

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 7

ATTACHMENT 7-I

APPROVAL of MAY 14, 2009 OPEN MEETING MINUTES

PRESENTED BY: Vince Mudd

July 9, 2009

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MAY 14, 2009

The Investment Committee met on May 14, 2009 in the State Building, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 2:00 p.m. and the following members were present: Vincent E. Mudd, Chair; Sen. Michael J. Machado (Ret.); Francis (Frank) E. Quinlan; and Alternate Steven L. Rank.

Also present: President and CEO Janet Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Fiscal and Investment Services Manager Leslie Dawe; Treasury Services Manager Stephanie Chan; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEM 4

Mr. Mudd requested public comment of which there was none.

The Investment Committee immediately convened into Closed Session.

AGENDA ITEM 3: APPROVAL OF MARCH 12, 2009 CLOSED MEETING MINUTES Closed Session.

AGENDA ITEM 4: INVESTMENT STRATEGY FIRST QUARTER 2009 Closed Session.

AGENDA ITEM 5: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 3:10 p.m. following the conclusion of the Closed Session and the following Members were present: Vincent E. Mudd, Chair; Francis (Frank) E. Quinlan; Sen. Michael Machado (Ret.); and Alternate Steven L. Rank.

Also present: President Janet Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Fiscal and Investment Services Manager Leslie Dawe; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 6: APPROVAL OF MARCH 12, 2009 OPEN MEETING MINUTES

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To approve the minutes of the March 12, 2009 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 7: INVESTMENT POLICY UPDATE

Mr. Guastamachio explained that State Fund's Investment Policy was updated from the 2008 version to incorporate the role of the Chief Investment Officer. The purpose of the policy is to protect principal while maximizing income. Language was added to protect surplus, identify the specific bonds that can be purchased, the investment quality, maturity of the long-term portfolio, and the target duration. Mr. Mudd requested public comment of which there was none. There being no further discussion, the following action was taken:

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To approve the Investment Policy Statement and Guidelines Resolution No. 871 to replace Investment Resolution No. 842 effective May 15, 2009 and recommend adoption by the Board of Directors.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 8: PORTFOLIO ALLOCATION

Chief Investment Officer Peter Guastamachio gave a report on the allocation of State Fund's portfolio, divided equally between State Fund's two Investment Managers by duration, yield, and sectors. Each manager has a portfolio with similar attributes. He recommended waiting at least one quarter before seeking a presentation from the new Investment Managers. Mr. Guastamachio explained the new fee schedule for the Portfolio Managers. Mr. Mudd requested public comment of which there was none.

AGENDA ITEM 9: APPROVAL OF INVESTMENT TRANSACTIONS AND COMPLIANCE REPORT

Fiscal and Investment Services Manager Leslie Dawe discussed the selection and retention of investments and the composition of State Fund's \$19B portfolio. Ms. Dawe presented the bond transactions for February and March 2009, noting 14 bonds consisting of 1 Canadian security, 11 Mortgage-Backed securities (MBS), and 2 Taxable Municipal securities were purchased at \$314,029,263.

She also reported that 5 bonds consisting of 2 Corporate securities and 3 MBS were sold for \$82,627,009 for a realized gain of approximately \$125,000. There were no short term investment transactions. Ms. Dawe presented the compliance report for investments owned as of March 31, 2009. All of the investments were in compliance at the time of purchase. She noted State Fund's investment policy allows an investment to be retained even if it is out of compliance. The process requires the outside Investment Manager to review the non-compliant investment and make a recommendation with supporting rationale to hold or sell the non-compliant investment. The 16 bonds at \$283M that fell out of compliance make up 1.5% of State Fund's portfolio. No new securities were listed on the report and the LCOR security was sold since the March 2009 meeting for a gain of \$700,000. State Fund's Executive Management concurred with the Investment Manager's recommendations on each of the bonds that have compliance issues. Mr. Mudd requested public comment of which there was none. After presentation of the compliance report the following action was taken:

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To recommend the Board of Directors ratify the bond transactions for the period of February 1, 2009 through March 31, 2009 and accept the short-term transaction report and the compliance status of the securities on the compliance report.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 10: REVIEW OF INVESTMENT CHARTER

The revisions to the Investment Charter after the March 2009 meeting addressed the Committee's requested changes. There was a discussion of delegated authority to the Chief Investment Officer and CEO in the absence of the Board of Directors and Investment Committee. There was no public comment. After discussion of the revised Charter the following action was taken:

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To approve the revised Investment Charter as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 11: MARKET OUTLOOK AND ECONOMIC UPDATE

Chief Financial Officer Jay Stewart presented an economic update and outlook. He noted the downward pace is slowing and there are indications the worst may be over. The forecast for Second Quarter 2009 growth is -2%. California's unemployment rate increased again to a level nearly twice as high as the March 2008 rate. The hardest hit industries were construction; manufacturing; trade, transportation and utilities; information technology; financial activities; professional and business services. Only educational and health services added

jobs. Over half a million jobs were lost since last year in many of State Fund's core industries. The layoffs and pay cuts will continue to have a negative impact on payroll exposure, and thus written premium. The leading indicators are all down from last year. A recovery for Silicon Valley is not expected until 2011. A soft workers' compensation market is predicted through Fourth Quarter 2009 though there are signs the market will be hardening. State Fund's competitors have a great relative rate advantage although they have also experienced a sharp decline in premium and increasing loss ratios. State Fund's new business was down sharply in February and March of 2009 and Mr. Stewart does not believe the target of \$1.55B in written premium will be achieved. Mr. Guastamachio reported that the ten year Treasury bonds will be trading at 2.5-3% for the rest of the year with a potential increase to 3.25% by the end of 2009 and to 4% in 2010. Mr. Mudd requested public comment, of which there was none.

AGENDA ITEM 12: COMMITTEE MEMBER PRESENTATIONS

There were no Committee Member presentations or public comment.

AGENDA ITEM 13: PROPOSALS AND SUGGESTIONS FOR JULY 2009 AGENDA

The Investment Committee directed inclusion of standing agenda items and any items recurring in July for the next meeting. There was no public comment.

AGENDA ITEM 14: PUBLIC COMMENT

Mr. Mudd requested public comment of which there was none.

The next Investment Committee meeting is scheduled for July 9, 2009 at 2:00 p.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 3:50 p.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary