Ohio | **Bureau of Workers' Compensation**

30 W. Spring St.
Columbus, OH 43215-2256

Governor **John R. Kasich**
Administrator/CEO **Sarah D. Morrison**

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September 19, 2018

Governor John Kasich
Riffe Center, 30th Floor
77 South High Street
Columbus, OH 43215-6117

Dear Governor Kasich:

In accordance with section 4123.446 (B) of the Ohio Revised Code, the Bureau of Workers' Compensation (BWC) respectfully submits its minority business enterprise report.

Background

In September 2011, the BWC Board of Directors approved initial funding of $100 million each for two minority-owned and/or women-owned (MWBE) manager of manager (MoM) firms: Attucks Asset Management (Attucks) and LeadingEdge Investment Advisors (LEIA). These two firms had overseen the management of the initial $200 million for an active broad All Cap Russell 3000 U.S. equity mandate during the investment period from April 2012 to November 2017. The two MoM firms divided this active equity mandate among individual MWBE investment managers they selected.

Recent Action

Based on the recommendation of BWC's investment consultant, the BWC Board of Directors approved transitioning the MWBE program from active management to passive, with a 1% portfolio asset allocation target. Since its April 2012 funding, the performance history for the active strategy program had been meaningfully below its target benchmark, the broad Russell 3000 U.S. equity index. Active management of U.S. equities had been challenging during certain periods over the initial five-year period for the program. However, when active management performance for other U.S. equity mandates did well for BWC by exceeding benchmark index returns, the active managed MWBE program performance remained sub-par versus its index and peer group rankings. The program has generated positive returns for BWC and BWC assets have grown to well in excess of $300 million from its initial $200 million funding over this five-year period. Despite this, the growth in assets had not generated excess net of fees returns to the benchmark index. Nor had it come close to achieving the returns of a passively managed strategy that closely matches benchmark index returns over this five-year period. By transitioning the program to MWBE passive management, the BWC will be able to closely match index performance returns and save meaningfully on investment management fees, which will improve the program's performance. The BWC Board of Directors also approved the recommended benchmark change from the broad Russell 3000 U.S. equity index to the Large-Cap Russell Top 200 U.S. equity index to align with the SIF's overall domestic equity structure, risk budget and future return expectations.

As a result of the BWC Board of Directors decision in June 2017 to change the MWBE allocated portfolio from an active MWBE MoM strategy to a passive MWBE strategy, the BWC Investment Division issued an RFP for MWBE passive index management services. After reviewing the two eligible RFP respondents, RhumbLine Advisers (based in Boston, MA) was approved on August 25, 2017 by the BWC Board of Directors as the exclusive finalist passive index manager of the MWBE Large Cap U.S. Equity Passive Indexed Portfolio for the SIF. This mandate remained targeted for a 1% allocation within the SIF portfolio and the transition of invested assets from active to passive management was completed on December 1, 2017 to RhumbLine Advisers.

Fiscal Year Ending June 30, 2018 Results

RhumbLine Advisers was funded on December 1, 2017 as the sole passive MWBE manager for the SIF portfolio that totaled approximately $251 million allocated to Large Cap U.S. Equities.

For the full Fiscal Year 2018 period ending June 30, 2018, the combined MWBE (active and passive) programs performance return for the SIF portfolio was 14.36% net of fees.

For the period from its inception date of April 1, 2012 through June 30, 2018, the SIF MWBE program has provided an annualized return of 10.97% net of fees.

Sincerely,

Sarah D. Morrison
Administrator/CEO
Ohio Bureau of Workers' Compensation

CC: General Assembly via Legislative Services Commission