated and transitioned into holdings that reflect the asset allocations in the Investment Policy Statement.

The unaudited results for fiscal year 2007 have generated a trade combined ratio of 82.5 percent compared to a trade combined ratio of 62.5 percent for the fiscal year 2006 audited results. The fiscal year 2006 results were significantly impacted by improvements in medical payment trends due to reductions in the cost of pharmacy benefits and lower payments to hospitals. These trends contributed to a decline of approximately $1 billion in benefit expenses in fiscal year 2006.

A $204 million decline in the fair value of BWC's investment portfolio during June 2007 contributed to a reduction in net assets from the $587 million balance reported at May 31, 2007.



Statement of **Operations**

Fiscal year to date June 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	$ 2,348	$ 2,493	$ (145)	$ 2,110	$ 238
Total Operating Expenses	2,772	3,057	285	2,011	761
Net Operating Gain (Loss)	(424)	(564)	140	99	(523)
Net Investment Income	912	428	484	764	148
Increase (Decrease) in Net Assets	488	(136)	624	863	(375)
Net Assets Beginning of Period	(127)	(127)	–	(990)	863
Net Assets End of Period	$ 361	$ (263)	$ 624	$ (127)	$ 488

Statement of **Operations**

Fiscal year to date June 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$ 2,389	$ 2,540	$ (151)	$ 2,165	$ 224
Provision for Uncollectibles	(58)	(59)	1	(70)	12
Other Income	17	12	5	15	2
Total Operating Revenue	2,348	2,493	(145)	2,110	238
Operating Expenses					
Benefits & Compensation Adj. Expense	2,673	2,957	284	1,934	739
Other Expenses	99	100	1	77	22
Total Operating Expenses	2,772	3,057	285	2,011	761
Net Operating Gain (Loss)	(424)	(564)	140	99	(523)
Investment Income					
Interest and dividend income	812	870	(58)	744	68
Realized & unrealized capital gains (losses)	109	(419)	528	105	4
Investment manager and operational fees	(9)	(23)	14	(85)	(76)
Gain (loss) on disposal of fixed assets	–	–	–	–	–
Net Investment Income	912	428	484	764	148
Increase (Decrease) in Net Assets	488	(136)	624	863	(375)
Net Assets Beginning of Period	(127)	(127)	–	(990)	863
Net Assets End of Period	$ 361	$ (263)	$ 624	$ (127)	$ 488

Statement of **Operations Combining** Schedule

Fiscal year to date June 30, 2007

(in thousands)	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues								
Premium & Assessment Income	$ 1,876,302	$ 134,469	$ 887	$ 371	$ 739	$ 859	$ 375,565	$ 2,389,192
Provision for Uncollectibles	(52,564)	(2,198)	–	–	–	113	(3,780)	(58,429)
Other Income	10,653	–	–	–	–	–	7,050	17,703
Total Operating Revenue	1,834,391	132,271	887	371	739	972	378,835	2,348,466
Operating Expenses								
Benefits & Compensation Adj. Expense	2,062,121	216,866	1,610	307	227	372	391,387	2,672,890
Other Expenses	23,539	87	554	–	38	–	75,106	99,324
Total Operating Expenses	2,085,660	216,953	2,164	307	265	372	466,493	2,772,214
Net Operating Income (loss) before operating transfers out	(251,269)	(84,682)	(1,277)	64	474	600	(87,658)	(423,748)
Operating transfers out	(3,471)	–	–	–	–	–	3,471	–
Net operating income (loss)	(254,740)	(84,682)	(1,277)	64	474	600	(84,187)	(423,748)
Investment Income								
Investment income	734,051	58,097	12,253	1,137	819	2,136	3,268	811,761
Realized & unrealized capital gains (losses)	100,185	7,375	1,383	126	90	–	–	109,159
Investment manager and operational fees	(9,076)	(333)	(70)	(6)	(5)	–	–	(9,490)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	(224)	(224)
Total non-operating revenues, net	825,160	65,139	13,566	1,257	904	2,136	3,044	911,206
Increase (decrease) in Net Assets (deficit)	570,420	(19,543)	12,289	1,321	1,378	2,736	(81,143)	487,458
Net Assets (deficit) Beginning of Period	1,278,844	(960,065)	160,138	16,146	12,158	3,472	(637,315)	(126,622)
Net Assets (deficit) End of Period	$ 1,849,264	$ (979,608)	$ 172,427	$ 17,467	$ 13,536	$ 6,208	$ (718,458)	$ 360,836

Statement of **Net Assets**

As of June 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Total Cash and Investments	$ 16,739	$ 16,709	$ 30	$ 16,223	$ 516
Accrued Premiums	3,181	2,762	419	3,056	125
Other Accounts Receivable	171	474	(303)	151	20
Investment Receivables	371	2	369	2	369
Other Assets	121	118	3	127	(6)
Total Assets	$ 20,583	$ 20,065	$ 518	$ 19,559	$ 1,024
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	$ 19,282	$ 19,560	$ 278	$ 18,928	$ 354
Accounts Payable	46	70	24	53	(7)
Investment Payable	253	–	(253)	–	253
Other Liabilities	641	698	57	705	(64)
Total Liabilities	20,222	20,328	106	19,686	536
Net Assets	$ 361	$ (263)	$ 624	$ (127)	$ 488

Statement of **Cash Flows**

Fiscal year to date June 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	$ 2,365	$ 2,552	$ (187)	$ 2,315	$ 50
Cash receipts – other	31	11	20	27	4
Cash disbursements for claims	(2,122)	(2,070)	(52)	(2,105)	(17)
Cash disbursements for other	(529)	(414)	(115)	(415)	(114)
Net cash provided (used) by operating activities	(255)	79	(334)	(178)	(77)
Net cash flows from capital and related financing activities	(25)	(20)	(5)	(23)	(2)
Net cash provided (used) by investing activities	406	16	390	(887)	1,293
Net increase (decrease) in cash and cash equivalents	126	75	51	(1,088)	1,214
Cash and cash equivalents, beginning of period	194	194	–	1,282	(1,088)
Cash and cash equivalents, end of period	$ 320	$ 269	$ 51	$ 194	$ 126

Statement of **Investment Income**

Fiscal year to date June 30, 2007

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Interest Income					
Bond Interest	$ 730,163,905	$ 811,650,000	$ (81,486,095)	$ 542,838,441	$ 187,325,464
Dividend Income (Dom & Int'l)	26,433,826	18,450,000	7,983,826	60,176,635	(33,742,809)
Money Market/ Commercial Paper Income	24,421,783	25,825,000	(1,403,217)	57,972,489	(33,550,706)
Misc. Income (Corp actions, etc.)	11,129,451	3,600,000	7,529,451	21,021,324	(9,891,873)
Private Equity	15,881,357	4,210,000	11,671,357	6,091,945	9,789,412
Net Securities Lending Income	3,730,216	6,000,000	(2,269,784)	5,582,951	(1,852,735)
Total Interest Income	811,760,538	869,735,000	(57,974,462)	693,683,785	118,076,753
Realized & Unrealized Capital Gains and (Losses)					
Net realized gain (loss) - Stocks (Dom & Int'l)	1,235,949	21,000,000	(19,764,051)	1,456,244,212	(1,455,008,263)
Net realized gain (loss) - Bonds	(45,931,874)	(222,000,000)	176,068,126	(228,353,474)	182,421,600
Net gain (loss) - PE	48,159,135	(7,290,000)	55,449,135	770,588	47,388,547
Unrealized gain (loss) - Stocks (Dom & Int'l)	115,845,923	70,877,332	44,968,591	(689,602,866)	805,448,789
Unrealized gain (loss) - Bonds	(10,149,796)	(281,561,000)	271,411,204	(434,112,716)	423,962,920
Change in Portfolio Value	109,159,337	(418,973,668)	528,133,005	104,945,744	4,213,593
Investment Expenses-Manager & Operational Fees	(9,489,706)	(22,944,578)	13,454,872	(34,818,278)	(25,328,572)
Total Investment Income	$ 911,430,169	$ 427,816,754	$ 483,613,415	$ 763,811,251	$ 147,618,918

Projected Statement of **Operations**

July 1, 2006 – June 30, 2007

(in millions)	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Quarter March 31, 2007	Actual April 30, 2007
Total Operating Revenues	$ 596	$ 649	$ 603	$ 147
Total Operating Expenses	773	706	539	253
Net Operating Gain (Loss)	(177)	(57)	64	(106)
Net Investment Income	602	221	135	231
Increase (Decrease) In Net Assets	425	164	199	125
Net Assets Beginning of Period	(127)	298	462	661
Net Assets End of Period	$ 298	$ 462	$ 661	$ 786

(in millions)	Actual May 31, 2007	Actual June 30, 2007	Actual Quarter June 30, 2007	Actual Fiscal Year June 30, 2007
Total Operating Revenues	$ 204	$ 149	$ 500	$ 2,348
Total Operating Expenses	265	236	754	2,772
Net Operating Gain (Loss)	(61)	(87)	(254)	(424)
Net Investment Income	(138)	(139)	(46)	912
Increase (Decrease) In Net Assets	(199)	(226)	(300)	488
Net Assets Beginning of Period	786	587	661	(127)
Net Assets End of Period	$ 587	$ 361	$ 361	$ 361

Projected Statement of **Cash Flows**

July 1, 2006 – June 30, 2007

(in millions)	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Quarter March 31, 2007	Actual April 30, 2007
Cash flows from operating activities:				
Cash receipts from premiums	$ 821	$ 209	$ 907	$ 216
Cash receipts – other	9	6	7	6
Cash disbursements for claims	(509)	(526)	(536)	(174)
Cash disbursements for other	(139)	(143)	(138)	(38)
Net cash provided (used) by operating activities	182	(454)	240	10
Net cash flows from capital and related financing activities	(5)	–	(18)	–
Net cash provided (used) by investing activities	9	278	290	(122)
Net increase (decrease) in cash and cash equivalents	186	(176)	512	(112)
Cash and cash equivalents, beginning of period	194	380	204	716
Cash and cash equivalents, end of period	$ 380	$ 204	$ 716	$ 604

(in millions)	Actual May 31, 2007	Actual June 30, 2007	Actual Quarter June 30, 2007	Actual Fiscal Year June 30, 2007
Cash flows from operating activities:				
Cash receipts from premiums	$ 188	$ 24	$ 428	$ 2,365
Cash receipts – other	2	1	9	31
Cash disbursements for claims	(208)	(169)	(551)	(2,122)
Cash disbursements for other	(35)	(36)	(109)	(529)
Net cash provided (used) by operating activities	(53)	(180)	(223)	(255)
Net cash flows from capital and related financing activities	(1)	(1)	(2)	(25)
Net cash provided (used) by investing activities	(51)	2	(171)	406
Net increase (decrease) in cash and cash equivalents	(105)	(179)	(396)	126
Cash and cash equivalents, beginning of period	604	499	716	194
Cash and cash equivalents, end of period	$ 499	$ 320	$ 320	$ 320

Projected Statement of **Investment Income**

July 1, 2006 – June 30, 2007

	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Quarter March 31, 2007	Actual April 30, 2007
Interest Income				
Bond Interest	$ 210,425,631	$ 211,533,891	$ 138,970,027	$ 54,932,235
Dividend Income (Dom & Int'l)	99,113	1,487,524	11,596,467	2,851,457
Money Market/ Commercial Paper Income	3,413,767	3,498,766	10,440,785	3,101,518
Misc. Income (Corp actions, etc.)	1,403,869	848,764	541,956	8,102,408
Private Equity	4,984,705	6,128,224	2,179,222	622,409
Net Securities Lending Income	1,541,324	1,111,616	1,076,999	277
Total Interest Income	221,868,409	224,608,785	164,805,456	69,610,304
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	881,489	(133,284)	(1,627,788)	18,329
Net realized gain (loss) - Bonds	(75,423)	5,224,840	2,067,462	(11,047,092)
Net gain (loss) - PE	2,807,629	13,753,836	15,229,339	2,795,251
Unrealized gain (loss) - Stocks (Dom & Int'l)	(1,911,863)	(1,381,741)	(17,781,816)	106,574,183
Unrealized gain (loss) - Bonds	382,119,778	(18,178,216)	(27,130,729)	63,920,308
Change in Portfolio Value	383,821,610	(714,565)	(29,243,532)	162,260,979
Investment Expenses-Manager & Operational Fees	(3,411,150)	(2,471,937)	(1,445,691)	(692,181)
Total Investment Income	$ 602,278,869	$ 221,422,283	$ 134,116,233	$ 231,179,102

	Actual May 31, 2007	Actual June 30, 2007	Actual Quarter June 30, 2007	Actual Fiscal Year June 30, 2007
Interest Income				
Bond Interest	$ 57,449,535	$ 56,852,586	$ 169,234,356	$ 730,163,905
Dividend Income (Dom & Int'l)	5,900,911	4,498,354	13,250,722	26,433,826
Money Market/ Commercial Paper Income	2,227,213	1,739,734	7,068,465	24,421,783
Misc. Income (Corp actions, etc.)	153,267	79,187	8,334,862	11,129,451
Private Equity	(124,711)	2,091,508	2,589,206	15,881,357
Net Securities Lending Income	–	–	277	3,730,216
Total Interest Income	65,606,215	65,261,369	200,477,888	811,760,538
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	742,747	1,354,456	2,115,532	1,235,949
Net realized gain (loss) - Bonds	(4,907,709)	(37,193,952)	(53,148,753)	(45,931,874)
Net gain (loss) - PE	2,261,517	11,311,563	16,368,331	48,159,135
Unrealized gain (loss) - Stocks (Dom & Int'l)	83,794,854	(53,447,694)	136,921,343	115,845,923
Unrealized gain (loss) - Bonds	(284,473,414)	(126,407,523)	(346,960,629)	(10,149,796)
Change in Portfolio Value	(202,582,005)	(204,383,150)	(244,704,176)	109,159,337
Investment Expenses-Manager & Operational Fees	(449,478)	(1,019,269)	(2,160,928)	(9,489,706)
Total Investment Income	$ (137,425,268)	$ (140,141,050)	$ (46,387,216)	$ 911,430,169

Insurance **Ratios**

July 1, 2006 – June 30, 2007

	Actual FY07	Projected FY07	Actual FY06
Loss Ratio	87.68%	91.77%	74.33%
LAE Ratio - MCO	7.58%	9.77%	8.57%
LAE Ratio - BWC	16.61%	14.87%	6.41%
Net Loss Ratio	111.87%	116.41%	89.31%
Expense Ratio	4.16%	3.96%	3.95%
Policyholder Dividend Ratio	0.00%	0.00%	-0.38%
Combined Ratio	116.03%	120.37%	92.88%
Net Investment Income Ratio	33.58%	33.34%	30.43%
Operating Ratio (Trade Ratio)	82.45%	87.03%	62.45%

	Actual FY07	Projected FY07	Actual FY06
Premiums to surplus	6.62	-9.66	-17.05
Assets to liabilities	1.02	0.99	0.99
Total reserves to surplus	53.44	-74.37	-149.03
Loss reserves to surplus	48.43	-67.62	-135.83
Investments to loss reserves	0.96	0.94	0.94
Cash + bonds to loss reserves	0.78	0.72	0.91
Cash % of total investments	2%	2%	1%
Bond % of total investments	80%	75%	96%
Equities % of total investments	16%	20%	0%
Equities as % of surplus	729%	-1271%	-9%

Fiscal Year End Insurance **Ratios**

Fiscal years 2002 – 2007

	FY 07	FY06	FY05	FY04	FY03	FY02
Loss Ratio	87.7%	74.3%	106.7%	96.7%	128.9%	105.6%
LAE Ratio - MCO	7.6%	8.6%	7.1%	9.1%	8.8%	9.4%
LAE Ratio - BWC	16.6%	6.4%	14.7%	8.3%	12.9%	9.2%
Net Loss Ratio	111.9%	89.3%	128.5%	114.2%	150.6%	124.1%
Expense Ratio	4.2%	4.0%	4.0%	5.1%	4.1%	4.0%
Policyholder Dividend Ratio	0.0%	-0.4%	10.3%	18.6%	28.7%	62.4%
Combined Ratio	116.1%	92.9%	142.8%	137.9%	183.4%	190.5%
Net Investment Income Ratio	33.6%	30.4%	22.1%	20.5%	23.9%	27.0%
Operating Ratio (Trade Ratio)	82.5%	62.5%	120.7%	117.3%	159.5%	163.5%

Note: FY 06 ratios have been significantly impacted by improvements in medical payment trends due to reductions in the cost of pharmacy benefits and lower payments to hospitals. These trends contributed to an approximately $1 billion reduction in loss expenses in FY 06.

	FY 07	FY06	FY05	FY04	FY03	FY02
Premiums to surplus	6.62	-17.10	-2.29	2.59	4.04	1.25
Assets to liabilities	1.02	0.99	0.96	1.04	1.03	1.09
Total reserves to surplus	53.44	-149.48	-19.50	18.90	28.93	7.88
Loss reserves to surplus	48.43	-136.24	-17.68	16.98	25.90	7.02
Investments to loss reserves	0.96	0.94	0.96	1.12	1.13	1.30
Cash + bonds to loss reserves	0.78	0.91	0.54	0.65	0.75	0.85
Cash % of total investments	2%	1%	8%	10%	13%	14%
Bond % of total investments	80%	96%	49%	48%	54%	52%
Equities % of total investments	16%	0%	38%	36%	30%	32%
Equities as % of surplus	729%	-9%	-641%	680%	869%	292%

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;

Projected Fiscal Year 2008

Financial**Statements**

Ohio Bureau of Workers' Compensation

Printed within BWC

Background information

In completing the projected financial statements, the following resources were utilized:

- Projected payroll, rates, and collectible premium provided by BWC's Actuarial Department in conjunction with rate indication information prepared by BWC's external actuarial consultant.
- The most recent fiscal year payment trends for MCO, medical, and indemnity expenses.
- Projected administrative disbursements prepared by BWC's Budget Department and the Industrial Commission.
- Projected reserve development patterns using actual payments through March 31, 2007 as prepared by BWC's external actuarial consultant.
- Investment information prepared by BWC's Investment Division.

BWC anticipates updating these projections upon the completion of the Fiscal Year 2007 actuarial and financial statement audits.

BWC anticipates updates to the investment related projections based upon any revisions to the existing investment policy statement.

Projected Statement of **Operations**

Fiscal year ending June 30, 2008

(in millions)	Fiscal Year Projected June 30, 2008	Fiscal Year Preliminary June 30, 2007	Increase (Decrease)	Fiscal Year Audited June 30, 2006	Increase (Decrease)
Total Operating Revenues	$ 2,315	$ 2,348	$ (33)	$ 2,110	$ 205
Total Operating Expenses	2,898	2,772	126	2,011	887
Net Operating Gain (Loss)	(583)	(424)	(159)	99	(682)
Net Investment Income	589	912	(323)	764	(175)
Increase (Decrease) in Net Assets	6	488	(482)	863	(857)
Net Assets Beginning of Period	361	(127)	488	(990)	1,351
Net Assets End of Period	$ 367	$ 361	$ 6	$ (127)	$ 494

Projected Statement of **Operations**

Fiscal year ending June 30, 2008

(in millions)	Fiscal Year Projected June 30, 2008	Fiscal Year Preliminary June 30, 2007	Increase (Decrease)	Fiscal Year Audited June 30, 2006	Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$ 2,380	$ 2,389	$ (9)	$ 2,165	$ 215
Provision for Uncollectibles	(78)	(58)	(20)	(70)	(8)
Other Income	13	17	(4)	15	(2)
Total Operating Revenue	2,315	2,348	(33)	2,110	205
Operating Expenses					
Benefits & Compensation Adj. Expense	2,803	2,673	130	1,934	869
Other Expenses	95	99	(4)	77	18
Total Operating Expenses	2,898	2,772	126	2,011	887
Net Operating Gain (Loss)	(583)	(424)	(159)	99	(682)
Investment Income					
Interest and dividend income	819	812	7	744	75
Realized & unrealized capital gains (losses)	(217)	109	(326)	105	(322)
Investment manager and operational fees	(13)	(9)	(4)	(85)	72
Gain (loss) on disposal of fixed assets	–	–	–	–	–
Net Investment Income	589	912	(323)	764	(175)
Increase (Decrease) in Net Assets	6	488	(482)	863	(857)
Net Assets Beginning of Period	361	(127)	488	(990)	1.351
Net Assets End of Period	$ 367	$ 361	$ 6	$ (127)	$ 494

Projected Statement of **Net Assets**

Fiscal year ending June 30, 2008

(in millions)	Fiscal Year Projected June 30, 2008	Fiscal Year Preliminary June 30, 2007	Increase (Decrease)	Fiscal Year Audited June 30, 2006	Increase (Decrease)
Assets					
Total Cash and Investments	$ 17,194	$ 16,739	$ 455	$ 16,223	$ 971
Accrued Premiums	2,960	3,181	(221)	3,056	(96)
Other Accounts Receivable	236	171	65	151	85
Investment Receivables	183	371	(188)	2	181
Other Assets	110	121	(11)	127	(17)
Total Assets	$ 20,683	$ 20,583	$ 100	$ 19,559	$ 1,124
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	$ 19,637	$ 19,282	$ 355	$ 18,928	$ 709
Accounts Payable	52	46	6	53	(1)
Investment Payable	–	253	(253)	–	–
Other Liabilities	627	641	(14)	705	(78)
Total Liabilities	20,316	20,222	94	19,686	630
Net Assets	$ 367	$ 361	$ 6	$ (127)	$ 494

Projected Statement of **Cash Flows**

Fiscal year ending June 30, 2008

(in millions)	Fiscal Year Projected June 30, 2008	Fiscal Year Preliminary June 30, 2007	Increase (Decrease)	Fiscal Year Audited June 30, 2006	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	$ 2,577	$ 2,365	$ 212	$ 2,315	$ 262
Cash receipts – other	20	31	(11)	27	(7)
Cash disbursements for claims	(2,241)	(2,122)	(119)	(2,105)	(136)
Cash disbursements for other	(401)	(529)	128	(415)	14
Net cash provided (used) by operating activities	(45)	(255)	(210)	(178)	133
Net cash flows from capital and related financing activities	(20)	(25)	5	(23)	3
Net cash provided (used) by investing activities	(65)	406	(471)	(887)	822
Net increase (decrease) in cash and cash equivalents	(130)	126	(256)	(1,088)	958
Cash and cash equivalents, beginning of period	320	194	126	1,282	(962)
Cash and cash equivalents, end of period	$ 190	$ 320	$ (130)	$ 194	$ (4)

Projected Insurance **Ratios**

	Fiscal Year Projected June 30, 2008	Fiscal Year Preliminary June 30, 2007	Fiscal Year Audited June 30, 2006
Loss Ratio	89.7%	87.7%	74.3%
LAE Ratio - MCO	10.8%	7.6%	8.6%
LAE Ratio - BWC	17.4%	16.6%	6.4%
Net Loss Ratio	117.9%	111.9%	89.3%
Expense Ratio	4.0%	4.2%	4.0%
Policyholder Dividend Ratio	0.0%	0.0%	-0.4%
Combined Ratio	121.9%	116.1%	92.9%
Net Investment Income Ratio	33.9%	33.6%	30.4%
Operating Ratio (Trade Ratio)	88.0%	82.5%	62.5%

Dollars&Sense

A comprehensive update on BWC finances as of June 30, 2007

Top news

FY 2007 concludes successfully

As fiscal year 2007 comes to a close, the Ohio Bureau of Workers' Compensation (BWC) has established a solid foundation to continue building a system that is fair for its customers.

Some of the improvements include:

- a decline in overall medical costs of nearly six percent, including reductions in hospital, pharmacy and physician costs;
- a decrease in temporary total costs of more than four percent;
- a marginal decrease in other indemnity payment types, including death, percent permanent partial, and living maintenance benefits;
- an increase of less than one percent for permanent total disability benefits;
- an increase of nearly 33 percent in the number of settlements consummated;
- an overall return on investment of 6.8 percent for the State Insurance Fund (SIF) through March 31, 2007; and,
- a significant reduction in management costs for BWC's investment portfolio.

All of these trends played a critical role in enabling BWC to keep average base rates the same for private sector employers in the upcoming fiscal year.

Through June 30, BWC maintains combined net assets in excess of $361 million for its seven funds, which is a gain of nearly one-half billion dollars relative to the overall deficit at the beginning of the fiscal year.

Total assets
As of June 30, 2007

$20.6 billion

Total liabilities
As of June 30, 2007*

$20.2 billion*

Net assets
As of June 30, 2007

$361 million

*Total liabilities are unavailable and based on information-to-date

Trade combined ratio

As of June 30, 2007

82.5%

The trade combined ratio is an indicator of the potential profitability of BWC's business. The trade combined ratio includes the impact of BWC's operating and investment revenues, and all related expenses.

Currently, BWC incurs expenses of approximately $.83 for every $1 it earns or collects.

Stabilizing **Financials**

Net assets

For the year, BWC finished with combined net assets of $361 million after posting an overall operating loss of $424 million. However, the SIF, which is the primary fund for employers, maintains net assets of approximately $1.85 billion.

Fiscal year fund balances (in millions)

Fund	Balance
State Insurance Fund	$1,849
Disabled Workers Relief Fund	($979)
Coal Workers Pneumoconiosis Fund	$172
Public Work Relief Employees	$17
Marine Industry Fund	$14
Self-Insuring Employers Guaranty	$6
Administrative Cost Fund	($718)

Source: BWC financial statements
Data are approximate

Improving **Investments**

Investments

For fiscal year 2007, BWC has generated approximately $912 million in investment income. This represents an increase of approximately $148 million relative to the previous fiscal year.

Overall, the SIF composite had a return of 5.3 percent for the past twelve months ending March 31, 2007, which equals the policy index. However, the overall return increased to 6.8 percent for July 1, 2005 through March 31, 2007, which is significantly higher than the policy index return of 2.4 percent. More than 78 percent of the portfolio is in fixed-income securities, with 17 percent in equities and 3 percent in private equity and alternative investments.

Additionally, BWC reported in May an annualized internal rate of return of 5.6 percent for its private equity portfolio for the year ending December 31, 2006. The agency is continuing its strategy to dispose of this asset class.

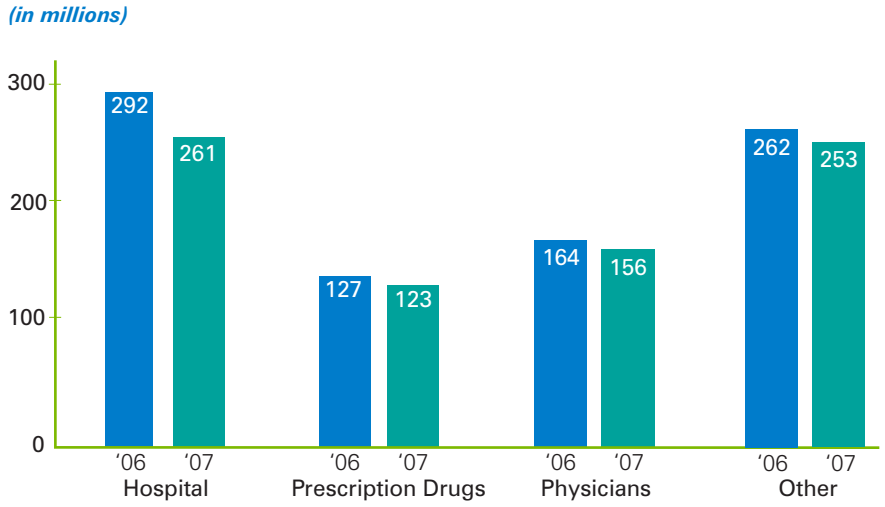
Controlling **Costs**

Medical costs

For the year, BWC reduced medical costs by approximately $52 million. Hospital reductions had the greatest impact, though those improvements were augmented by decreases in virtually all other types of provider costs.

These savings are greater when factoring in the impacts of medical inflation. Had BWC's medical costs increased at a rate consistent with medical inflation, total payouts would have approached $879 million, or $84 million more than what's actually been paid.

Medical Payment Trends



Source: BWC Data Warehouse
Data are approximate

Of BWC's medical payments, approximately 76 percent are for workers who were injured prior to July 1, 2006. Additionally, approximately 28 percent of these expenses were for claims that were initially allowed prior to 2000; this represents a higher percentage of expenditures than medical claims costs incurred during the current fiscal year (24 percent).

Indemnity costs

Overall, BWC's indemnity costs increased six percent compared to the prior fiscal year. The biggest driver in 2007 was settlement costs, which increased 47 percent to approximately $245 million. The total number of settlements also increased nearly 33 percent to 24,418. These activities should generate significant long-term savings by mitigating future payouts on claims.

Also, temporary total disability benefits declined by nearly four percent, likely as a result of more effective claims management. Additionally, benefit types such as death, permanent partial, and living maintenance declined slightly while permanent total disability benefits increased marginally.

Statement of **Operations**

Fiscal year to date June 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	$ 2,348	$ 2,493	$ (145)	$ 2,110	$ 238
Total Operating Expenses	2,772	3,057	285	2,011	761
Net Operating Gain (Loss)	(424)	(564)	140	99	(523)
Net Investment Income	912	428	484	764	148
Increase (Decrease) in Net Assets	488	(136)	624	863	(375)
Net Assets Beginning of Period	(127)	(127)	–	(990)	863
Net Assets End of Period	$ 361	$ (263)	$ 624	$ (127)	$ 488

This table reflects BWC's financial performance, including the amount of money we're earning (revenues), the amount of costs we are incurring (expenses), and our surplus position (net assets).

Actual – The amounts of revenue earned and expenses incurred for the given period
Projected – The estimated amount expected for the given period
Variance – The difference between the actual and projected amounts
Prior Year Actual – The amount of revenues earned and the expenses incurred for the given period
Increase (Decrease) – The difference between current year actual and prior year actual

Calendar of events

Workers Comp University

Sept. 6 — Chillicothe
Sept. 11 — Akron
Sept. 13 — Cleveland
Sept. 18 — Columbus
Sept. 20 — Cincinnati
Sept. 26 — Toledo
Oct. 3 — Dayton

Printed within BWC

Executive Summary
Long Term Care Loan Program: Rule 4123-17-31

Background Safety History

BWC conducted a pilot SafetyGRANT$ program for Ohio employers to assist with the reduction or elimination of workplace injuries and illnesses through the purchase of intervention equipment. The results of the grant program determined that the use of floor-based patient lifting devices in nursing homes resulted in a significant improvement of safety, including fewer injuries, lost days, restricted days, and employee turnover. The results also indicated that the use of electric beds can greatly reduce upper extremity cumulative trauma disorder as well as trunk flexion leading to back injuries.

Legislative History

The BWC Budget bill, Am. H.B. 67, effective June 21, 2005, enacted R.C. 4121.48 to create the Long-Term Care Loan Fund Program using funds transferred from the Safety and Hygiene Fund; to require the Administrator to use the Fund to make loans without interest to nursing home employers to pay for specified equipment and training for employers to implement a policy of no manual lifting of residents by employees; and to permit the Administrator to adopt rules to administer the Program.

The BWC Budget bill, Am. Sub. H.B. 100, effective September 10, 2007, extends the Long-Term Care Loan Fund Program to include hospitals as defined in R.C. 3701.01.

Rule History

The WCOC first approved the filing of the Long-Term Care Loan Fund rule 4123-17-31 on September 22, 2005. BWC adopted the rule, effective December 19, 2005. In that version of the rule, BWC was to contract with a vendor to assist BWC administer the no interest loans. BWC was not able to obtain a vendor through RFPs for the program as written in the rule.

On April 26, 2007, the WCOC approved a revised version of the Long-Term Care Loan Fund rule 4123-17-31, which provides that the employer will obtain the loan and BWC will pay the interest. BWC filed this rule, held a public hearing on July 2, 2007, and a JCARR hearing on July 9, 2007. There was no adverse testimony. BWC will final file this rule in a few days to be effective September 1, 2007.

The rule before you today incorporates the requirements of H.B. 100 that hospitals be included in the program. BWC will propose file this rule after final filing the current version of the rule.

Rule Summary

The only amendments to Rule 4123-17-31 are to include hospitals in all places in the rule references nursing homes.

4123-17-31 Long-term care loan fund program.

(A) Pursuant to section 4121.48 of the Revised Code, the administrator of workers' compensation shall use the long-term care loan fund program to reimburse nursing home or hospital employers for the interest they pay on loans received for the purpose of purchasing, improving, installing, or erecting sit-to-stand floor lifts, ceiling lifts, other lifts, and fast electric beds, and to pay for the education and training of personnel to implement a facility policy of no manual lifting of residents or patients by employees. The employer shall submit invoices and such other documentation as required by the administrator to verify that the loan was used solely for these purposes.

(B) The administrator of workers' compensation shall reimburse the nursing home or hospital for the interest paid on loans made to the nursing home or hospital by a lending institution.

(1) The bureau will not reimburse an employer for the interest paid on a loan made to the employer for the purpose of renting equipment.

(2) The maximum amount of reimbursement a nursing home or hospital may receive may not exceed the amount of interest that would be owed on a loan of one hundred thousand dollars at the rate of prime plus 2.5 per cent.

(3) The interest rate must be fixed for the loan period.

(4) The loan period cannot exceed five years.

(5) The bureau will make reimbursement to the employer every six months.

(6) Employers who operate more than one nursing home or hospital facility may participate in the program in respect to only one facility at a time.

(7) The lending institution must be an FDIC insured institution.

(C) Eligibility, applications and restrictions.

(1) In order to be eligible for loans from the long-term care loan fund an employer shall meet the following criteria:

(a) The employer must be a nursing home as defined in section 3721.01 of the Revised Code or a hospital as defined in section 3701.01 of the Revised Code.

(b) The employer must be in compliance with section 4123.35 of the Revised Code.

(c) The employer must be current on any and all undisputed premiums, administrative costs, assessments, fines or moneys otherwise due to any fund administered by the Ohio bureau of workers' compensation.

(d) The employer cannot have cumulative lapses in workers' compensation coverage in excess of fifteen days within the eighteen months preceding the application.
(2) The employer shall apply to participate in the long-term care loan program on the forms provided by the bureau on which the employer shall:

(a) Specify the equipment that is to be purchased, improved, installed, or erected and the cost;

(b) Provide a price quote from the vendor;

(c) Provide the signature of the person duly authorized to sign for the nursing home <u>or hospital</u> administrator;

(d) Answer all questions on the application;

(e) Obtain the signature of the bureau consultant;

(f) Submit the completed application to the bureau.

(3) The employer shall commence the purchase, improvement, installation, or erection of equipment within thirty days of receiving the loan and shall complete the same within ninety days of its receipt, unless expressly approved by the bureau. The bureau shall verify that the loan proceeds are being used for the purpose approved in the application and shall have the right to inspect the employer's workplace for this purpose. The bureau may use the technical assistance of the division of safety and hygiene for such an assessment.

(a) The employer shall provide the bureau documentation of the loan including the interest rate and a loan amortization table from the lending institution upon receipt of the loan.

(4) The administrator will notify applicants who have been approved to participate in the program within two weeks of receipt of the application.

(a) The bureau will process applications in the order of receipt. If the assets available from the fund are insufficient to satisfy the amount of reimbursement requested by the applicants, the administrator shall take into account the following factors to determine whether an employer will be allowed to participate in the program.

(i) Employers who have not previously applied to the program shall have priority over employers who have previously participated in the program.
(ii) No applications shall be approved which will cause the fund to operate at a deficit.

(5) If an employer's coverage lapses during the period the employer is participating in the program, the bureau will not make any reimbursements to the employer until its coverage has been reinstated. If an employer's coverage lapses for more than fifty-nine days during the period the employer is participating in the program, the bureau may terminate making reimbursements under the program.

(6) If the employer defaults on the loan, the employer shall notify the bureau of the default. The bureau may terminate making reimbursements under the program upon receiving notification of the default.

(D) Reconsideration of determination of eligibility.

(1) An employer may request reconsideration from a decision finding the employer did not meet the requirements provided in paragraph (C)(1) of this rule. The request must be in writing and filed with the superintendent of the division of safety and hygiene within thirty days of the notification of the decision.

(2) The employer may submit a request for reconsideration of the superintendent’s decision to the adjudicating committee pursuant to section 4123.291 of the Revised Code.

Executive Summary
$15,000 medical only program, R.C. 4123.29, Rule 4123-17-59

Legislative History

S.B. 7, effective June 30, 2006, amended R.C. 4123.29 to increase the limit for BWC's $1,000 medical-only claim program to $5,000. If an employer enters the program, BWC does not reimburse the employer for the payments and must not charge the first $5,000 of any medical-only claim paid by an employer to the employer's experience.

H.B. 100, effective September 10, 2007, increased the limit of the program to $15,000. The amendments also provide that the program shall not apply to claims in which an employer with knowledge of a claimed compensable injury or occupational disease has paid wages in lieu of compensation or total disability, and that upon written request from BWC, the employer shall provide documentation of all medical-only bills that they are paying directly. BWC can request this information on a semiannual basis. Failure to provide such documentation within thirty days of receipt of the request may result in the employer's forfeiture of participation in the program for such injury.

Rule History

This rule has been in effect since March 1, 1995. BWC adopted the rule following the amendment of R.C. 4123.29 to provide for this program in H.B. 107, effective October 20, 1993. Under R.C. 119.01, the rule is exempt from the public hearing and Joint Committee on Agency Rule Review process, since the rule related to a BWC rating program.

On June 16, 2006, the WCOC approved an amendment to rule 4123-17-59 to implement the change from the $1,000 program to the $5,000 program. BWC filed the rule to be effective July 22, 2006.

Rule Amendments: 4123-17-59 Fifteen thousand dollar medical-only program

Throughout the rule, references to the five thousand dollar medical only program are changed to the fifteen thousand dollar medical only program.

Paragraph (B) states that employers may pay bills only on any alleged medical-only injury. The rule adds the provision from H.B. 100 that the rule shall not apply to claims in which an employer with knowledge of a claimed compensable injury or occupational disease, has paid wages in lieu of compensation or total disability.

Paragraph (D)(4) contains the H.B. 100 provision that upon written request from BWC, the employer shall provide documentation of all medical-only bills that they are paying directly, and that such requests may be made semiannually. Failure to provide such documentation within thirty days of receipt of the request may result in the employer's forfeiture of participation in the program for such injury.

4123-17-59 ~~Five~~ Fifteen thousand dollar medical-only program.

(A) Any employer who is paying premiums to the state insurance fund and whose coverage is in force may elect to participate in the ~~five~~ fifteen thousand dollar medical-only program as provided in section 4123.29 of the Revised Code. No formal application is required; however, an employer must elect to participate by telephoning the bureau. Once an employer has elected to participate in the program, the employer will be responsible for all bills in all medical-only claims with a date of injury the same or later than the election date, unless the employer notifies the bureau within fourteen days of receipt of the notification of a claim being filed that it does not wish to pay the bills in that claim, or the employer notifies the bureau that the ~~five~~ fifteen thousand dollar maximum has been paid, or the employer notifies the bureau of the last day of service on which it will be responsible for the bills in a particular medical-only claim.

(B) Employers may pay bills only on any alleged medical-only injury. The provisions of this program and rule shall not apply to claims in which an employer with knowledge of a claimed compensable injury or occupational disease, has paid wages in lieu of compensation or total disability. Payment of a bill by an employer does not waive the bureau's right to adjudicate the claim, nor does it waive the employer's right to contest the claim should a claim be filed.

(C) This program in no way supersedes the right of any injured worker to file a workers' compensation claim with the bureau.

(D) An employer or its agent may elect to pay to the injured worker or the provider on behalf of the injured worker the first ~~one five~~ fifteen thousand dollars of a medical-only claim. Employers may elect which medical-only claims they do not wish to cover under this program.

(1) An employer electing to pay bills in its employees' medical-only claims is responsible for all bills in a claim until the ~~five~~ fifteen thousand dollar maximum is reached and the employer provides notice to the bureau that the employer has paid the first ~~five~~ fifteen thousand dollars of the bills in the claim by providing the bureau the date of service of the bill which reached the ~~five~~ fifteen thousand dollar maximum, or the employer provides notice to the bureau that it no longer wishes to be responsible for the bills in a particular claim by providing the bureau the last date of service that it will pay. The bureau will process all related bills received after the withdrawal notification date.

(2) If the ~~five~~ fifteen thousand dollar maximum has not been reached and the payment of a bill will exceed the ~~five~~ fifteen thousand dollar maximum, the employer should pay that portion of the bill that will bring the payment to the ~~five~~ fifteen thousand dollar maximum and inform the provider to bill the bureau for the remainder of the bill. The employer should then notify the bureau that the first ~~five~~ fifteen thousand dollars has been paid, and provide proof of such payment and copies of all bills paid, in the proper billing format, to the bureau. The bureau will then be responsible for processing all future bills.

(3) The employer cannot elect to pay only certain bills for a claim and submit other bills in that claim to the bureau for payment.

(4) Once an employer has elected to pay bills in medical-only claims under this program, the employer must pay all bills under this program within thirty days of receipt of the bill. The employer shall provide copies of the bills paid in the claim, in the proper billing format, to the bureau and the injured worker or the injured worker's representative upon request. Upon written request from the bureau, the employer shall provide documentation to the bureau of all medical-only bills that they are paying directly. Such requests from the bureau may not be made more frequently than on a semiannual basis. Failure to provide such documentation to the bureau within thirty days of receipt of the request may result in the employer's forfeiture of participation in the program for such injury.

(E) An employer electing this program must keep a record of the injury to include: name, address, and social security number of the injured worker; date and time of injury; type of injury; part of body injured; and a brief description of the accident. The employer also shall keep a copy of all bills with proof and date of payment under this program. This information will be made available to the bureau and the injured worker or their representative upon request. The information must be kept on file for six years from the last date a bill has been paid by the employer or the information has been received by the bureau.

(1) An employer in the program must notify the bureau within fourteen days of a claim being filed of the employer's intention not to cover the first ~~five~~ fifteen thousand dollars of the medical costs of the claim. This notification may be by telephone or in writing.

(2) The bureau will process all related bills in a filed medical-only claim in the normal manner unless the employer has previously notified the bureau that it has elected to participate in the ~~five~~ fifteen thousand dollar program.

(3) In those cases in which the bureau has been properly notified by the employer of the employer's intention to directly pay the bills, the bureau shall not pay any bills submitted to the bureau directly from the provider but will notify the provider that the bill should be submitted to the employer until the provider is notified by the employer that the bureau is responsible for the bills in the claim. No interest shall be paid by the bureau on account of bills not paid within thirty days if such bills are the responsibility of the employer.

(4) All bills submitted to the bureau or the employer for payment must be in the proper billing format and must be received by the bureau or the employer within two years of the date of service on the bill.

(F) An employer electing this program has the responsibility to notify the injured worker and medical provider, in writing, of the acknowledgment of the alleged medical-only injury, that it has elected under section 4123.29 of the Revised Code to pay the first ~~five~~

fifteen thousand dollars, that all bills should be submitted to the employer, and that the injured worker and the bureau should not be billed.

(1) Once an employer in this program pays a bill on a work-related injury the bureau will not reimburse that employer.

(2) In the event that a duplicate payment is made, it will be the employer's responsibility to seek reimbursement from the provider. The employer may request reimbursement of such bills from the provider, and the provider shall reimburse the employer where the bureau has paid the bill.

(3) In the event that a medical-only claim changes to a lost time claim, the bureau will not reimburse the employer for bills that have been paid by the employer under this program.

(G) The employer shall pay all bills as billed or agree upon an appropriate reimbursement level with the provider. The bureau will not assist the employer in determining the fee payable; however, the bureau UCR fee schedule and other fee maxima programs used by the bureau will be made available for the use of the employer. Providers must bill the employer using the proper bureau format and their usual and customary fee. Providers may not balance bill the injured worker. Providers may only balance bill the bureau on the occasion of a bill that would require an employer to exceed the ~~five~~ fifteen thousand dollar maximum. The bureau will not mediate fee disputes between the employer and the provider. If an employer elects to enter the program and the employer fails to pay a bill for a medical-only claim included in the program, the employer shall be liable for that bill and the employee for whom the employer failed to pay the bill shall not be liable for that bill.

(H) Payments made by the employer in this program will not be charged to that employer's experience modification; however, if a claim has been filed with the bureau and bills paid by the bureau, these payments will be included in the employer's experience modification. The bureau will not adjust the employer's experience modification to remove such payments unless the employer has complied with this rule and the bureau has made such payments in contravention of this rule. Failure by an employer to make timely payments on all bills will not affect the coverage of that employer and will not obligate the bureau to pay interest to the medical provider; however, the bureau may exclude employers who do not make timely payment on all bills in this program from participation in this program. An employer may appeal a decision of the bureau excluding the employer from this program to the adjudicating committee under rule 4123-14-06 of the Administrative Code.

(I) An employer who elects to participate in this program may cancel its participation in the program at any time by telephoning the bureau. The bureau will process all related bills in all medical-only claims against that employer's account after the date of the telephone call.