WORKERS' COMPENSATION BOARD OF DIRECTORS

INVESTMENT COMMITTEE

WEDNESDAY, SEPTEMBER 26, 2007, 12:00 PM
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

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

CALL TO ORDER

Mr. Smith called the meeting to order at 12:20 PM and the roll call was taken.

MINUTES OF AUGUST 24, 2007

The minutes were approved with paragraph 5 on page 5 modified to reflect that the drafting process of the Investment Policy be left to the Chief Investment Officer and the investment consultants.

NEW BUSINESS / ACTION ITEMS

Investment Committee Charter

Ms. Falls led a discussion regarding the draft contained in the Investment Committee meeting materials for September 26, 2007. A recommendation was made that the Investment Committee be limited to five people. A recommendation was made that paragraph three of "Responsibilities and Authority" section of the Charter to change the word "counsel" to "consultant." Paragraph nine of "Responsibilities and Authority" was recommended to be change the word "approve" to "recommend to Board for approval." A recommendation was made to add a paragraph indicating that the Investment Committee would coordinate with the other two committees on items of common interest. The recommendations were approved by a unanimous roll call vote.

Investment Consultant

Mark Brubaker from the current investment consultant, Wilshire Associates, introduced himself to the members of the Investment Committee. Following this introduction, he excused himself from the room so that the Committee could discuss the contract for the investment consultant. Bruce Dunn, Chief Investment Officer, provided background information concerning the investment consultant to the Committee. Mr. Dunn discussed the terms of the current contract with Wilshire. He explained that the current contract had been signed by the Administrator, but that the investment consultant acts on behalf of the Board of Directors. The contract is a one year contract with two one year renewal terms. Currently BWC is in the first one year renewal. Within the terms of the contract, there is a clause permitting the Board to terminate the contract for convenience. In order to exercise this clause, the Board would need to provide thirty days advance notice to the consultant to terminate services. Mr. Dunn indicated that it would also take three to four months to obtain the services of a new investment consultant through the request for proposal (RFP) process. Mr. Dunn recommended continuing the consulting services with Wilshire Associates, at least until such time as a new consultant would be retained. The issue of whether or not Wilshire should continue as investment consultant was discussed. It was suggested that Wilshire's contract be extended for an additional one year, but also issue an RFP for a new consultant in the near future. It was determined that this issue should be revisited at the next meeting of the Investment Committee in October.

Custodial Structure

Mr. Dunn discussed the difference between holding investment accounts in commingled and separate accounts. Commingled accounts pool the assets of various clients with similar investments. A separate account structure keeps the investments of a client separate from any other client. Currently, BWC investments are held in separate accounts for investment management and custodial purposes. However, the investment management fees are higher for separate accounts than for managed accounts under a commingled structure. Mr. Dunn presented an investment analysis prepared by the Investment Division that estimated combined investment management fee savings, offset by slightly higher custodial fees, could be approximately $1.7 million on an annualized basis. These estimated savings could result if all existing passively managed investment assets (currently 100%) were converted to a commingled management structure.
Mr. Brubaker from Wilshire Associates also provided input. He stated that voting by proxy cannot be done through the commingled fund structure. Wilshire provided two memorandums comparing the commingled fund structure and the separate account structure.

It was noted that the Treasurer of the State of Ohio has previously recommended that the invested assets of the BWC trust funds be held in separate accounts. However, no one from the Treasurer's Office was present to provide any additional explanation. Mr. Smith indicated that he is in favor of commingled funds investment, as is Ms. Falls. It was determined that this issue may be revisited at the next meeting of the Investment Committee in October. If this issue becomes an Agenda item at the October Investment Committee meeting, an invitation to attend this meeting will be made to the Treasurer of the State of Ohio.

Investment Policy Recommendation regarding Long Duration Fixed Income Benchmark

Mr. Dunn explained that BWC's investment strategy has previously been set to target a 54% allocation to Long Duration Fixed Income (LDFI) assets. As part of this strategy, the widely recognized Lehman Long Government/Credit (LLGC) Index recommended by the BWC Investment Consultant (Wilshire) was approved for use as the benchmark index for the LDFI assets of BWC in July 2006 by the former BWC Investment Committee and Workers' Compensation Oversight Commission. Ms. Falls noted that for popular and widely used fixed income benchmarks, Lehman Brothers is the leading provider in the fixed income area. Mr. Dunn then explained that parts of the LLGC index did conflict with the BWC investment policy statement (IPS). Specifically, the LLGC index had a portion of its representation in non-US government debt issues. Because the IPS prohibited foreign government debt, this index conflicted with BWC's investment policies. In response, a customized LDFI benchmark was developed with Lehman Brothers by Mr. Dunn to reflect the specific restrictions of the IPS. Mr Dunn indicated this customized benchmark was adopted as the LDFI benchmark of BWC in March 2007, just prior to BWC assets being transferred to its two approved LDFI asset managers effective April 1, 2007. Mr. Dunn mentioned that over a 1,3,5 and 10 year comparative period ending July 31, the widely accepted LLGC index provided consistently higher returns than the customized LDFI benchmark index. Mr. Dunn made the recommendation that the conventional LLGC index serve as the new LDFI benchmark index for BWC, with the intent that the IPS be modified to permit investments consistent with the LLGC index.

The Board members then discussed whether or not BWC investment funds should be invested in foreign governments and/or foreign corporations which are both part of the conventional LLGC index. The discussion included the subject of fiduciary responsibility to invest funds in a manner that yields the greatest return, as well as issues of social responsibility.

Motion was made BUT NOT seconded to recommend to the Board to adopt the LLGC index as the long duration fixed income benchmark index, and to amend section V.A. of the IPS. As a result of the motion not being seconded, there was no further discussion or vote.

Temporary Waiver of Appendix XV of the IPS

Mr. Dunn requested a temporary waiver of Appendix XV regarding the schedule of required reports to be made by the Chief Investment Officer. Mr. Dunn requested a list of reports that would be appropriate for him to make at the October meeting. A motion was made, and seconded to recommend to the board to remove the requirements of Appendix XV of the IPS regarding the schedule of reporting by the CIO. The motion was passed unanimously.

DISCUSSION ITEMS

Wilshire presented its recommendation that BWC maintain a long term orientation and utilize an asset mix with a minimum equity allocation target of twenty percent. An asset mix with a minimum of twenty percent equities for balance between long term growth of the surplus and surplus preservation over intermediate time horizons was discussed. Mr. Smith raised the issue as to what is the Committee's risk tolerance, in addition to the issue of reducing premiums required to keep Ohio competitive. Wilshire explained that it takes a forward looking view of market expectations. Wilshire also looks at efficient frontiers for recommended investment strategy. Mr. Smith emphasized that everything was foundational to what would eventually be presented to the Board.

Mr. Dunn presented on portfolio performance. In particular, Mr. Dunn pointed out that July and August were good performance months with fixed income asset performance being strong. The major asset transitions occurring in 2007 were mentioned. Mr. Dunn also mentioned that proposed House Bill 79 provides specification of permitted investments for BWC. If this legislation is passed by the respective bodies of the Ohio Legislature, its investment standards would be implemented.

A motion to adjourn was made, and seconded, unanimously approved at 2:45 pm.

Draft October 24, 2007

OHIO BUREAU OF WORKERS' COMPENSATION BOARD OF DIRECTORS

INVESTMENT COMMITTEE CHARTER

Purpose

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

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

Membership

The Investment Committee must consist of at least five members, two of whom must be the investment and securities expert members of the Board. Based on the recommendations of the Governance Committee, the Board, by majority vote, must appoint two additional members to serve on the Investment Committee and may appoint one additional member, either from the Board or someone not on the Board. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions. The Chairperson is designated by the Board, based on the recommendation of the Board chair and the Governance Committee.

Meetings

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

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

Duties and Responsibilities

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

1. Develop and recommend the strategic asset allocation and investment policy for the Funds and submit to the Board for approval. The Committee will periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties.

2. Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives.

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

4. Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval.

5. Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer. Review performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds.

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

7. Recommend prohibited investments, on a prospective basis, the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval.

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

9. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.

10. Recommend investment counsel to the Board for engagement.

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

12. The Investment Committee will coordinate with other Board committees on items of common interest.

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

InvestmentCommitteeCharter.doc
Review & Approved 102507
Draft 092607

RENEWAL ADDENDUM

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

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

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

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

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

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

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

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

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

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

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

WILSHIRE ASSOCIATES INCORPORATED
TAX ID: 95-2755361

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

Wilshire renewal 2006.doc
November 30, 2006

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

William E. Mabe
Administrator

DATE: September 17, 2007

TO: BWC Investment Committee

FROM: Bruce Dunn, Chief Investment Officer

SUBJECT: **Wilshire Associates**
Investment Consulting Contract

Background

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

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

Contract Terms

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

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

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

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

Action Item

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

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

Ohio Bureau of Workers' Compensation

Summary Performance Gross of Fees

September 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**	$ 17,684,823,735	1.22	NR	4.14	NR	3.52	NR	5.49	NR	6.77				
Total Fund ex Alternatives	**Interim Benchmark**	$ 17,296,346,474	1.25	1.34	3.93	4.77	3.52	3.40	5.33	-	6.61	(0.10)	(0.83)	0.12	
	Target Benchmark			1.58		4.80		3.20		-		(0.33)	(0.87)	0.32	
Total SIF	**NR**	$ 16,214,582,923	1.28	NR	4.17	NR	3.60	NR	5.53	NR	6.81				
Total SIF ex Alternatives	**Interim Benchmark**	$ 15,826,105,662	1.32	1.34	3.95	4.77	3.60	3.40	5.35	-	6.77	(0.02)	(0.81)	0.20	
	Target Benchmark			1.58		4.80		3.20		-		(0.26)	(0.85)	0.40	
SIF Bond Composite	**Interim Benchmark**	$ 12,629,597,637	0.83	0.85	3.47	4.01	3.97	3.75	-	-	3.47	(0.02)	(0.54)	0.22	
	Target Benchmark			0.96		3.80		3.57		-		(0.12)	(0.33)	0.40	
. **Long Duration**	**L.B. Custom Long G/C**	$ 9,454,863,642	0.68	0.69	-	2.54	3.79	3.49	-	3.58	1.54	(0.01)		0.30	
. **TIPS**	L.B. U.S. TIPS	$ 3,174,733,995	1.30	1.33	-	-	4.52	4.54	-	-	6.19	(0.04)		(0.02)	
. **State Street LDFI Passive**	**L.B. Custom Long G/C**	$ 7,938,428,357	0.68	0.69	-	2.54	3.83	3.49	-	3.58	1.58	(0.02)		0.34	
. **Barclays LDFI Passive**	**L.B. Custom Long G/C**	$ 1,516,435,285	0.69	0.69	-	2.54	3.57	3.49	-	3.58	1.32	(0.00)		0.08	
SIF Cash	**M.L. 91 day T-Bill**	$ 381,865,028	0.42	0.38	3.92	3.91	1.30	1.34	5.25	5.22	4.90	0.03	0.01	(0.03)	0.04
SIF Equity	**Interim Benchmark**	$ 3,168,117,245	3.25	3.78	9.39	9.51	2.29	2.15	-	-	9.39	(0.53)	(0.12)	0.15	
	Target Benchmark			4.07		9.93		1.77		-		(0.82)	(0.54)	0.52	
. **Public Equity**	**S & P 500**	$ 2,789,007,853	3.73	3.74	8.87	8.88	2.02	2.05	-	-	8.87	(0.01)	(0.00)	(0.03)	
. **Alternatives**	**Wilshire 5000 + 5%**	$ 379,109,392	(0.07)	4.02	11.91	13.13	3.39	2.67	11.46	22.86	11.68	(4.09)	(1.22)	0.72	(11.40)
SIF Misc. Accounts		$ 35,003,014	0.37		17.19		7.26		-		17.19				
Total Non-SIF	**Interim Benchmark**	$ 1,470,240,812	0.48	1.04	3.74	4.15	2.64	3.10	5.03	-	4.44	(0.55)	(0.41)	(0.46)	
	Target Benchmark			1.52		4.72		3.14		-		(1.04)	(0.98)	(0.50)	
. **Non-SIF Bonds**	**Interim Benchmark**	$ 5,120,734	1.26	1.32	4.53	4.43	3.47	3.42	-	-	4.53	(0.06)	0.10	0.06	
	Target Benchmark			0.96		3.86		3.56		-		0.30	0.68	(0.09)	
. **Transition - DWRF**	**NR**	$ 897,023,158	(1.17)		-		-		-		(1.17)	(1.17)			
. **Transition - Black Lung**	**NR**	$ 197,268,485	(1.18)		-		-		-		(1.18)	(1.18)			
. **Non-SIF Public Equity**	**Interim Benchmark**	$ 278,715,465	0.63	0.62	-	-	-	-	-	-	0.63	0.01			
	Target Benchmark			4.00		-		1.76		-		(3.38)			
. **Non-SIF Cash**	**M.L. 91 day T-Bill**	$ 92,112,971	0.41	0.38	3.91	3.91	1.29	1.34	-	5.22	3.91	0.03	0.01	(0.04)	

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

Prepared by JPMorgan Investment Analytics & Consulting

INVESTMENT DIVISION

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

FROM: Bruce Dunn, Chief Investment Officer

DATE: October 15, 2007

SUBJECT: CIO Report September, 2007

The Investment Division in September, 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.

Fiscal Year 2008 Goals

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

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

2. Complete establishment of new BWC Investment Division

3. Assist in establishment of new investment accounting system

4. Sell all 68 private equity funds

5. Establish proper investment controls and compliance procedures

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

Strategic Goal One – PORTFOLIO TRANSITION

A pool of three Transition Managers (Barclays, Russell, State Street) were approved by the former Workers' Compensation Oversight Commission (WCOC) at its September 28, 2006 meeting. At the discretion of the BWC Investment Division, these transition managers 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.

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 State Insurance Fund asset transitions occurred over two stages between January, 2007 and April, 2007. 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 and sale of $5.5 billion of invested assets from the Ohio Fund managed by State Street Global Advisors (SSGA) to (i) a passive indexed managed U.S. TIPS fixed income portfolio ($3.0 billion) managed by SSGA and (ii) a passive indexed managed Large Cap S&P 500 equity portfolio ($2.5 billion) managed on an interim basis by SSGM as transition manager.

The other large transition from the State Insurance Fund involving approximately $9.3 billion was completed in April, 2007 by Barclays Global Investors as BWC transition manager. This major transition involved a shift of $9.3 billion of invested assets from the Ohio Bond Fund to (i) a passive indexed managed Long Duration fixed income portfolio ($7.8 billion) managed by SSGA and (ii) a similar passive indexed managed Long Duration fixed income portfolio ($1.5 billion) managed by Barclays Global Investors. It was critical that these three major asset class transitions involving the State Insurance Fund be completed before asset class transition activity could commence with respect to four BWC ancillary portfolios representing an aggregate of approximately $1.4 billion in invested assets.

The transition of assets of approximately $1.4 billion of assets involving four ancillary funds was completed in September, 2007. The transition of these ancillary trust funds also occurred in two distinct stages. After the completion and execution of a necessary tri-party agreement dated June 26, 2007 between the BWC, JPMorgan Chase Bank, as custodian, and the Ohio Treasurer of State involving the Ohio Public Workers Relief Fund and Ohio Marine Industry Fund, invested assets totalling $21.4 million for the Public Workers Fund and $15.2 million for the Marine Industry Fund were shifted in July, 2007 from the Ohio Bond Fund to the JPMorgan U.S. Government Money Market Fund. This money market fund serves as the current interim investment strategy for these two smaller ancillary trust funds.

The second stage of the ancillary trust funds asset transition strategy involved the transitioning of invested assets of the two large ancillary trust funds, the Disabled Workers Retirement Fund (DWRF) and the Coal Workers Pneumoconiosis Fund (CWPF). These two trust fund transitions totaled approximately $1.38 billion in invested assets, comprising approximately $1.14 billion for DWRF and $240 million for CWPF. The transition strategy for these two ancillary trust fund portfolios involved the transitioning and sale of assets from the Ohio Bond Fund to three respective asset class mandates per the investment policy targeted asset classes in the proportion 60% Long Duration fixed income, 20% TIPS fixed income and 20% S&P 500 index. SSGM was selected and engaged by BWC to serve as its transition manager for each of these three transitions for both DWRF and CWPF. SSGM executed each of these three transition stategies in September, 2007 for both ancillary funds. All targeted invested assets were delivered from the BWC transition accounts to the BWC passive indexed managers in late September and early October, 2007. SSGA is serving as the targeted passive indexed manager for these two fixed income mandates and Northern Trust serves as the targeted S&P 500 passive indexed manager.

Strategic Goal Two – BUILD INVESTMENT STAFF

The Investment Division began fiscal year 2008 commencing July 1, 2007 with a staff of seven individuals consisting of the CIO, Director of Investments, two Senior Investment Managers, two assistant Investment Managers and an administrative assistant. Upon the lifting of the temporary hiring freeze imposed on state agencies by the Governor's Office effective May, 2007, the two finalist candidates accepted offers extended in June, 2007 for the positions of Investment Administration Manager and Assistant Investment Manager that were initially posted in December, 2006. Both new hires joined the Investment Division in late July, 2007 and are making many immediate contributions.

Job postings for two additional staff positions also occurred in June, 2007. These positions are for a third senior investment manager position and an administrative assistant. It is anticipated that both the administrative assistant position and the senior investment manager position will be filled in the fourth quarter 2007 and/or the first quarter 2008. These four additions to staff targeted for fiscal year 2008 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

A RFP process that began in November, 2006 for a new investment accounting and reporting system resulted in the selection of an integrated outsourced vendor solution. A finalist vendor for both an enhanced vendor software platform (insource solution) and an integrated outsourced vendor (outsource solution) was offered to BWC Administrator Marsha Ryan, with the recommendation made by the RFP Evaluation Committee that the outsource solution vendor be chosen. Administrator Ryan approved this recommendation in mid-June, 2007. BWC is currently in the implementation and conversion process to this web-based system with a goal for completion targeted for November 1, 2007. It is also the goal to have an improved accounting system available to BWC to accommodate the effective daily monitoring of both passive and active style asset managers in satisfaction of the current BWC Investment Policy.

Strategic Goal Four – PRIVATE EQUITY SALE

At the IC/WCOC meetings of August 24, 2006, UBS Securities LLC was approved to represent BWC as agent in the potential sale of some or all of its private equity funds. The contract of engagement was executed the day of approval. This contract had a commencement date of September 11, 2006. The auction sale process has been completed by UBS and progress continues towards the sale of the BWC private equity funds. The first private equity fund sale was completed in late June, 2007 and ten additional private equity partnership sales have occurred over July-September, 2007. Proceeds received through 9/30/07 from private equity partnership sales have totalled $96.5 million, with all such proceeds received reinvested in the passive indexed Large Cap S&P 500 Equity portfolio managed by Northern Trust. It is expected that the sale of most or all remaining private equity partnerships will be completed by the end of 2007.

Strategic Goal Five – INTERNAL INVESTMENT PROCEDURES

The WCOC/IC approved a new Investment Policy at the April 27, 2006 meeting. This Investment Policy was amended at the July 20, 2006 meeting with respect to the State Insurance Fund, allowing for both active equity and passive equity managed investments as well as new fixed income asset sectors to be managed with a combination of active and passive managers. This Investment Policy was further amended at the September 28, 2006 meeting with respect to new asset allocation targets and passive/active managed investments for four of the five BWC ancillary portfolios (Disabled Workers, Coal Workers, Public Workers, Marine Workers). The Internal Audit Division is providing guidance and assistance in the further improvement of proper procedures and controls for the Investment Division. This is important as the Investment Division selects and very closely monitors many new investment managers who will manage specific mandates reflected from the new Investment Policy approved.

The Investment Division continues to improve internal procedures for the management oversight of the remaining private equity funds as well as the new passive style investment managers, performance reporting, and other investment activities to support the new Investment Policy. Internal procedures for the monitoring of active style investment managers are being developed well in advance of the selection of such managers.

Strategic Goal Six – BOARD OF DIRECTORS EDUCATION (*NEW GOAL ADDED*)

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

At the September meetings, there were formal presentations made by the Investment Division on (i) the fundamentals of investments as relevant to the BWC portfolio of assets and current investment strategy, (ii) the BWC RFP process for securing external investment management services/products, and (iii) the advantages/disadvantages of the two types of alternative custodial structures for investment asset management. As determined by each of the Investment Division, BWC Investment Committee and Board of Directors, many additional investment topics will be addressed over the course of the current fiscal year.

Compliance

The investment portfolios were in compliance on September 30, 2007 with the BWC Investment Policy.

Legislative Updates

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

Bills to Watch

- **HB 125** (Huffman)
  - Bill passed the House and has been referred to the Senate.
  - Pete Mihaly has determined that all BWC concerns have been addressed in substitute versions.
  - 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.

- **SB146** (Spada)/HB166 (Schindel) OBM Office of Internal Audits
  - Requires all state agency internal auditors to be transferred to OBM, creating an Office of Internal Auditing.
  - HB166 (Schindel) passed the House floor on 10/9/07
    - Joe Bell put together a white paper for Governor's office coordinated lobbying effort highlighting the bills impacts on BWC Internal Audit.
  - SB 146 – Committee Hearing in Senate Finance

- **HB 101** (Brinkman)
  - One hearing in House Insurance Committee (5/22/07 George Smith, Executive Director of MCO League presented information about managed care organizations).
  - 10/2/07 – Marsha testified in front of HIC. Testimony highlighted the team's progress toward efficiency and accountability in BWC's processes and progress on HB 100.
  - 10/9/07 – Anticipated testimony from employee group "We've Had Enough"

- **HB79** (Batchelder) BWC Investments;
  - Three hearings in House Commerce and Labor (6/26/07)
  - Committee cancelled 10/9/07 - Fourth hearing and possible vote 10/16/07

  BWC Action.
  - 5/08/07 - At Representative Batchelder's request, Bruce Dunn and Lee Damsel appeared at HCLC to offer impact testimony. Addressed were the immediate issues of prohibition of hiring an outside investment consultant/manager and inclusion of all funds in scope of bill.
  - 6/26/07 – Bill was amended to include six BWC-suggested amendments
  - 9/26/07 - Bill was presented to Board of Directors as FYI by Bruce Dunn, particularly the scope of the bill that replaces the "prudent person" standard with a list of allowed investments.

- **HB 151** (Mandel, Jones) Divestment of public funds from companies with ties to Iran/Sudan.
  - To avoid statutory investment restrictions, retirement systems offered to voluntarily divest funds from specified companies by end of the calendar year.
  - 10/10/07 – Ohio Retirement Study Council members challenged Ohio Police & Fire Pension Fund Director William Estabrook on his board's reluctance to address legislative concerns with the investments, with one House leader saying the failure to act violates an agreement the systems reached with Speaker Husted.

- **HB 308** (Domenick, Combs)
  - Not yet referred to committee
  - This bill would prevent state agencies from distributing benefits to undocumented immigrants other than emergency medical services.

- **HB 179** (Blessing) BWC Claims – Employee Reimbursement.
  - This bill requires a health insurer, and allows an injured worker, during the time 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.

- The bill has been internally circulated @ BWC for impact review and comment.
- 5/15/07 - One hearing in Commerce and Labor

Legislative Developments

- **Interstate Jurisdiction** – Senator Keith Faber (Vice-Chair, Senate Insurance, Commerce, and Labor Committee)
  - Sen. Faber intends to draft legislation in the very near future that would not enable injured workers to establish claims in multiple jurisdictions (Ohio and another state) and has asked for a legal opinion from BWC.
  - Legal is providing analysis/opinion.

- **Pneumoconiosis Fund –** use of interest for Mine Safety Program.
  - Laura Abu-Absi has prepared a memo regarding the statutory constraints of using this fund for any other purpose than compensation for death or total disability as a result of this disease.
  - Actuarial, Investments, Finance, and Legal met with Gov Office and ODNR to discuss process and legislation for using a portion of the interest for the Fund. Legal is researching all statutory changes that would be required; finance/investments is researching what kind of "triggers" should be in place to preserve the soundness of the fund.

- **HB100 Outstanding Implementation Issues**:
  - <u>Board Confirmation Process</u>
    - Confirmation for all 11 members anticipated on 10/17/07 in Senate Insurance, Commerce, and Labor
  - <u>Workers' Compensation Council</u>
    - Expected to be up and running by January of 2008.
    - 11-member committee is to review the soundness of the workers' compensation system and legislation involving or affect the workers' compensation system.
    - It is expressly prohibited from involvement in the daily operation and oversight of the Bureau of Workers' Compensation or the Industrial Commission.
    - Five non-legislators are yet to be appointed. The deadline for appointment of non-legislative members is in December.
    - On 10/11/07, the six legislator appointees were named. They are:
      - Senator Steve Stivers (R-Columbus; Chair - Senate Insurance, Commerce, and Labor Committee)
      - Senator Gary Cates (R-West Chester; SICL Member)
      - Senator Eric Kearney (D-Cincinnati; Ranking Minority Member – Senate Insurance Committee)
      - Representative Bill Batchelder (R-Medina; Chair - House Insurance Committee)
      - Representative Lynn Wachtmann (R-Napoleon; HIC member)
      - Representative Tom Letson (D-Warren; HIC member)

Draft October 24, 2007

OHIO BUREAU OF WORKERS' COMPENSATION BOARD OF DIRECTORS

INVESTMENT COMMITTEE CHARTER

Purpose

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

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

Membership

The Investment Committee must consist of at least five members, two of whom must be the investment and securities expert members of the Board. Based on the recommendations of the Governance Committee, the Board, by majority vote, must appoint two additional members to serve on the Investment Committee and may appoint one additional member, either from the Board or someone not on the Board. Each additional non-Board member appointed must have at least one of the following qualifications: a) experience managing another state's pension funds or workers' compensation funds; or b) expertise that the Board determines is needed to make investment decisions. The Chairperson is designated by the Board, based on the recommendation of the Board chair and the Governance Committee.

Meetings

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

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

Duties and Responsibilities

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

1. Develop and recommend the strategic asset allocation and investment policy for the Funds and submit to the Board for approval. The Committee will periodically review the investment policy in light of any changes in actuarial variables, market conditions, etc. and make recommendations for any changes, as appropriate to the Board for approval. Assist the Board to assure that the investment policy is reviewed and approved at least annually, published, and copies are made available to interested parties.

2. Review the annual report on the investment performance of the funds and the value of each investment class and submit to the Board for approval. Once approved, this report must be submitted to the Governor, the president and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives.

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

4. Develop and recommend rules on due diligence standards for employees of BWC to follow when investing in each asset class. Develop and recommend policies and procedures to review and monitor the performance and value of each asset class. Submit these recommendations to the Board for approval.

5. Monitor implementation of the investment policy by the Administrator and the Chief Investment Officer. Review performance of the Chief Investment Officer and any investment consultants retained by the BWC to assure compliance with the investment policy and effective management of the Funds.

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

7. Recommend prohibited investments, on a prospective basis, the Committee finds to be contrary to the investment objectives of the Funds and submit to the Board for approval.

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

9. Recommend to the Board for approval the criteria and procedures for the selection of the Investment Managers and General Partners. Approve the final selection, funding and termination of all Investment Managers and General Partners.

10. Recommend investment counsel to the Board for engagement.

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

12. The Investment Committee will coordinate with other Board committees on items of common interest.

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

InvestmentCommitteeCharter.doc
Review & Approved 102507
Draft 092607

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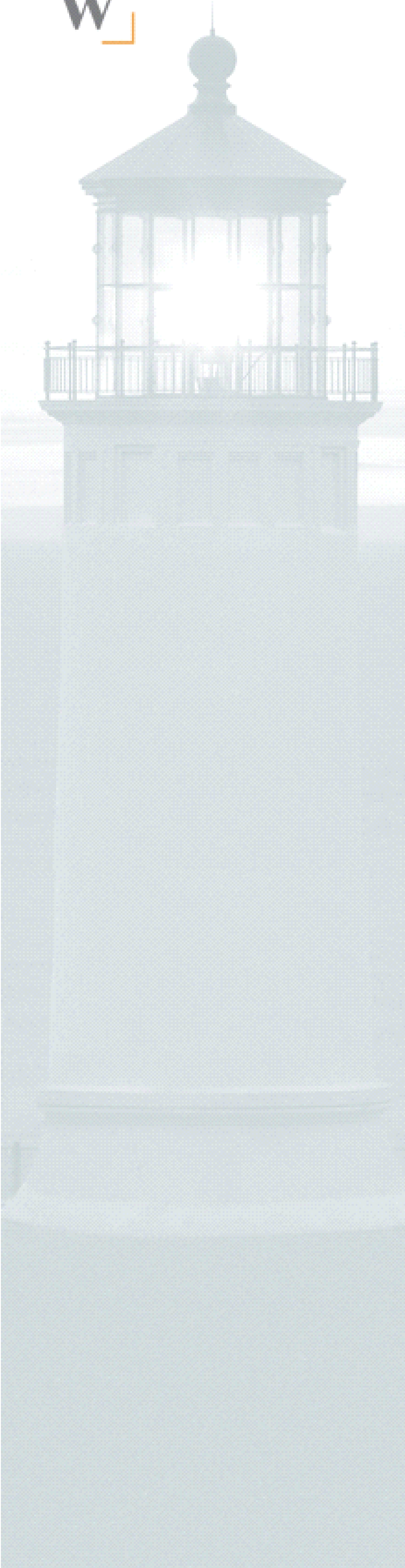

Wilshire Consulting

2007 Asset Allocation Return and Risk Assumptions

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January 29, 2007

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Introduction

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

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

Expected Future Returns

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

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

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

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

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

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

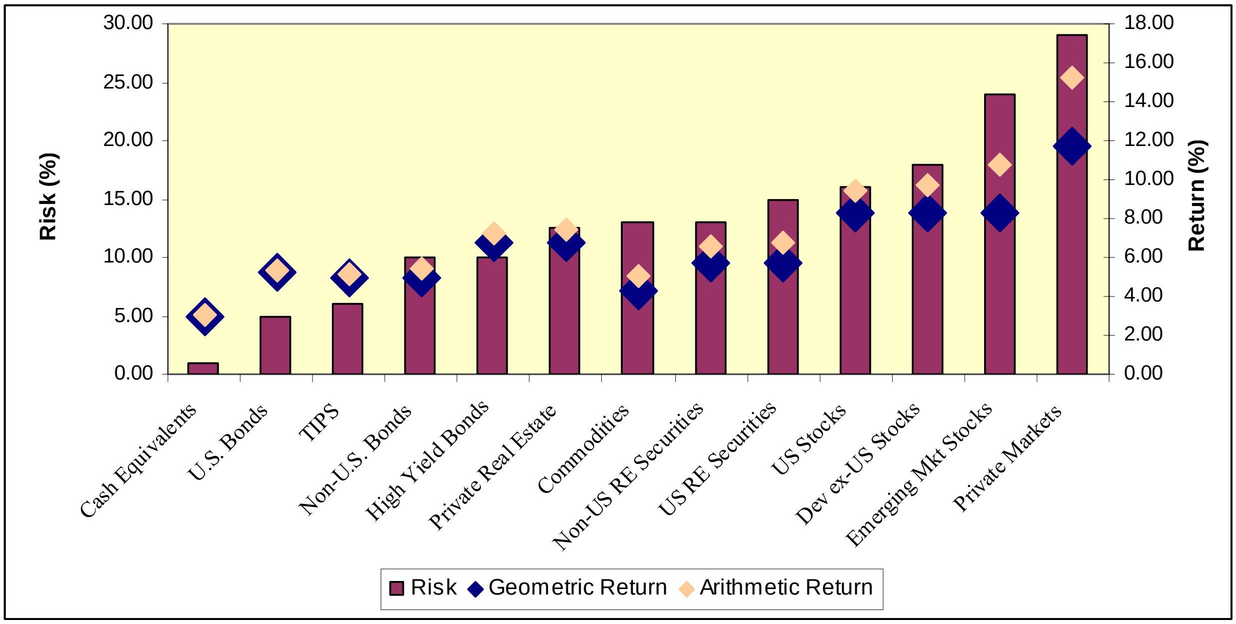
Exhibit 1 presents Wilshire's 2007 return forecasts and contrasts them with our 2006 assumptions; while Exhibit 2 displays our 2007 projections in graphical form.

Exhibit 1
Wilshire's Expected Return Assumptions

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

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

Exhibit 2
Wilshire's Expected Return and Risk Assumptions



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

Historical Returns

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

Exhibit 3
Historical Returns vs. Wilshire Forward-Looking Assumptions

	Historical Returns				
	1802-2006 *	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*

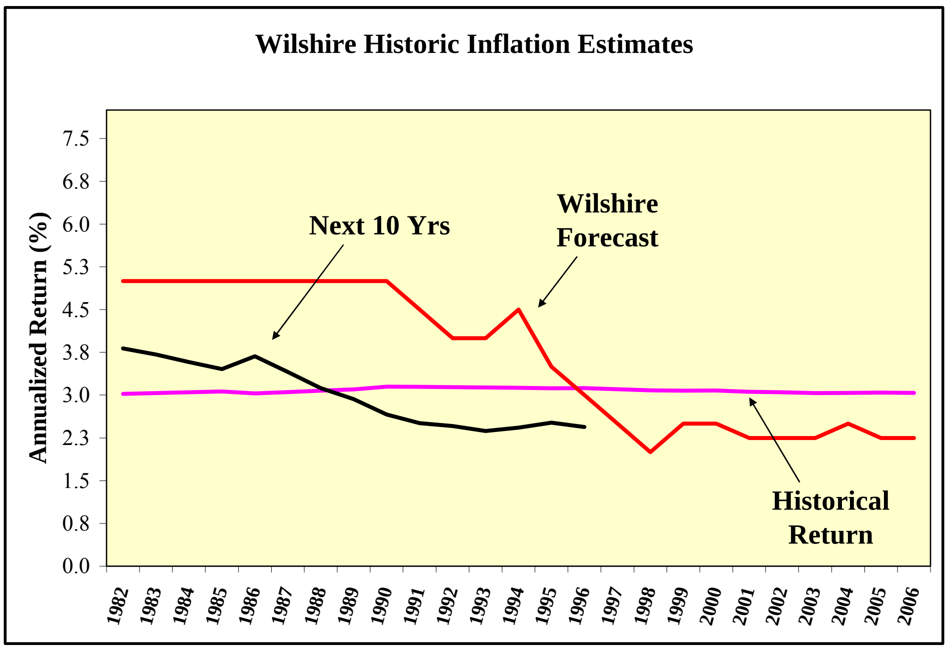
There are several relationships worth noting. Wilshire's stock and bond return forecasts, 8.3% and 5.3%, respectively, are close to the actual returns achieved over the 205-year period ending 2006. However, the relative return forecasts for stocks versus both inflation and bonds of 6.0% and 3.0% fall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

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

Inflation

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

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

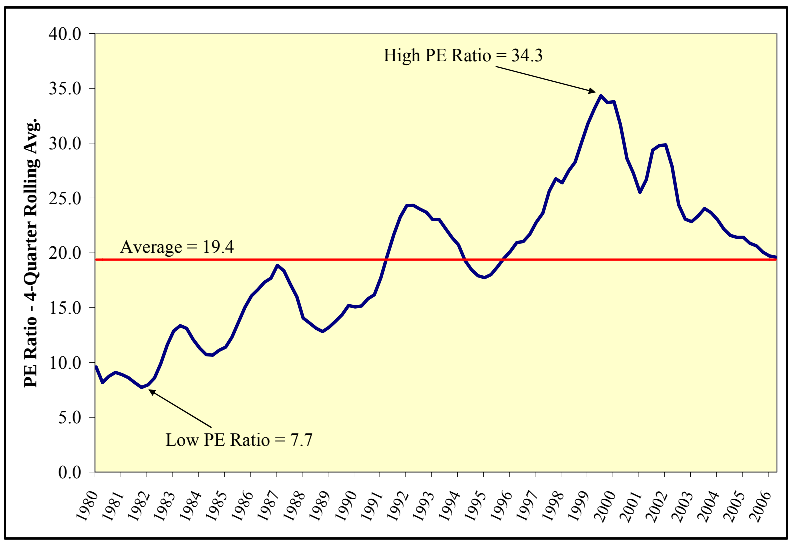


Equity

U.S. Stocks

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

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



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

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

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

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

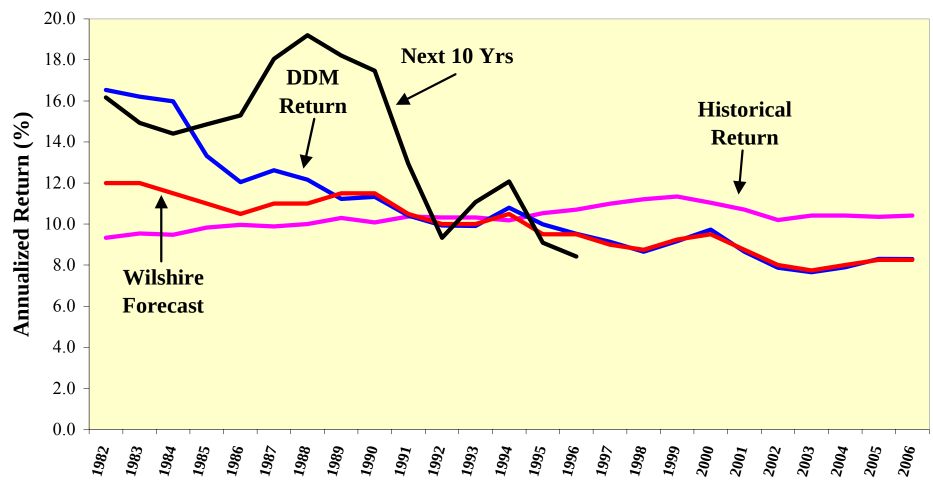
Exhibit 6
DDM Forecast Sensitivity to Inputs

		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.

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



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

Non-U.S. Stocks

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

Exhibit 8
Historical Returns (through 2006)

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

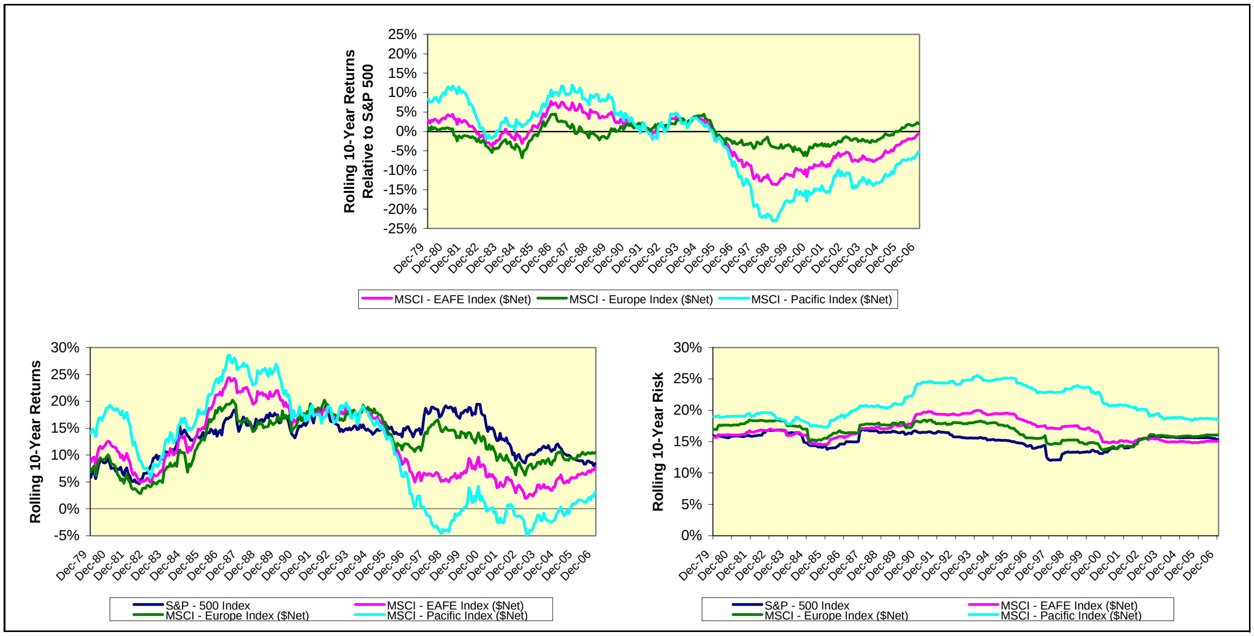
Reliable returns for non-U.S. stocks are available beginning 1970. Since that time U.S. stocks, as represented by the S&P 500 Index, have returned 11.2% per year, versus 10.9% for non-U.S. stocks as measured by Morgan Stanley Capital International's ("MSCI") EAFE Index in U.S. dollars.

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

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

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

Exhibit 9
Rolling 10-Year Return & Risk Comparisons



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

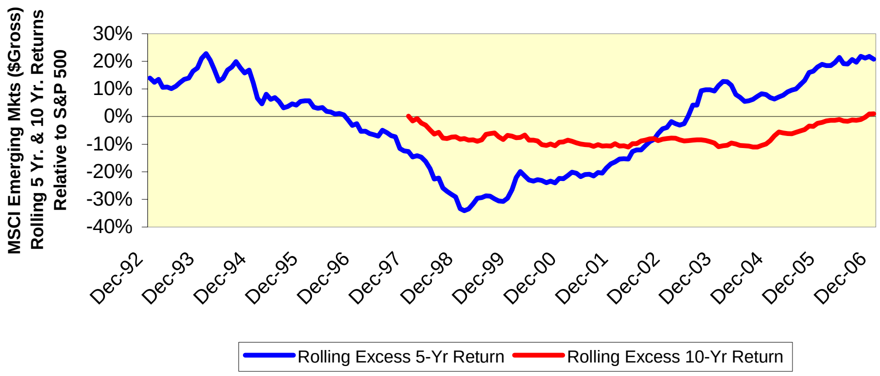
Emerging Markets

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

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

Exhibit 10
Emerging Market Returns (1988 through 2006)

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



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

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

Fixed Income

U.S. Bonds

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

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

Exhibit 11
Historical Treasury Yield Spreads

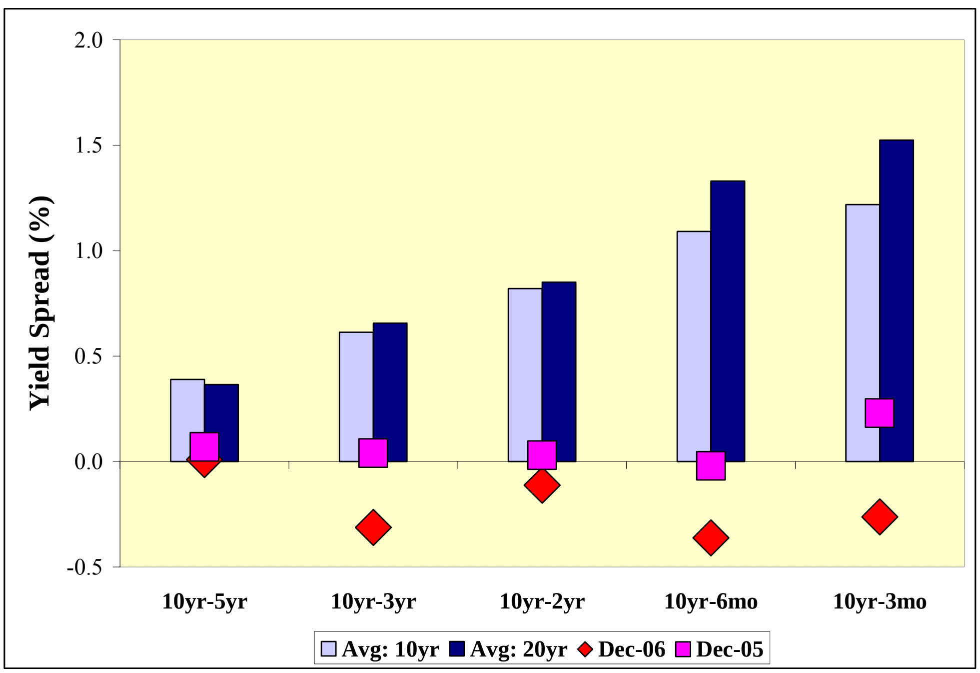
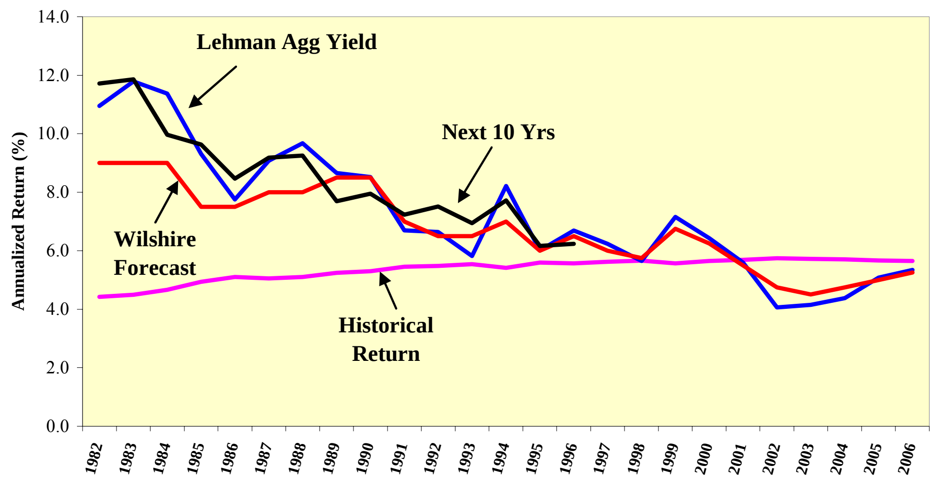


Exhibit 12 below compares Wilshire's past bond return assumptions with historical returns, yields, and the rolling returns for the ten year period following each forecast. The accuracy of Wilshire's forecast methodology of future long-term returns is confirmed by the tight relationship between the forecast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

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



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

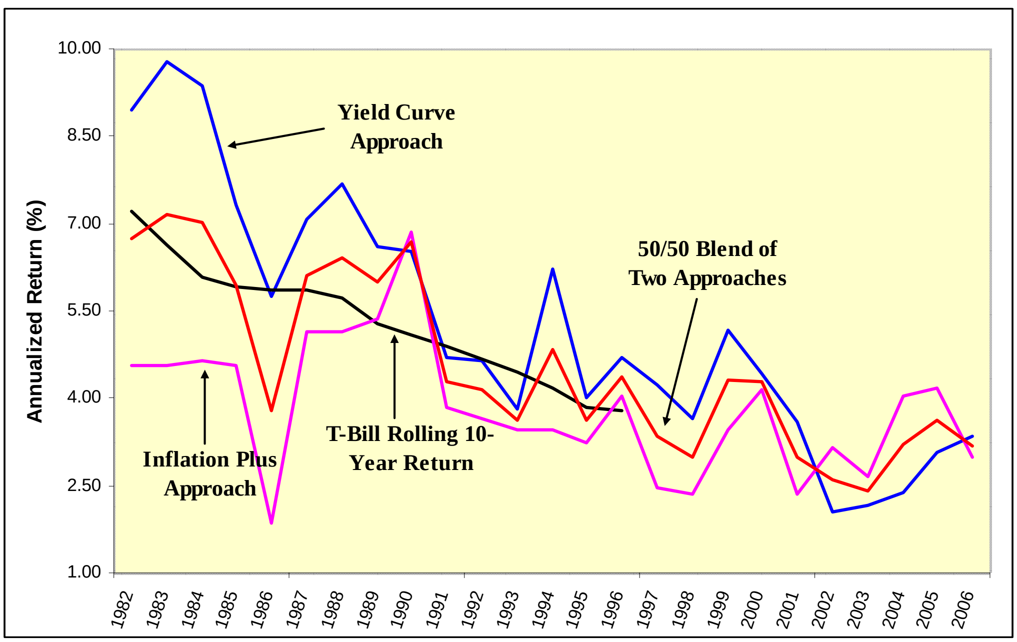
Cash Equivalents

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

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

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

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



Non-U.S. Bonds

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

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

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

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

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

Treasury Bonds and Treasury Inflation Protected Securities (TIPS)

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

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

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

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

High Yield Bonds

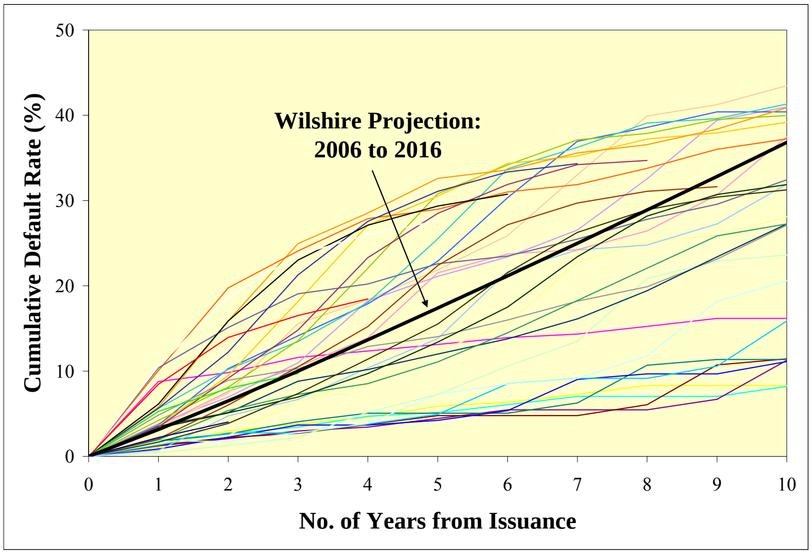
Wilshire's return forecast for high yield bonds is 6.75%. This return forecast is based upon our high yield bond model that accounts for the dynamic nature of credit yield spreads, defaults and recoveries.

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

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

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

Exhibit 15
Historical Cumulative Default Paths - 1970 to 2005

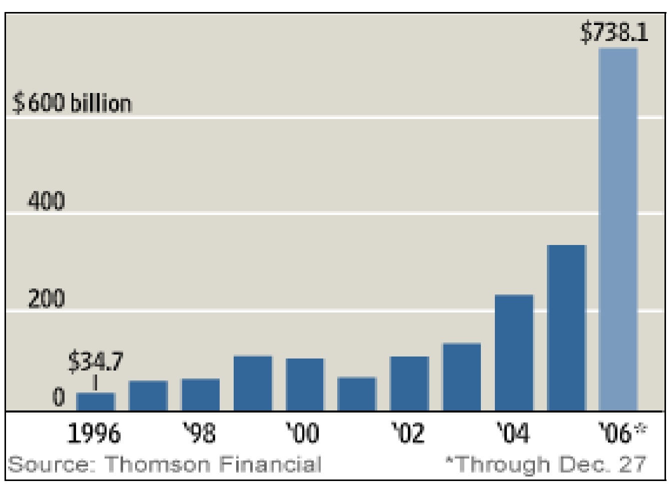


Our previous research on high yield bonds[4] explains the rationale behind Wilshire's long-term return forecasting methodology in greater detail.

Private Market Investments

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

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



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

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

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

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

Buyouts

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

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

Venture Capital

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

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

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

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

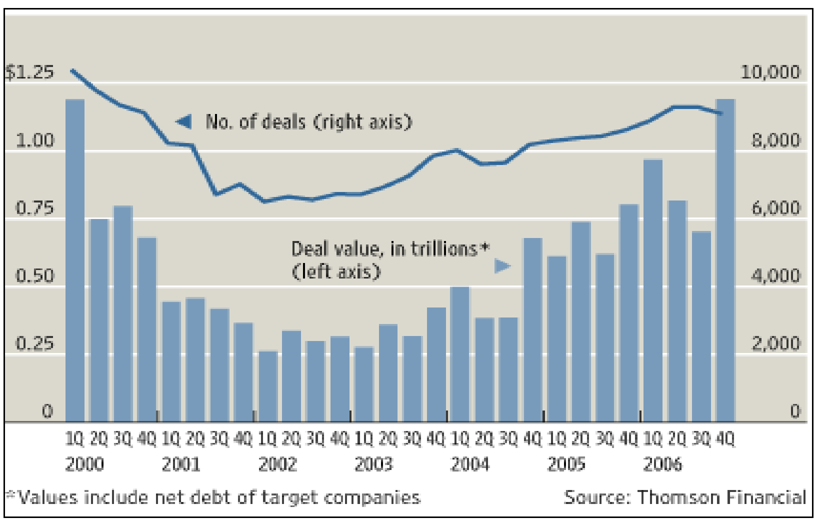
$E(r) = 1.7(8.25 - 3.00) + 3.00 = 11.93\%$, which we round to 12.00%.

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

Non-U.S. Buyouts

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

Exhibit 17
2000-2006 Global Private Equity Transactions



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

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

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

Distressed Debt

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

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

Mezzanine Debt

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

Private Markets Portfolio

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

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

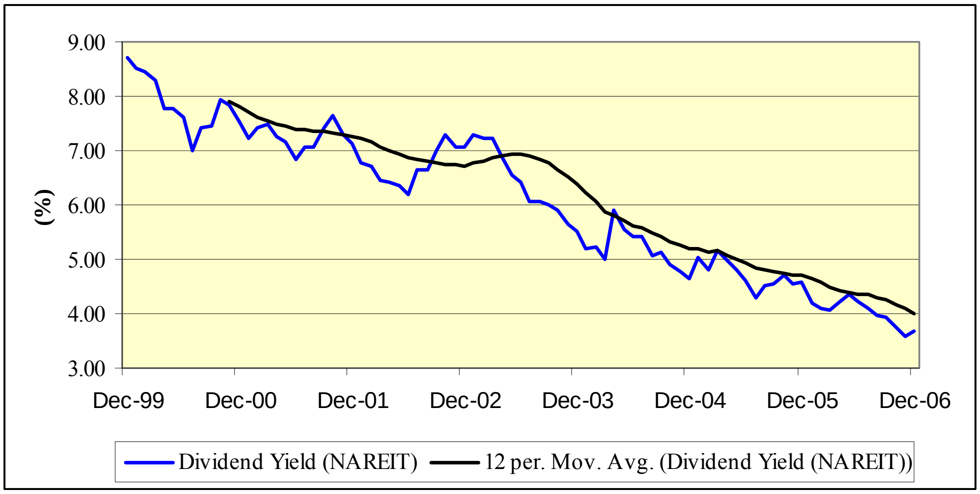
The weightings were chosen because they are representative of typical private market allocations of large institutional investors. When the components are geometrically calculated with a lognormal assumption, the forecast return for a diversified private markets portfolio is 11.7%, which we round to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

Real Estate Investments

U.S. Real Estate Securities

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

Exhibit 18
REIT Dividend Yield



Source: NAREIT

Global Real Estate Securities

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

Private Real Estate (Direct Property)

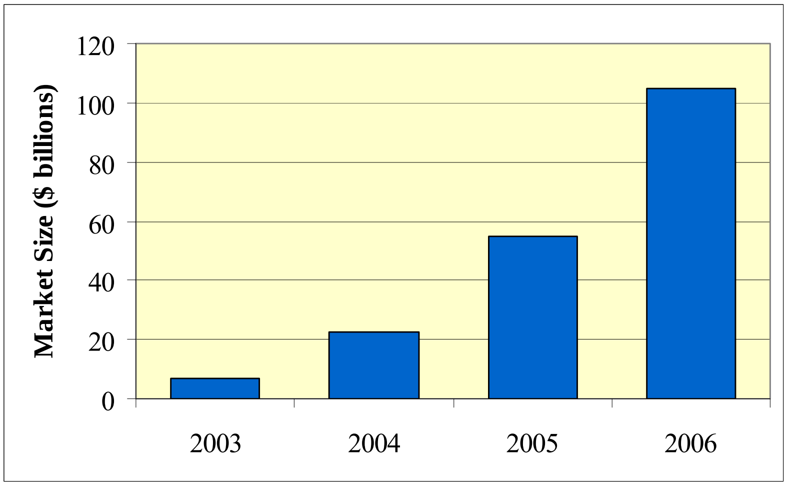
Private real estate investments can be divided into three primary subsets: core (including core infrastructure), value-added, and opportunistic. Wilshire's return assumption for private real estate is 6.75% and is based on a private real estate portfolio consisting of 70% core, 15% value-added, and 15%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

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

Commodities

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

Exhibit 19
Commodity Index Investments



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

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

Exhibit 20
Historical Commodity Returns

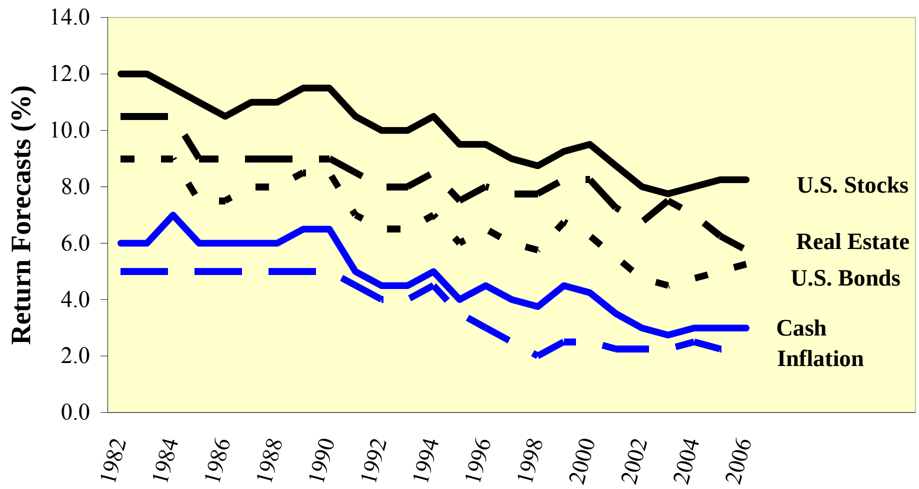
Wilshire's forecasted risk for commodity futures is 13% based on the historical record of the Dow Jones-AIG Commodity Index. It is important to note that other indexes differ in composition from the Dow Jones-AIG index and therefore may be substantially more or less risky.

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

Wilshire Forecasts Over Time

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

Exhibit 21
Wilshire's Past Forecasts for Asset Class Returns



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

Risk and Correlation

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

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

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

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

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Appendix A: Wilshire 2007 Correlation Matrix

	Equity				Fixed Income								Alternative					
		Dev ex-US Stock									Non-US Bond		Real Estate					
	US Stock	(USD)	(LC)	Emg Stock	Cash	Core Bond	LT 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.

Appendix B: Wilshire 2007 Private Markets Correlation Matrix

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

Appendix C: Wilshire 2007 Private Real Estate Correlation Matrix

			----------- 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

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

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

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

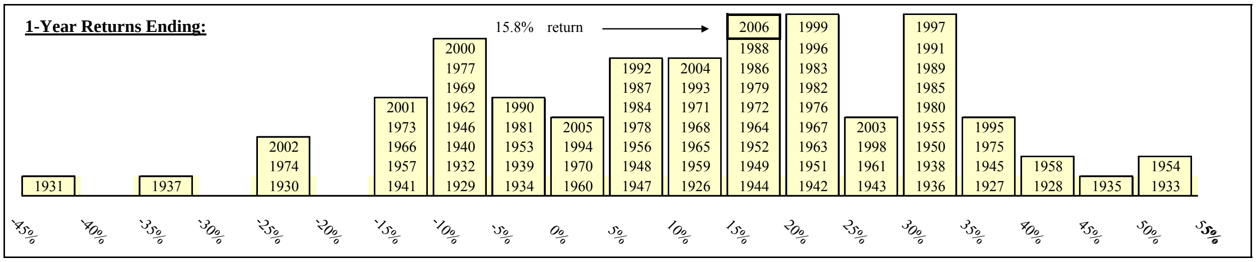
Year	S&P 500 Index	Bond Index	T-bills	CPI
1926-30	8.7	5.8	3.4	-2.1
1927-31	-5.1	3.9	3.0	-3.7
1928-32	-12.5	4.5	2.5	-5.4
1929-33	-11.2	6.0	1.9	-5.1
1930-34	-9.9	8.1	1.0	-4.8
1931-35	3.1	8.4	0.5	-3.0
1932-36	22.5	10.3	0.3	-0.8
1933-37	14.3	8.6	0.2	2.0
1934-38	10.7	7.8	0.1	1.3
1935-39	10.9	5.8	0.1	0.8
1936-40	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

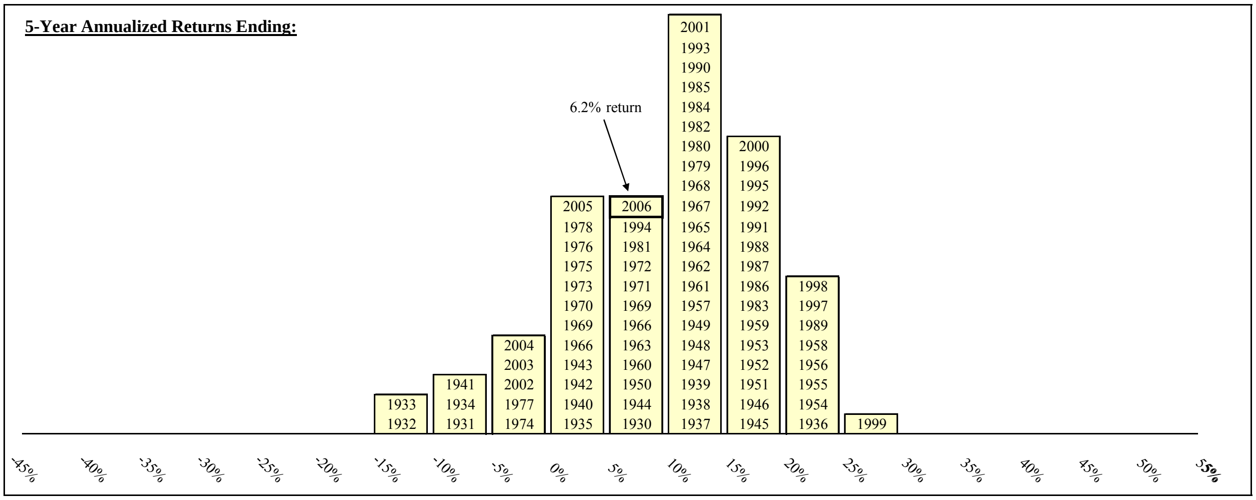
Year	S&P 500 Index	Bond Index	T-bills	CPI
1965-69	5.0	-2.2	4.9	3.8
1966-70	3.4	1.2	5.4	4.5
1967-71	8.4	3.3	5.4	4.5
1968-72	7.5	5.8	5.3	4.6
1969-73	2.0	5.8	5.6	5.4
1970-74	-2.4	7.6	6.0	6.6
1971-75	3.2	6.5	5.8	6.9
1972-76	4.9	7.4	5.9	7.2
1973-77	-0.2	6.5	6.3	7.9
1974-78	4.3	6.3	6.4	8.0
1975-79	14.8	6.7	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%**	

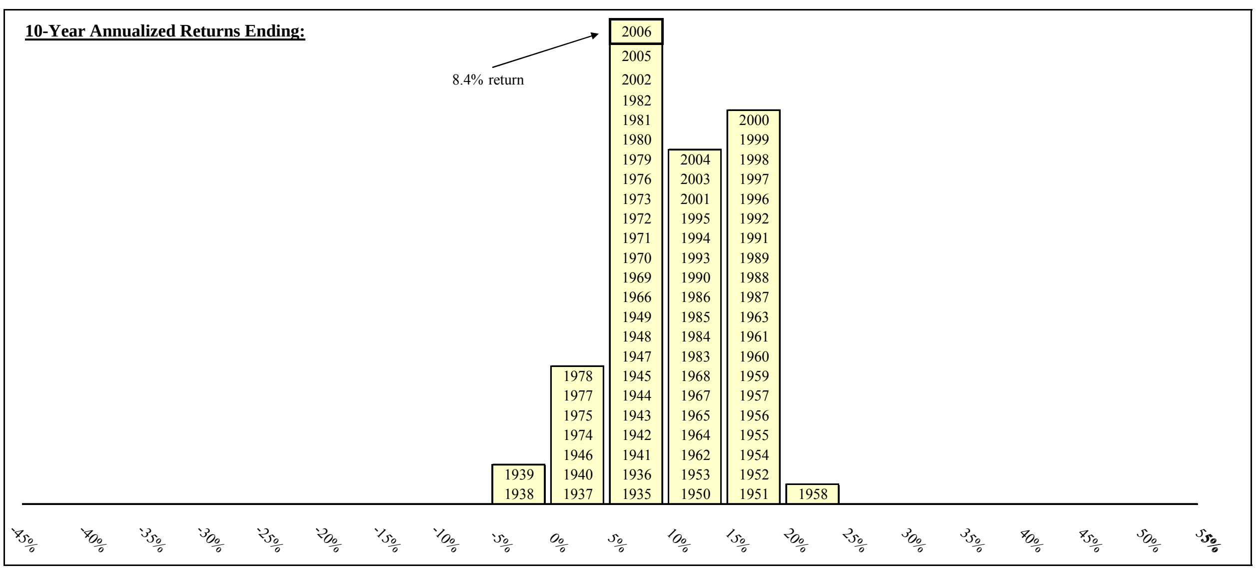
Appendix D: Historical 10-Year Rolling Returns: 1926 to 2006

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

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







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Investment Committee Calendar

October	November
Investment Committee Revised Charter approval vote Investment Consultant contract renewal approval vote RFP issuance for Investment Consultant vote Annual Investment Consultant ALV Study - State Insurance Fund Securities Lending overview presentation	Investment Consultant 3Q07 Performance Report Passive Fixed Income management credit issuer ownership limits
December	**January**
	Investment Consultant RFP Finalist recommendation
February	**March**
Investment Consultant 4Q07 Performance Report	
April	**May**
	Investment Consultant 1Q08 Performance Report
June	**July**
August	**September**
Investment Consultant 2Q08 Performance Report	

The Ohio Bureau of Workers' Compensation

Statement of Investment Policy and Guidelines

Adopted by the WCOC: July 26, 2007

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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: July 26, 2007

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

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Appendix IX: Asset Allocation Criteria

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

Appendix X.A: State Insurance Fund (SIF)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix X.C: Marine Industry Fund (MIF)

The Marine Industry Fund ("MIF") provides voluntary coverage to employers who have employees who work on or about navigable waters as required by the Federal Longshoremen and Harbor Workers' Act.

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

The actual liabilities of the Fund may vary from the expectations at the time premiums are set due to future changes in the discount rate, unanticipated medical inflation, and/or actual claim experience that differs from actuarial expectations. In order to protect the Fund against adverse changes in the Fund's assets relative to its liabilities, the WCOC has adopted a policy to invest the reserves primarily in a fixed income portfolio that will approximate the duration and yield curve characteristics of the liabilities[1] as measured by the Fund's actuary and Consultant on an annual basis, or more frequently if conditions warrant. A portion of the reserve and surplus may also be invested in equity, inflation-protected, or other securities in order to protect the reserve against unexpected medical inflation and adverse claims experience and/or for the purpose of growing the surplus.

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

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

Asset Class	Policy Target
Total Fixed Income:	***99%***
Intermediate Duration	99%[2]
Cash Equivalents	***1%***
Total Equity	***0%***

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

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

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

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

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

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

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

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

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

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

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

These liabilities are intermediate-term in nature, with an approximate duration of 3-4 years. Premiums are set each year at a level that is expected to cover the cost of future claims. These costs are discounted at a rate that is consistent with the guidelines as established by the GASB.

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

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

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

Asset Class	**Policy Target**
Total Fixed Income:	***99%***
Intermediate Duration	99%[1]
Cash Equivalents	***1%***
Total Equity	***0%***

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

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

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

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

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

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

Appendix XI.A

Ohio Bureau of Workers' Compensation State Insurance Fund

Asset-Liability Valuation

July 26, 2007

Mark E. Brubaker, CFA
Managing Director

Michael D. Patalsky, CFA
Senior Associate

Agenda

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Recommendation

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

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

- The recommendation is based on the following factors:
  - The Obligations of the State Insurance Fund are long-term in nature, with a duration of approximately 10.3 years (versus 10.4 from the 2006 ALV report)
  - The Fund has minimal short term cash needs as current premiums are approximately equal to current claims and are expected to ultimately exceed claims
  - There is no asset allocation that can eliminate risk due to the relatively weak capital structure of the Fund and the medical inflation risk embedded in the claims of the Fund
  - The OBWC is a monopoly and is not subject to competition, therefore, future premiums are relatively predictable
  - Premiums are currently based on discounted (at 5.25%) expected future claims, thereby setting a “hurdle rate” of return on investments for the Fund
  - OBWC views itself as an ongoing entity
- A mix with a minimum of 20% equities provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons

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II. Asset-Liability Valuation Background

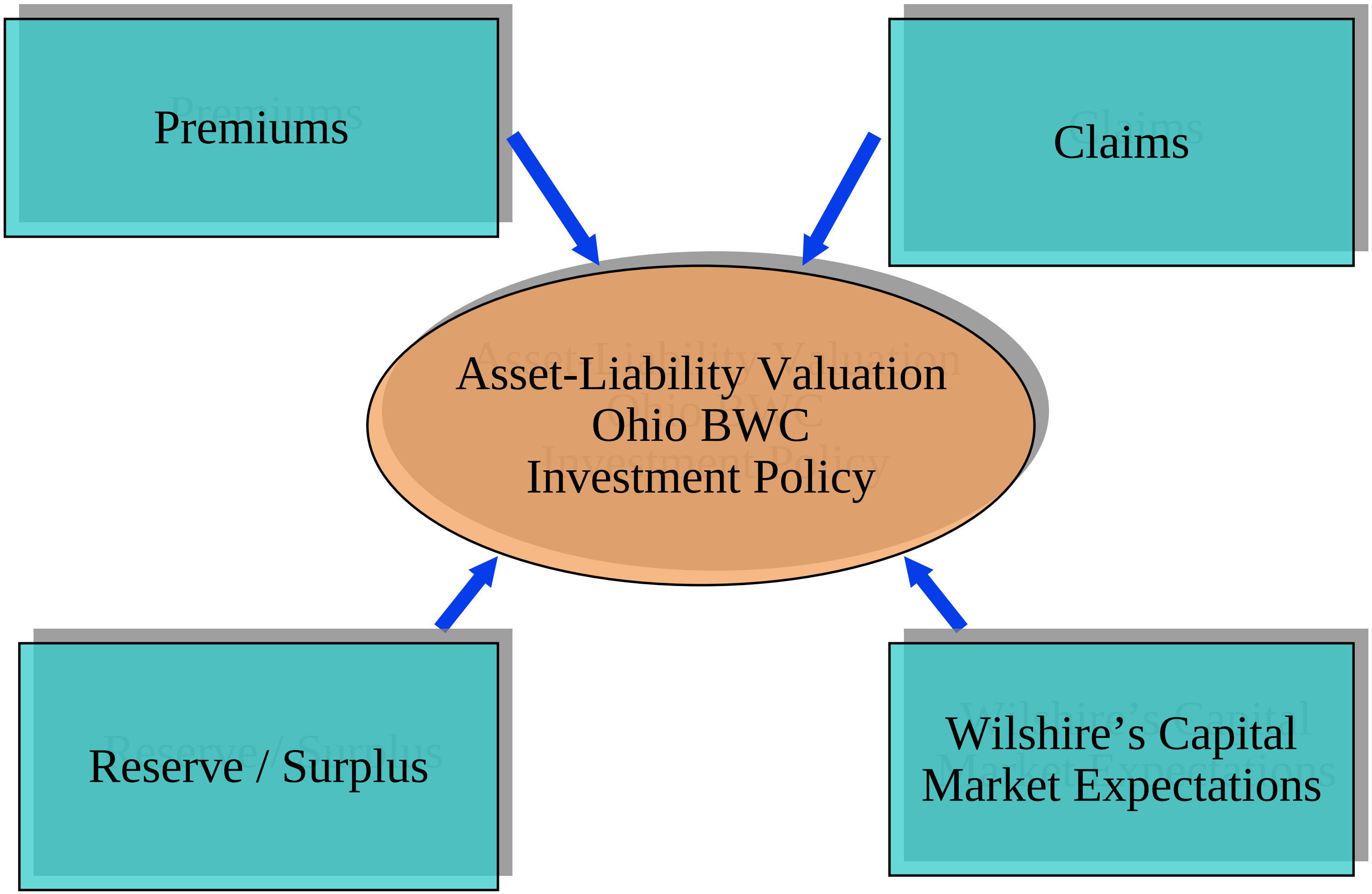
Purpose of the Study

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

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Wilshire's 10-Year Capital Market Assumptions

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

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

Source: Wilshire Consulting: 2007 Asset Allocation Return and Risk Assumptions

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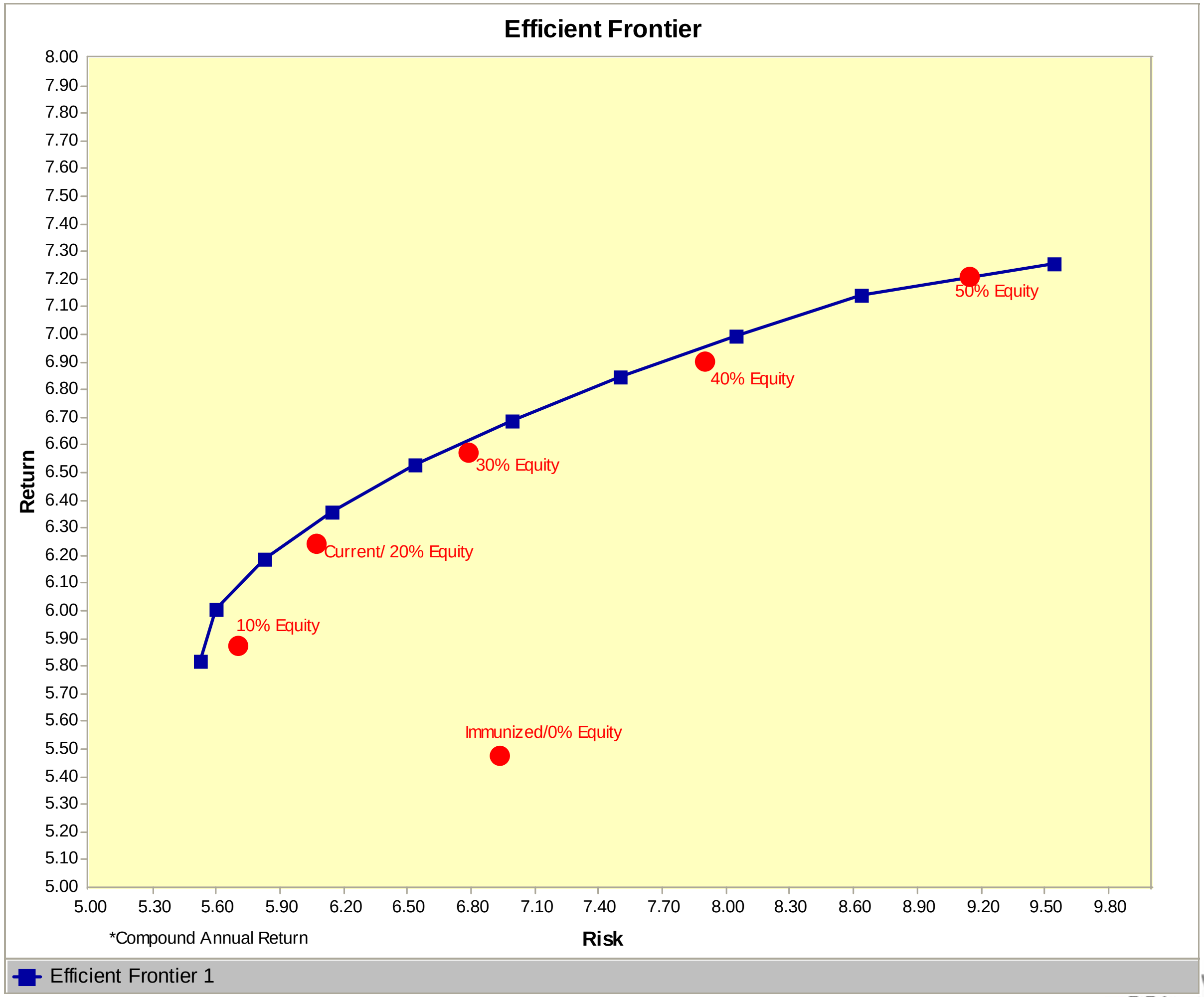
Efficient Frontier

- 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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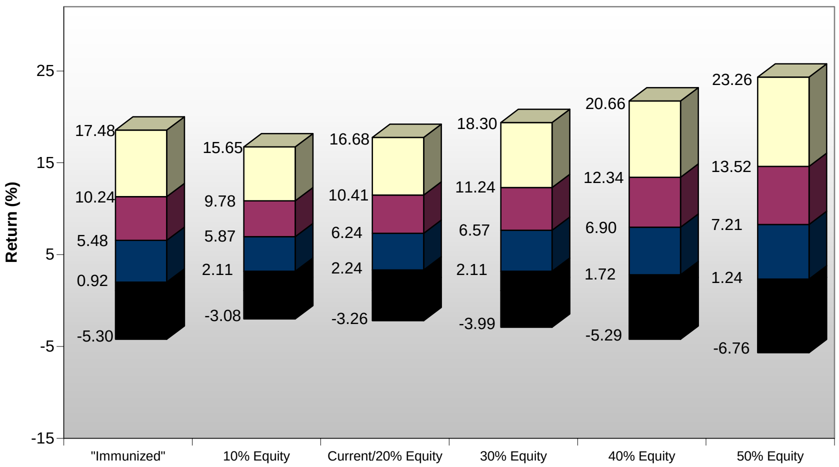
Efficient Portfolios

	"Immunized"	Total Return				
	Portfolio Weights					
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%**

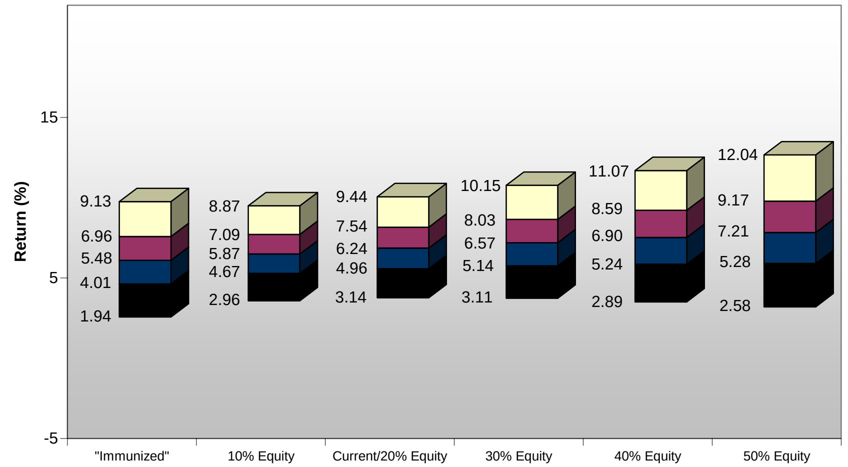
- Constraints:
  - Total Equity < 50%; High Yield < 5%; Inflation Protected < 20%; Cash Equivalents < 1%
- Long Duration Bonds and Inflation-Protected Securities are favored by the ALV model due to the long term and embedded medical and wage inflation components of the claim payment stream.
- Risk represents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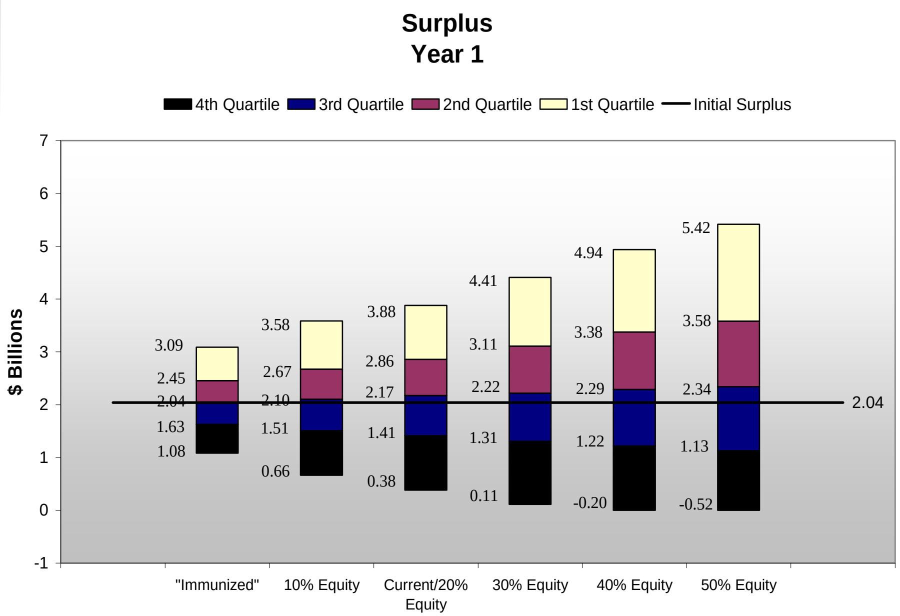
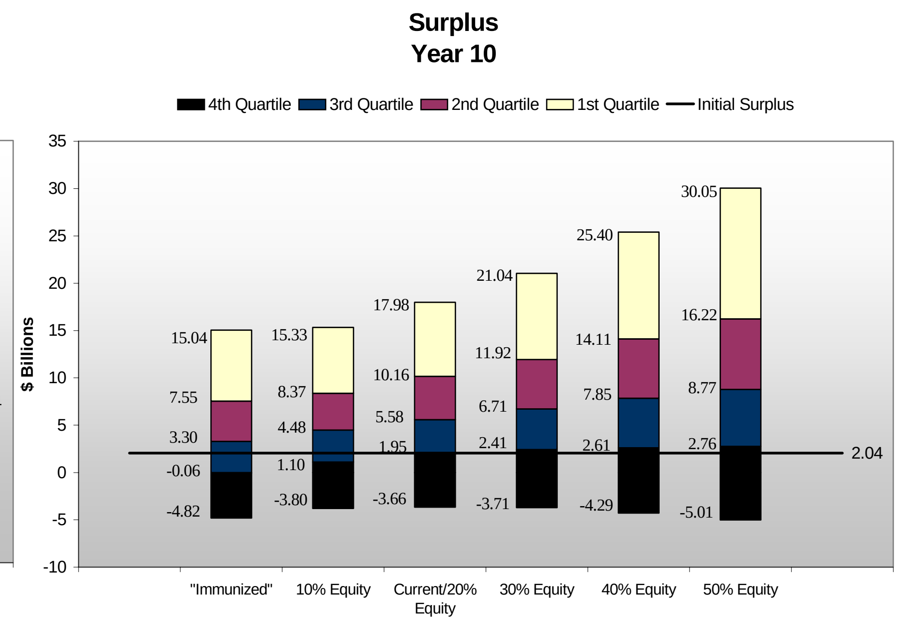
IV. Asset-Liability Modeling

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

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

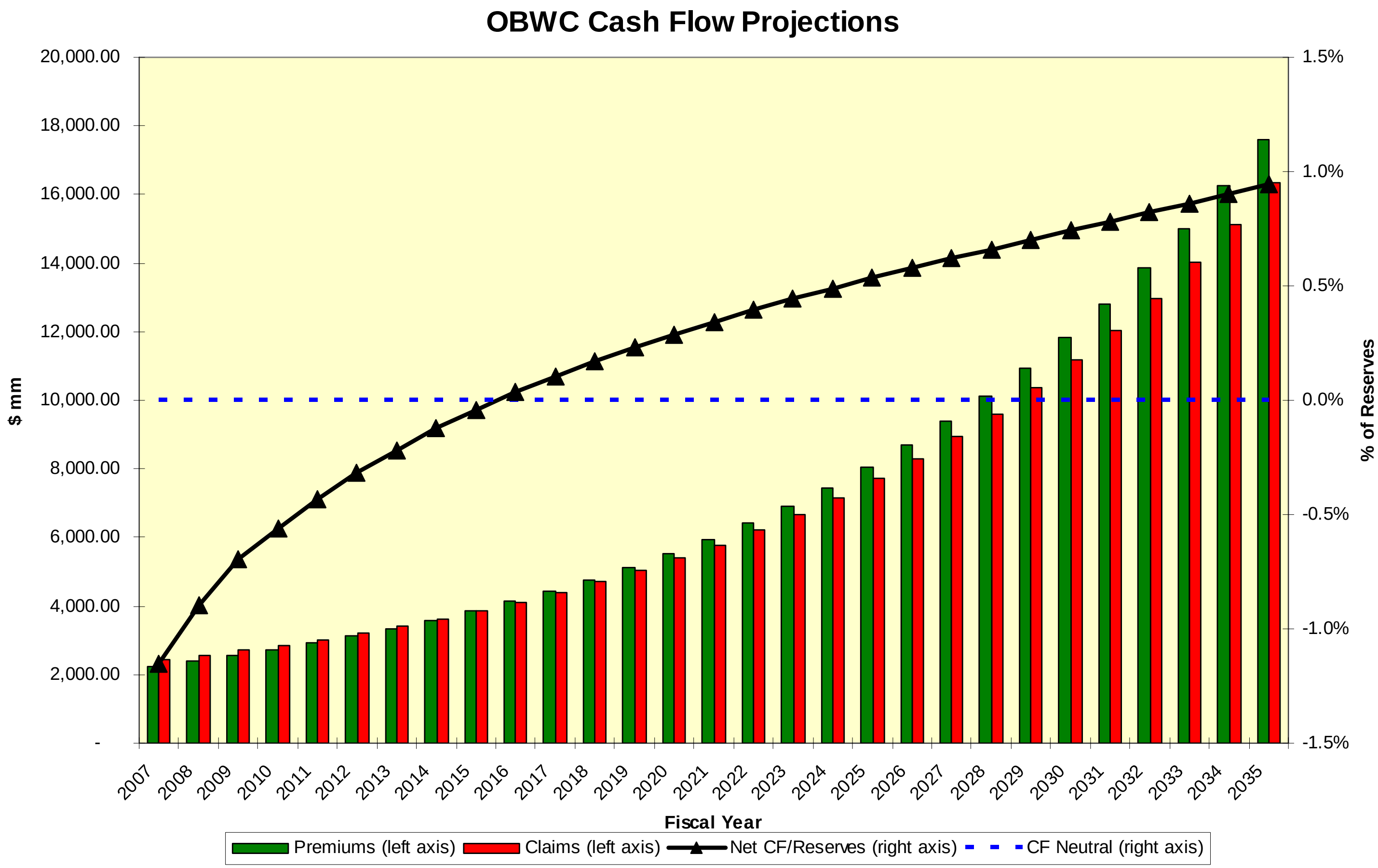
	"Market Environment"	"Immunized"	10% Equity	Current/20% Equity	30% Equity	40% Equity	50% Equity
Year 3	Bottom 5%	0.37	-0.13	-0.48	-0.94	-1.39	-1.78
	Bottom Quartile	1.42	1.46	1.43	1.36	1.20	1.04
	Median	2.35	2.52	2.75	2.94	3.14	3.35
	Top Quartile	3.28	3.69	4.12	4.65	5.18	5.77
	Top 5%	4.75	5.55	6.45	7.41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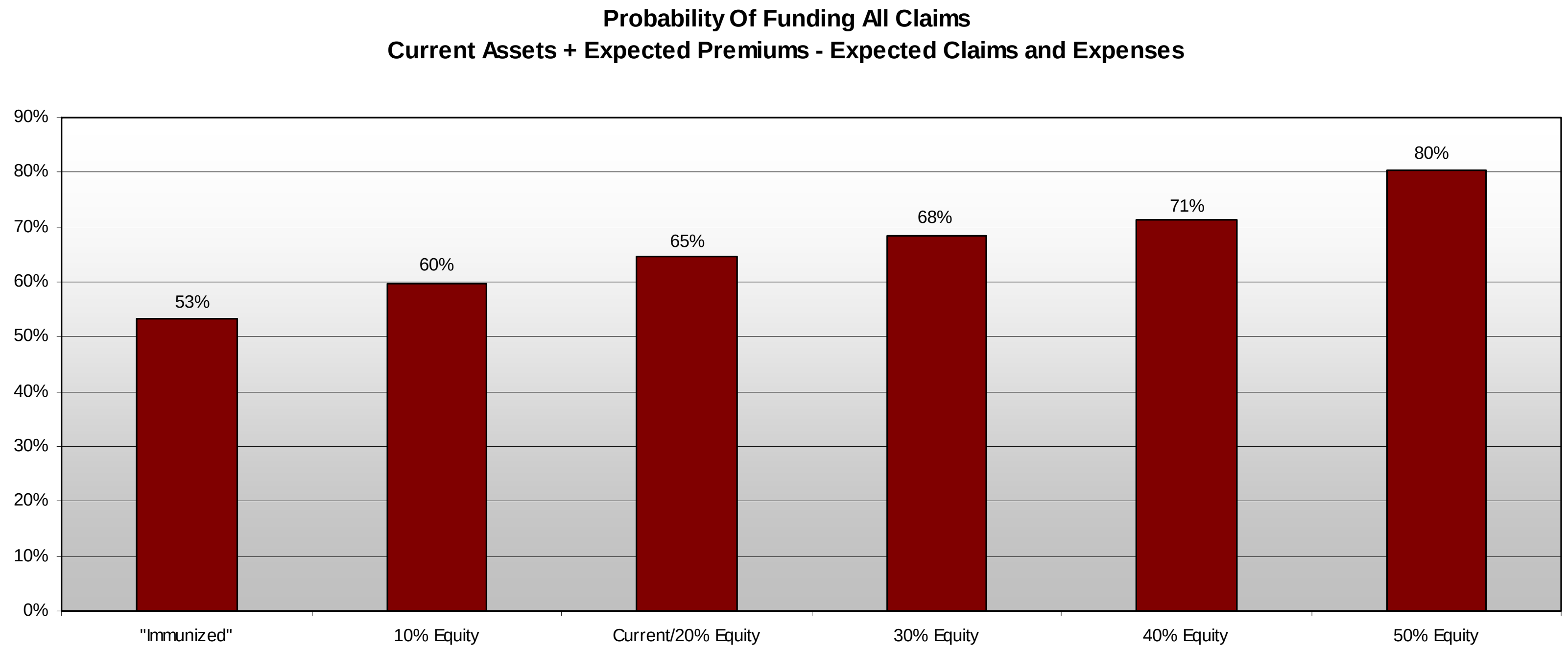
Probability of Success

- 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

Appendix XI.B

Ancillary Funds Asset Allocation Recommendation

Ohio Bureau of Workers' Compensation Investment Committee

September 28, 2006

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Ancillary Funds Asset Allocation Recommendation

- Wilshire has conducted an asset allocation analysis for the Ohio Bureau of Workers' Compensation Ancillary Funds:

    - Disabled Workers'
    - Coal Workers'
    - Public Workers'
    - Marine
    - Self-Insured

- As of August 31, 2006, Ancillary Fund assets totaled $1.4 billion, representing approximately 8% of total OBWC Investments
    - All Fund assets, excluding the Self-Insured Fund, were invested in the SSgA Lehman Aggregate Index Fund
    - The Self-Insured Fund has historically been invested in short-term cash-equivalents
- The asset allocation recommendations are detailed on the following page

Asset Allocation Recommendation

Summary Statistics:

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

Recommended Asset Allocation Policy:

	% Allocation						
Asset Class	**SIF**	**Disabled Workers**	**Coal Workers**	**Public Workers**	**Marine**	**Self Insured**	**Total OBWC**
U.S. Equity	**15**	**15**	**~~15~~ 20**	**0**	**0**	**0**	**15**
Large Cap	*12*	*12*	*~~12~~ 17*	*0*	*0*	*0*	*12*
Active	0	0	0	0	0	0	0
Passive	12	12	~~12~~ 17	0	0	0	12
Small/Mid Cap	*3*	*3*	*3*	*0*	*0*	*0*	*3*
Active	3	3	0	0	0	0	3
Passive	0	0	3	0	0	0	0
Non-U.S. Equity	**5**	**5**	**~~5~~ 0**	**0**	**0**	**0**	**5**
Active	~~4~~ 5	~~4~~ 5	0	0	0	0	~~4~~ 5
Passsive	~~1~~ 0	~~1~~ 0	~~5~~ 0	0	0	0	~~1~~ 0
Fixed Income - Long Duration	**54**	**54**	**54**	**0**	**0**	**0**	**54**
Active	27	27	0	0	0	0	27
Passive	27	27	54	0	0	0	27
Fixed Income - Intermediate	**0**	**0**	**0**	**99**	**99**	**0**	**0**
High Yield	**5**	**5**	**5**	**0**	**0**	**0**	**5**
Active	5	5	5	0	0	0	5
Passive	0	0	0	0	0	0	0
Inflation-Protected Securities	**20**	**20**	**20**	**0**	**0**	**0**	**20**
Active	0	0	0	0	0	0	0
Passive	20	20	20	0	0	0	20
Cash Equivalents	**1**	**1**	**1**	**1**	**1**	**100**	**1**

Fund Descriptions

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

Fund Descriptions

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

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

Implementation Issues

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

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

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

Appendix XII: Ohio Revised Code Section 4123.44

R.C. § 4123.44

Baldwin's Ohio Revised Code Annotated Currentness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HISTORICAL AND STATUTORY NOTES

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

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

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

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

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

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

CROSS REFERENCES

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

LIBRARY REFERENCES

Workers' Compensation ⚷1049.

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

RESEARCH REFERENCES

Encyclopedias

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

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

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

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

Treatises and Practice Aids

Ohio Personal Injury Practice App. B, Appendix B.

Ohio Personal Injury Practice App. B, Appendix B.

NOTES OF DECISIONS

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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

Appendix XIII: Legal Requirements Summary

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

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

I. General Investment Authority and Criteria

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

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

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

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

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

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

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

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

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

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

II. Workers' Compensation Oversight Commission Investment Duties

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

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

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

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

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

III. Administrator's Investment Duties

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

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

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

IV. Chief Investment Officer Duties

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

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

(B) The bureau of workers' compensation chief investment officer shall reasonably supervise employees of the bureau who handle investment of assets of funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code with a view toward preventing violations of Chapter 1707. of the Revised Code, the "Commodity Exchange Act," 42 Stat. 998, 7 U.S.C. 1, the "Securities Act of 1933," 48 Stat. 74, 15 U.S.C. 77a, the "Securities Exchange Act of 1934," 48 Stat. 881, 15 U.S.C. 78a, and the rules and regulations adopted under those statutes. This duty of reasonable supervision shall include the adoption, implementation, and enforcement of written policies and procedures reasonably designed to prevent employees of the bureau who handle investment of assets of the funds specified in this chapter and Chapters 4121., 4127., and 4131. of the Revised Code, from misusing material, nonpublic information in violation of those laws, rules, and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Investment Manager Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

> (C) The administrator shall not enter into a contract with an investment manager who refuses to submit the list of the investment manager's employees required under division (B) of section 4123.444 of the Revised Code. An investment manager shall not enter into a contract with a business entity that refuses to submit the list of the business entity's employees required under division (B) of section 4123.444 of the Revised Code.
>
> (D) If, after a contract has been awarded to an investment manager or business entity for the investment of assets of bureau of workers' compensation funds, the investment manager or business entity discovers that an employee who is handling the investment of those assets has been convicted of or pleaded guilty to a financial or investment crime, the investment manager or business entity immediately shall notify the administrator.

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

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

VI. Fiduciary Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BWC Securities Lending Presentation

Securities Lending

Lee Damsel, CFA

Director of Investments

OCTOBER 25, 2007

What is Securities Lending?

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

Securities Lending

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

What Securities are Loaned?

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

Securities lending involves:

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

Why Lend Securities?

Maximize Revenue

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

Minimize Risk

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

Legal Obligations of Borrowers

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

What are the risks?

Risk	Risk Control
1. Borrower Risk	
• Borrower defaults or is insolvent, failing to re-deliver borrowed securities	• Capital and rating requirements, and extensive ongoing credit reviews • Daily collateral mark-to-market • Indemnification insurance provided by third party in the event of borrower default
2. Collateral Risk	
• Investment default, credit risk and liquidity or duration mismatch in the cash reinvestment portfolio	• Monitor and manage • Establish conservative reinvestment guidelines

What are the risks? *(cont.)*

Risk	Risk Control

3. External Securities Lender Risk

Risk	Risk Control
• Process mistakes and errors in administering lending programs	• Daily reconciliation • Controlled process and procedures in a controlled environment • Compliance monitoring

4. BWC Legal/Contractual Risk

Risk	Risk Control
• Compliance with program guidelines	• Standardized documentation • Audit/compliance oversight

Summary

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

Questions

Ohio Bureau of Workers' Compensation State Insurance Fund

Asset-Liability Valuation

July 26, 2007

Mark E. Brubaker, CFA
Managing Director

Michael D. Patalsky, CFA
Senior Associate

Agenda

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Recommendation

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

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

- The recommendation is based on the following factors:
  - The Obligations of the State Insurance Fund are long-term in nature, with a duration of approximately 10.3 years (versus 10.4 from the 2006 ALV report)
  - The Fund has minimal short term cash needs as current premiums are approximately equal to current claims and are expected to ultimately exceed claims
  - There is no asset allocation that can eliminate risk due to the relatively weak capital structure of the Fund and the medical inflation risk embedded in the claims of the Fund
  - The OBWC is a monopoly and is not subject to competition, therefore, future premiums are relatively predictable
  - Premiums are currently based on discounted (at 5.25%) expected future claims, thereby setting a “hurdle rate” of return on investments for the Fund
  - OBWC views itself as an ongoing entity
- A mix with a minimum of 20% equities provides a balance between the long-term growth of the surplus with the preservation of the surplus over intermediate time horizons

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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).

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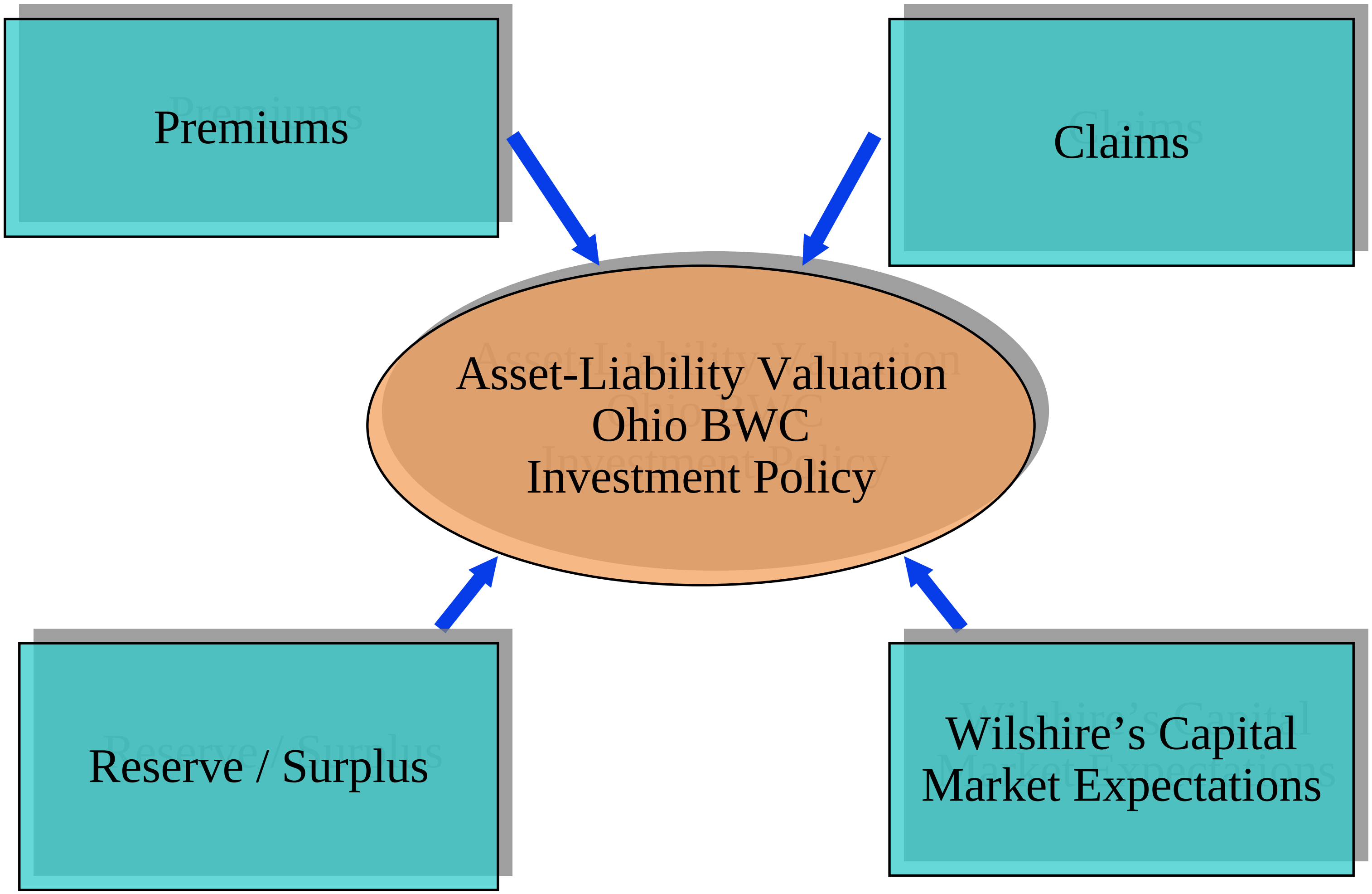
Asset-Liability Valuation Methodology

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



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

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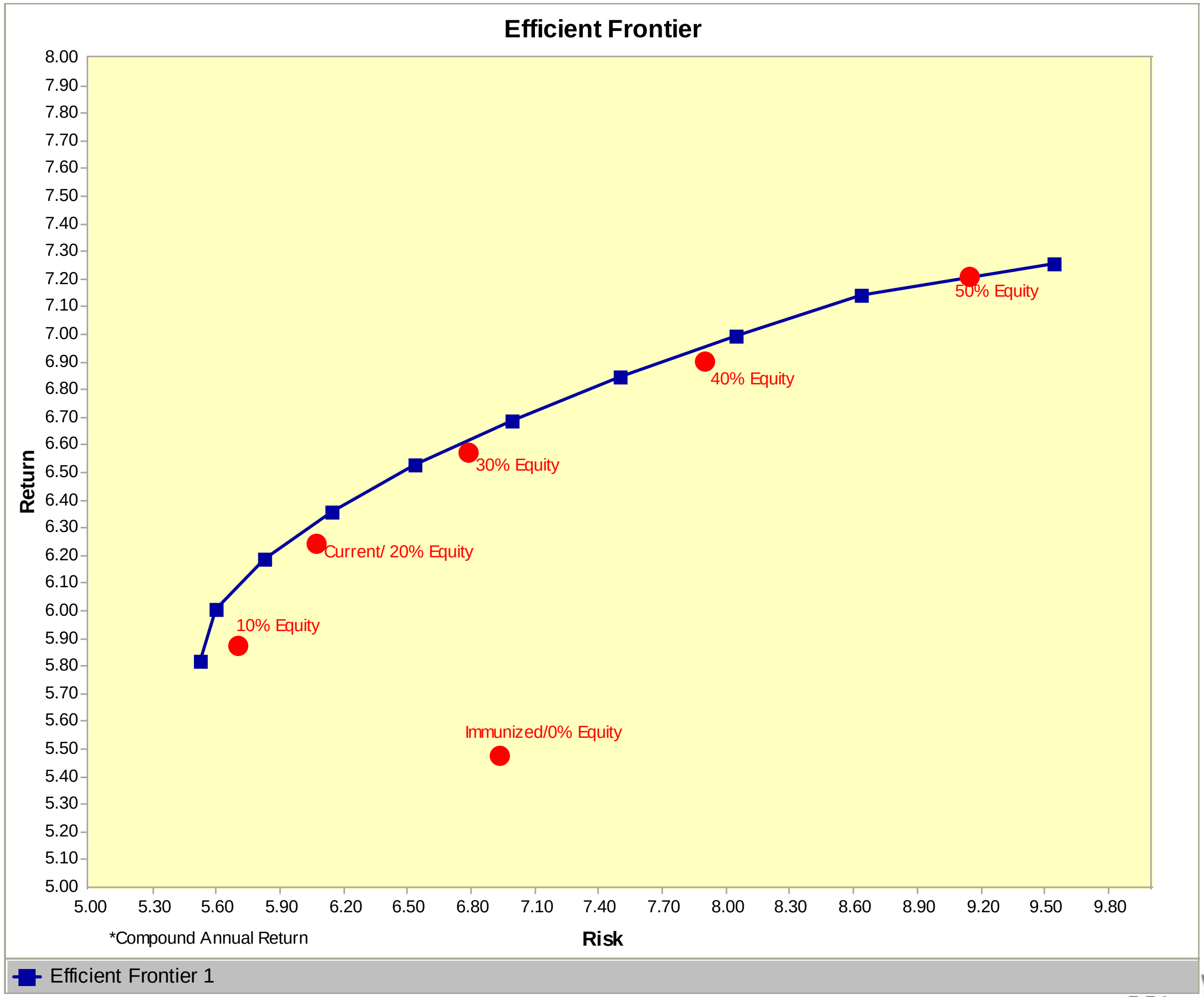
Efficient Frontier

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



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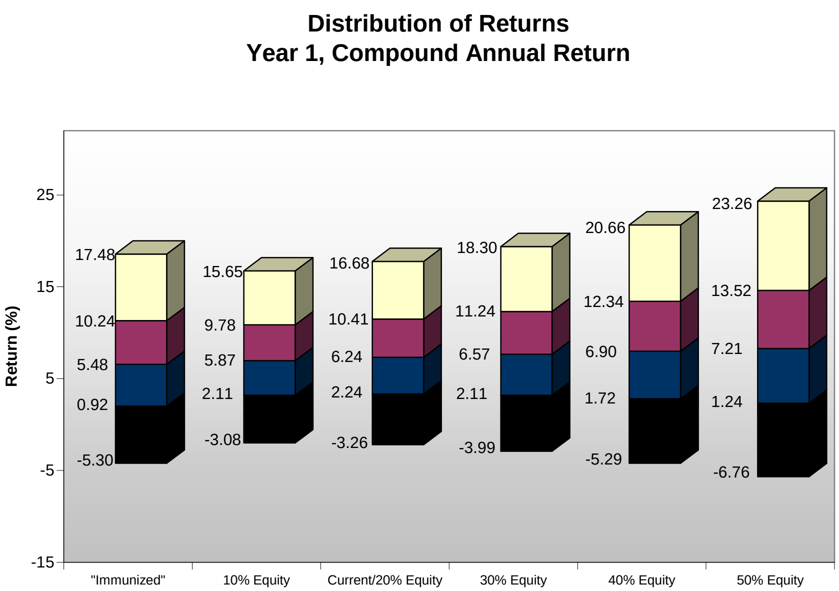
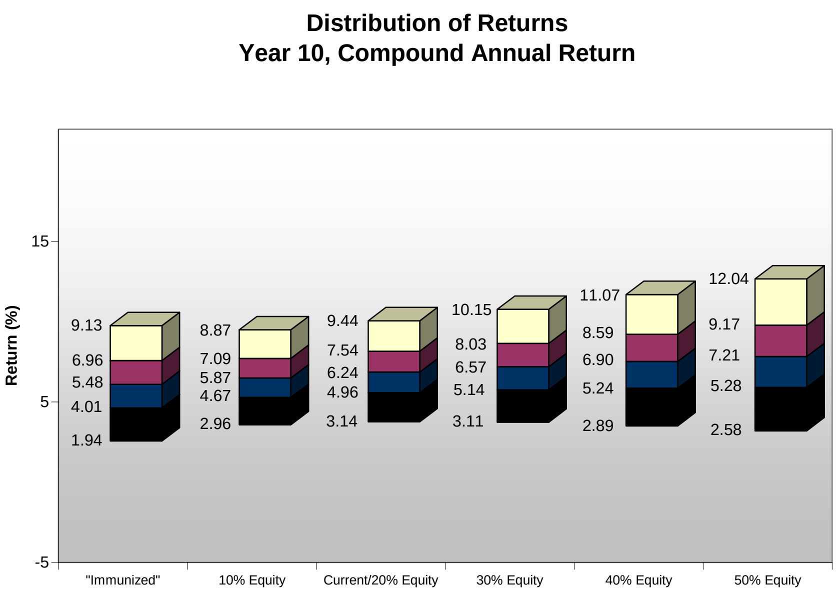
Efficient Portfolios

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

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

1 and 10-Year Distribution of Expected Returns





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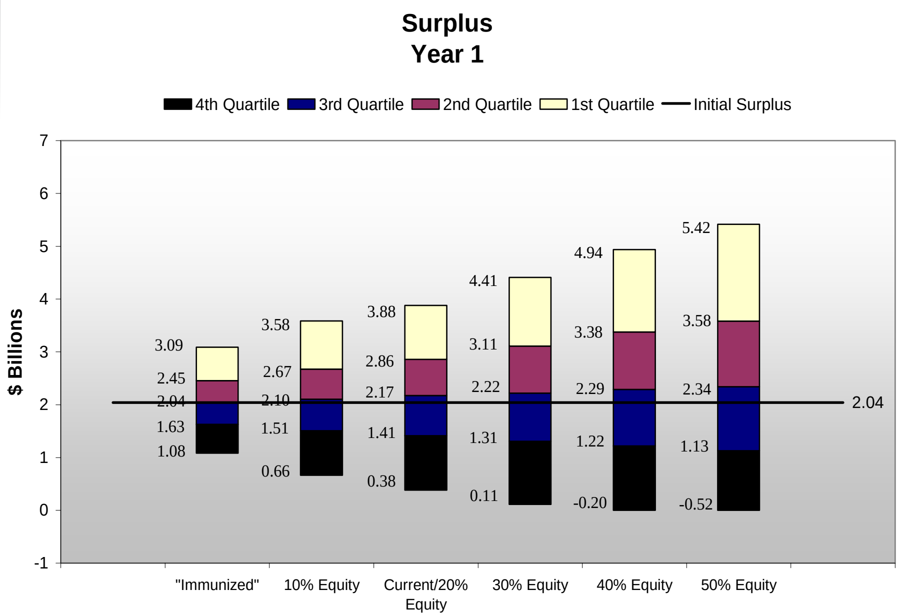
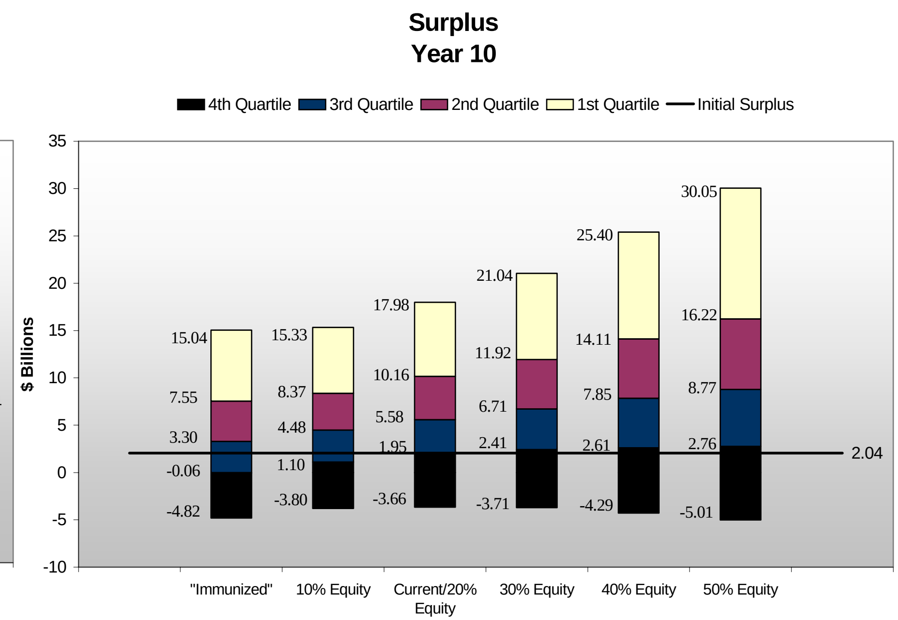
IV. Asset-Liability Modeling

Stochastic Simulation of Surplus: Year 1 and Year 10

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





Source: Mercer and Wilshire

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Potential Outcomes: Surplus

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

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

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

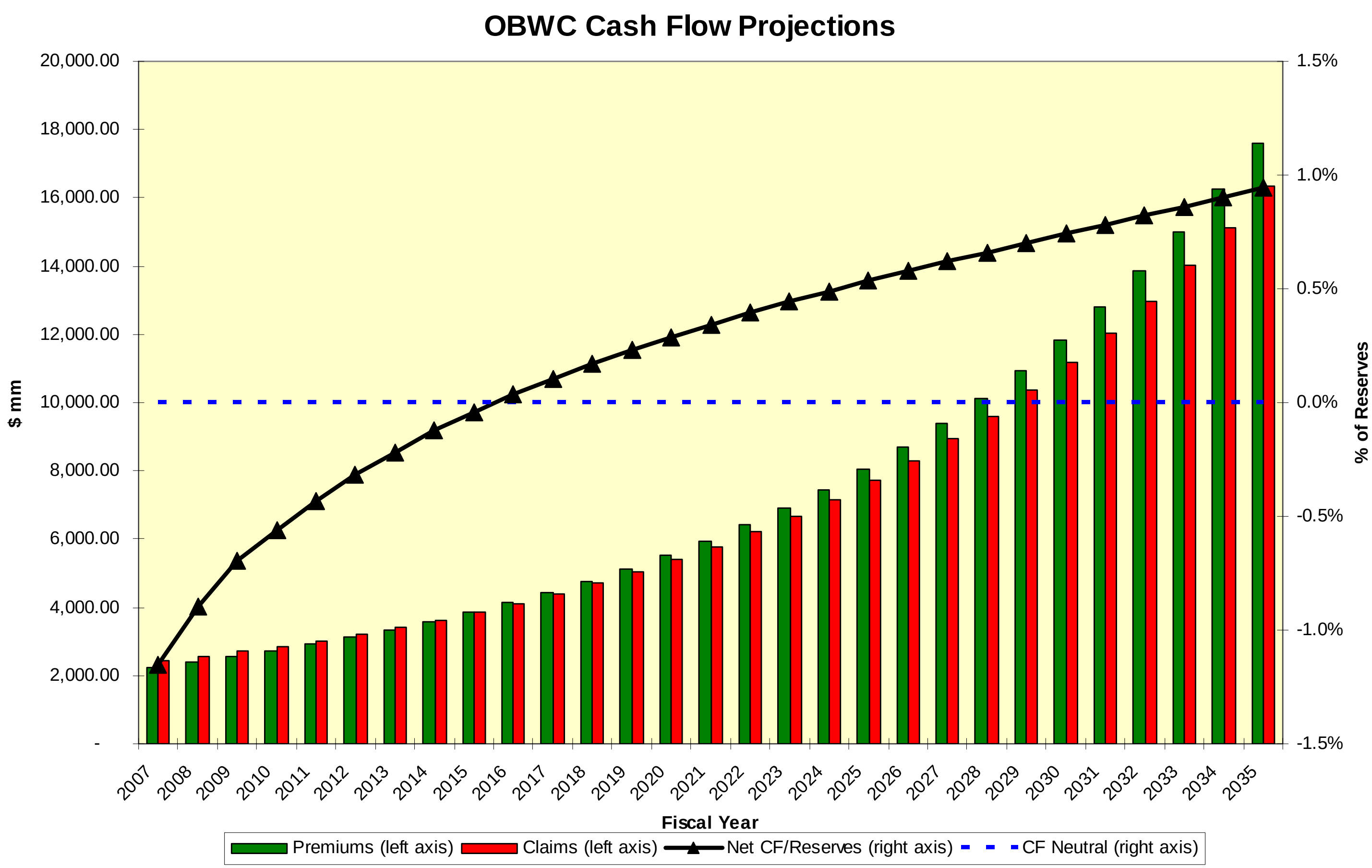
	"Market Environment"	"Immunized"	10% Equity	Current/20% Equity	30% Equity	40% Equity	50% Equity
Year 3	Bottom 5%	0.37	-0.13	-0.48	-0.94	-1.39	-1.78
	Bottom Quartile	1.42	1.46	1.43	1.36	1.20	1.04
	Median	2.35	2.52	2.75	2.94	3.14	3.35
	Top Quartile	3.28	3.69	4.12	4.65	5.18	5.77
	Top 5%	4.75	5.55	6.45	7.41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

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

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

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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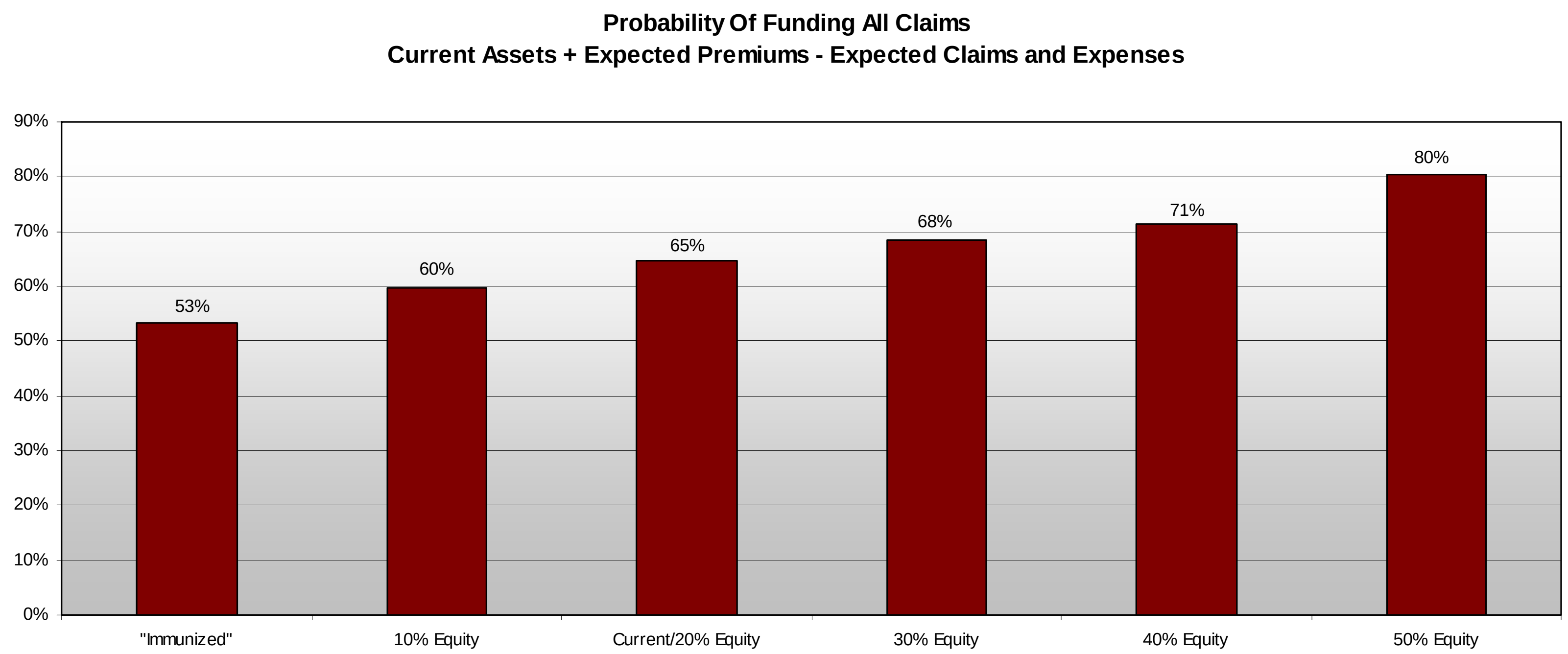
Probability of Success

- 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:



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

05 2007

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

ORIGINAL

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

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

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

SCOPE OF SERVICES. The Consulting Firm agrees to perform the services described in the RFP under Scope of Services, Section 3.2 through Section 3.6, inclusive.
In addition, the parties agree to modify the Request for Proposals, Scope of Services, to include the following sections:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WILSHIRE ASSOCIATES INCORPORATED
TAX ID: 95-2755361

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

Wilshire.doc
December 1, 2005

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

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