

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

NOVEMBER 15, 2012

The Investment Committee met on November 15, 2012 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:00 noon and the following members were present: Chair Senator Michael J. Machado (Ret.); Donald E. Garcia; Scott K. Reid; and Francis E. Quinlan (Alternate).

There was a quorum.

Also present: President and CEO Tom E. Rowe; Chief Financial Officer Dan Sevilla; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; Treasury & Investments Program Manager and Assistant Corporate Secretary Stephanie K. Chan; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

AGENDA ITEM 2: ANTITRUST ADMONITION

Senator Machado called attention to and requested acknowledgment that the Investment Committee members read State Fund's Antitrust Admonition included in each Committee member's meeting materials.

AGENDA ITEM 3: APPROVAL OF AUGUST 16, 2012 OPEN MEETING MINUTES

MOTION: Mr. Reid SECOND: Mr. Garcia

To approve the minutes of the August 16, 2012 Open meeting of the Investment Committee as presented.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 4: APPROVAL OF INVESTMENT TRANSACTIONS

Sen. Machado noted that this agenda item was "read only" unless there are questions from the committee. Mr. Reid asked Treasury and Investments Program Manager Stephanie Chan to discuss the Thermo Fisher Scientific bond, which had been added to the compliance report. Ms. Chan reported that Thermo Fisher Scientific bond is currently rated

Baa1/A-/BBB+ by Moody's, S&P, and Fitch respectively. The bond was recently downgraded one-notch by S&P and Moody's as a result of several acquisitions. The company has a strong recurring revenue stream and cash flow. The bond maturity is 2016. There were no further committee discussions.

MOTION: Mr. Reid SECOND: Mr. Garcia

To approve the Bond Transactions for the period July 1, 2012 through September 30, 2012.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote.

YES: 3 NO: 0 Motion carried.

MOTION: Mr. Garcia SECOND: Mr. Reid

To approve the Compliance Report for the period July 1, 2012 through September 30, 2012.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 5: MARKET OUTLOOK/ECONOMIC UPDATE

Peter Guastamachio introduced President William Rotatori of General Re New England Asset Management; one of State Fund's fixed income managers. Mr. Rotatori provided an overview of current economic conditions. Mr. Rotatori observed that the U.S. economic recovery remains a prolonged, slow growth and low yield environment anticipated over the next 3-5 years. Excesses in the housing and labor markets starting in 2008 are leveling off. The slow economic recovery may be further adversely impacted by the ongoing Euro-zone financial crisis unless there is reform of the underlying problems. Additionally, the "fiscal cliff" facing the United States could adversely impact economic recovery if the expiring tax cuts are permitted to lapse and stringent spending cuts are imposed. Overall, GR NEAM concludes that it will take time to repair the economic damage done and foresees continuing volatility in the financial markets with suppressed interest rates for the next 2-3 years.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 14

Sen. Machado requested public comment on the appropriateness of closed session agenda items 9-14, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Sen. Machado requested further public comment of which there was none. The Investment Committee immediately convened into Closed Session at 12:25 p.m.

AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:45 p.m. and the following members were present: Sen. Michael J. Machado (Ret.) Chair; Donald E. Garcia; Scott K. Reid; and Francis E. Quinlan. (Alternate).

There was a quorum.

Also present: President Tom E. Rowe; Chief Financial Officer Dan Sevilla; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; Treasury & Investments Program Manager and Assistant Corporate Secretary Stephanie K. Chan; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

AGENDA ITEM 16: APPROVAL OF INVESTMENT POLICY STATEMENT AND GUIDELINES

Sen. Machado noted that the Committee reviewed the Investment Policy Statement and Guidelines and will recommend to the Board of Directors that it be approved as presented, with the understanding that it will be reviewed again at the May 2013 meeting. The Review of the Investment Policy Statement and Guidelines will be added as a standing agenda item for the May 2013 Investment meeting.

MOTION: Mr. Garcia

SECOND: Mr. Reid

To recommend to the Board of Directors approval of the new Investment Policy Statement and Guidelines as presented and attached hereto.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote.

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 17: COMMITTEE MEMBER PRESENTATIONS

Sen. Machado asked if there were any presentations from the Committee members of which there were none.

AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 14, 2013 AGENDA

Sen. Machado requested suggestions for agenda items for the February 14, 2013 Investment Committee meeting other than the standing agenda items. Sen. Machado noted a request for an updated cost-benefit analysis of purchasing Investment Grade Corporate Bonds, including the likelihood of default and the yield benefit. There was also a request for a comparison of equity investment guidelines with other state funds. Sen. Machado requested public comment, of which there was none.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 1:50 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary