

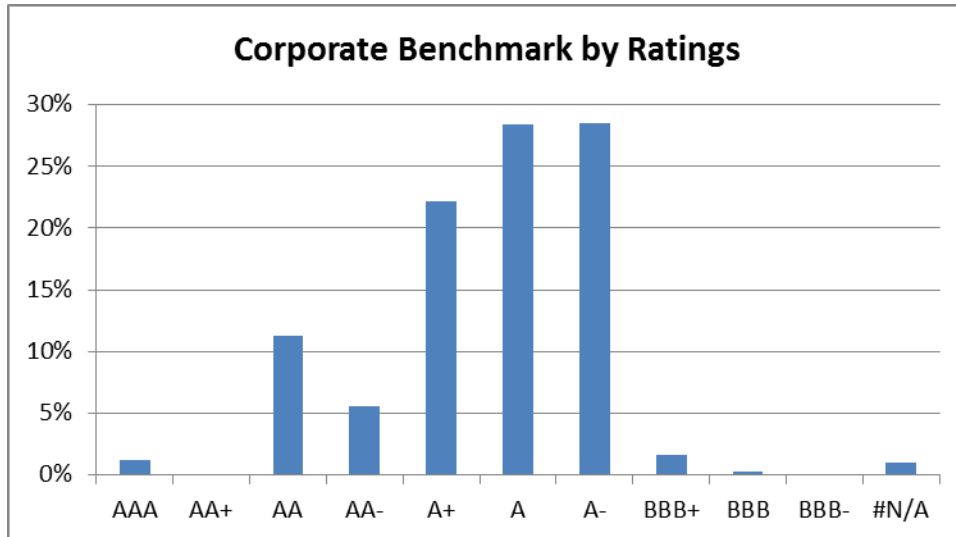
Approval of Investment Guidelines

Investment Committee – Open Agenda Item 4

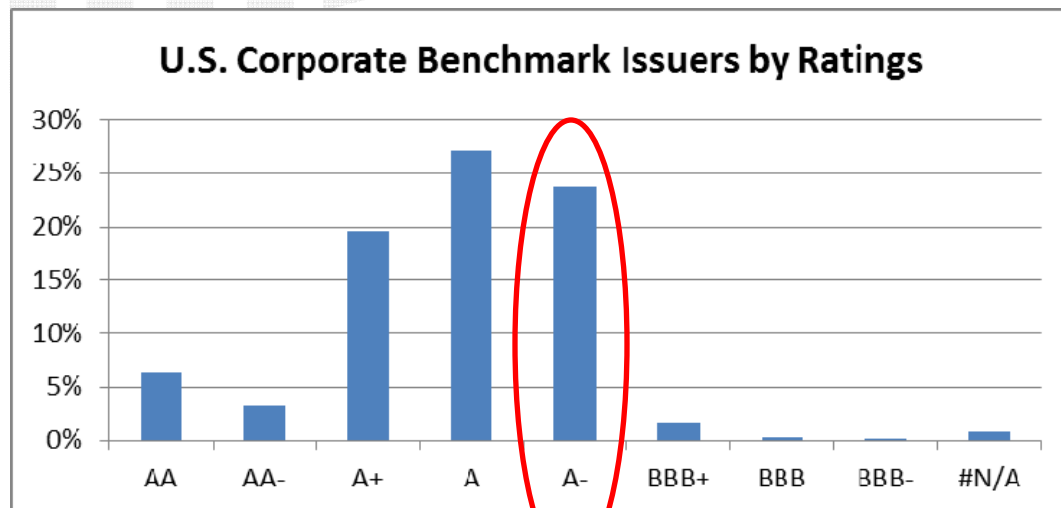
February 16, 2012

Peter Guastamachio

Corporate Benchmark Ratings



- Broadening the investment guidelines to allow for A- rated issuers will expand the investable corporate universe by nearly 24%



S&P 500 quarterly adjusted earnings per share As of September 30, 2011

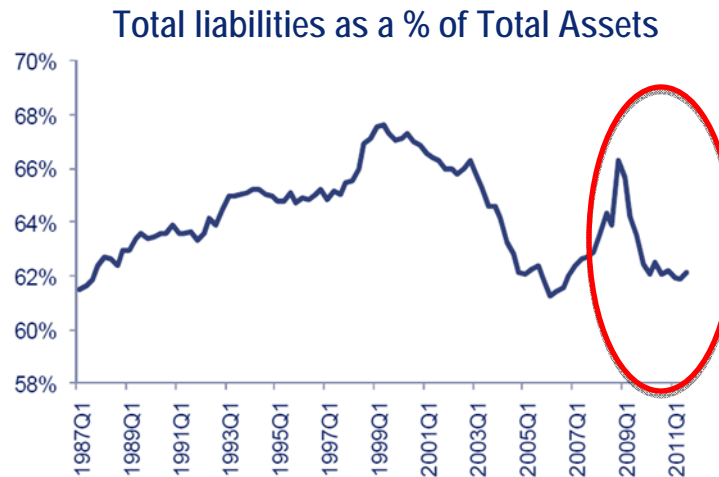
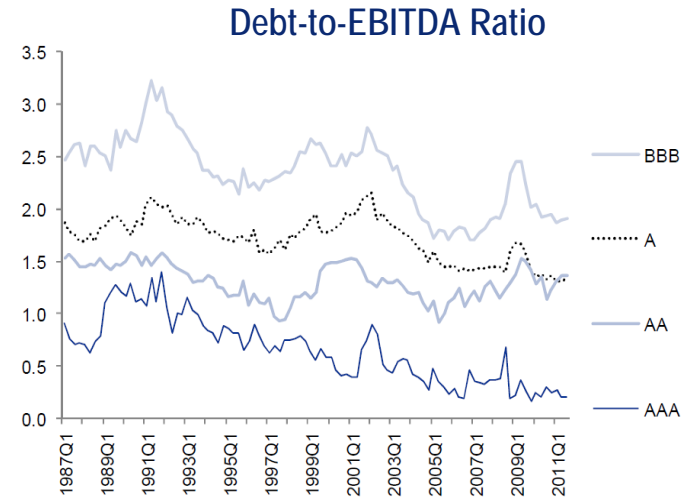
Index measures the S&P 500 company earnings as a whole. It is based on income from continuing operations excluding gains, charges and one-time items. The quarterly data reports the earnings for the S&P 500 companies and it is updated after all companies reported earnings for the quarter.

Bloomberg Ticker SPEQACTL



Source: Bloomberg L.P.

Leverage is the lowest in 25 years

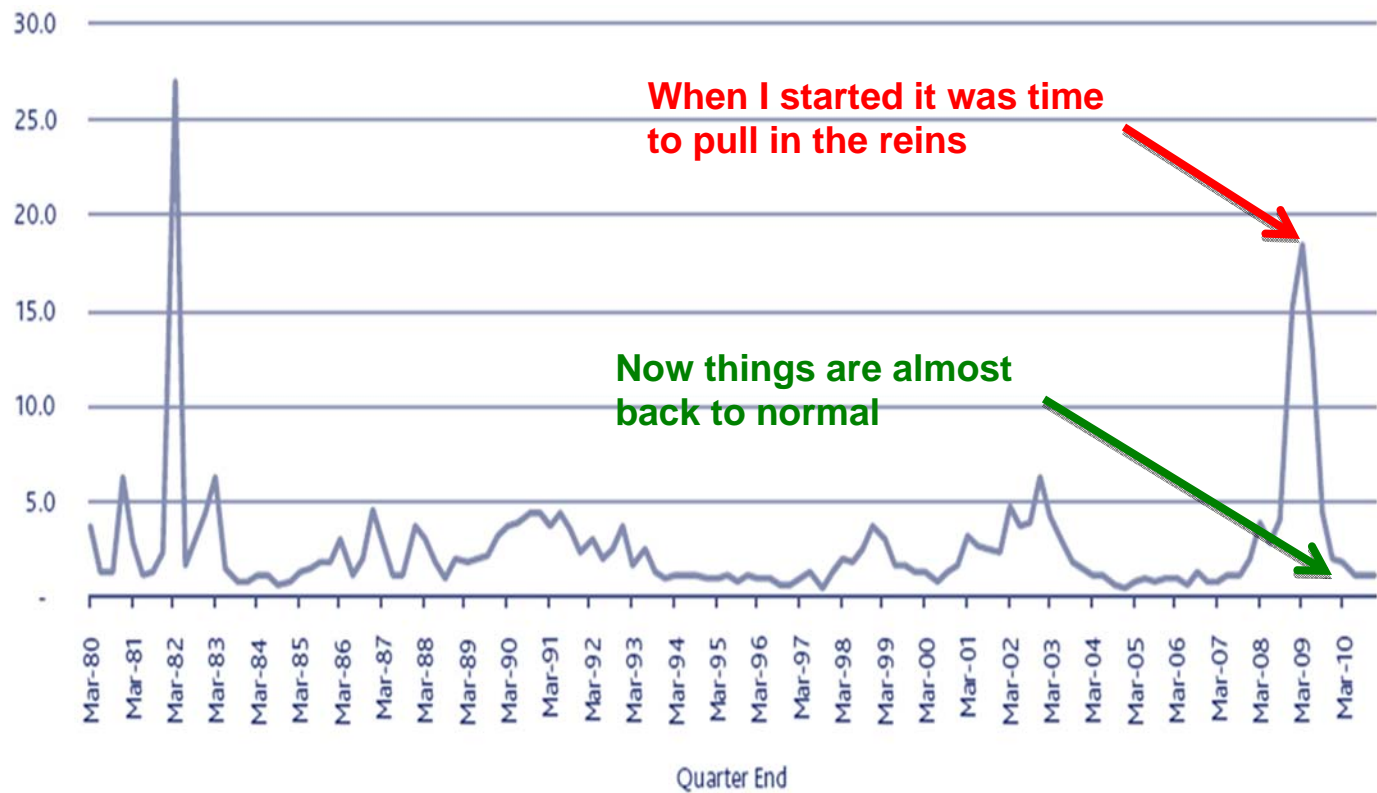


Source: Goldman Sachs Credit Strategy, Compustat.



Downgrade-to-upgrade ratio back to normal

Downgrade-to-upgrade ratio



BOARD OF DIRECTORS

STATE COMPENSATION INSURANCE FUND

INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION

WHEREAS, the Board of Directors of the State Compensation Insurance Fund (State Fund) is required to invest and reinvest the moneys of the State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code; and

WHEREAS, the State Fund is a non-tax paying entity; and

WHEREAS, the opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board in advance of each separate transaction; and

WHEREAS, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities; and

RESOLVED, by the Board of Directors of the State Fund in regular meeting assembled at San Francisco on February 16, 2012 that:

- A. All purchases must meet the following criteria and any further detailed criteria for the specific mandate.
 - 1. The preservation of State Fund's principal and surplus, while maximizing income, will be the primary and underlying criteria for the selection and retention of securities.
 - 2. State Fund assets will be managed and controlled in a manner consistent with prudent business practices.
 - 3. The long-term objective is to exceed established benchmarks.

- B. The President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, are hereby authorized to purchase or sell, exchange, or otherwise dispose of at the market, securities which are authorized by law for the investment of the funds of private insurance carriers provided the type of security to be acquired is described hereafter in this section and meets the conditions and standards set forth in Sections C, D, E and F as approved by the Board of Directors.

Any Investment Manager approved by the Board of Directors and under contract with State Fund may purchase and sell securities on behalf of State Fund per the terms, limitations and guidelines set forth in this INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION under the primary direction of the Chief Investment Officer and, in his/her absence, the direction of the aforementioned officers in this section.

C. Long Term Fixed Income Investments

Allowable securities include the following assets and with Board approval can include other asset classes as allowed under applicable regulations.

1. Bonds, notes, certificates of indebtedness, or other obligations for which the faith and credit of the United States of America are pledged.
2. Obligations of US Government Agencies and Government Sponsored Entities (GSEs).
3. Obligations of the Dominion of Canada, or of any province of the Dominion of Canada, or obligations for which are pledged the faith and credit of the Dominion of Canada, or of any province or city of the dominion which are payable in US dollars.
4. Mortgage-backed securities (MBS) issued by the US Government Agencies and GSEs, including pass-throughs, PAC CMOs (Planned Amortization Class Collateralized Mortgage Obligations), TAC CMOs (Targeted Amortization Class Collateralized Mortgage Obligations), VADM CMOs (Very Accurately Defined Maturity Collateralized Mortgage Obligations) and Sequential pay CMOs, but excluding such mortgage derivatives as inverse floaters, interest only strips, principal only strips, and “support bonds.” No direct sub-prime or Alt-A MBS are allowed.
5. Publicly traded fixed income securities issued by a corporation organized under the laws of the United States or any State thereof, or of the Dominion of Canada, or of any province of the Dominion of Canada which are payable in US dollars, including securities issued under Rule 144(a).
6. General obligations of any State for which the faith and credit of the State are pledged for the payment of principal and interest.
7. Obligations issued under authority of law by any county, municipality, or school district in any State, or in any province of the Dominion of Canada or in any political subdivision of the Commonwealth of Puerto Rico, including bonds of any county water district.

D Cash and Cash Equivalents

Maintain short-term funds to obtain a reasonable level of earnings by participating in the following:

1. Bonds, notes, certificates or indebtedness, or other interest bearing obligations for which the full faith and credit of the United States of America are pledged.
2. Obligations of US Government Agencies and GSEs.

3. Commercial Paper issued by a corporation organized under the laws of the United States or any State.
4. Certificates of Deposit (CDs) issued by domestically chartered banks and savings and loans. The institution's charter is acceptable if granted by a state or national regulatory body. This includes domestically chartered branches of foreign banks, commonly referred to as Yankees.
5. Mutual Fund(s) that reflect similar criteria to those listed in D.1. through D.4.
6. State Treasurer's Pooled Money Investment Fund (PMIF).
7. Interest-bearing bank accounts.

E. Credit Rating Standards and Limitations

1. To monitor compliance, the investment manager will assign a credit rating to each security using the following logic: a) If one nationally recognized statistical rating organizations (NRSRO) rates the security, the rating will apply; b) If two NRSRO rate the security, the lower rating will apply; c) If all three NRSRO rate the security, the second lowest will apply; d) When considering the credit rating of the municipal securities, the higher of the financial guarantor or the underlying credit will be used.
2. The weighted credit rating of the fixed income portfolio shall average at least Aa2/AA/AA, at Moody's, S&P and Fitch, respectively, at all times.
3. There is no per issuer limit of US Treasuries and US Agencies.
4. The investment manager shall not purchase corporate securities rated below A3/A- by any NRSRO.
5. Single corporate issuer rated Aa3/AA- or better may not exceed 1.5% of the book value of the portfolio. Single corporate issuer rated below Aa3/AA- may not exceed 1.0% of the book value of the total portfolio.
6. Corporate securities in aggregate shall not exceed 45% of the total portfolio, including the Cash Management Holdings.
7. The investment manager shall not purchase municipal securities rated below A3/A- by any NRSRO.
8. Single municipal issuer rated Aa3/AA- or better may not exceed 1.00% of the book value of the portfolio. Single municipal issuer rated below Aa3/AA- may not exceed 0.75% of the book value of the total portfolio.
9. Municipals in aggregate shall not exceed 20% of the total portfolio, including the Cash Management Holdings.
10. The aggregate total of corporates and municipals shall not exceed 55% of the total portfolio, including the Cash Management Holdings.

11. MBS issued by the US Government Agencies and GSEs shall comprise no more than 45% of the total portfolio, including the Cash Management Holdings. No single MBS pool may exceed 1% of the total portfolio. MBS will include all Agency MBS, CMOs and CMBS for the aforementioned limits.
12. Securities issued and/or guaranteed by the Government of Canada and political subdivisions must be rated Aa3/AA- or better by a NRSRO. No single Canadian political subdivision may exceed 1.5% of the book value of the portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the total portfolio.
13. Securities issued and/or guaranteed by the US Government, US Agencies, and GSEs that have not been rated by a NRSRO will apply the rating assigned by the NRSRO to the issuer or the guarantor of the security.
14. Each of the Investment Managers will calculate the sector limits based on the book value of their respective portfolio. However, when calculating the sector limits at month-end, the Treasury & Investments staff will include both the book value of the total portfolio and the Cash Management Holdings.
15. 15% or more of the portfolio shall be maintained in securities maturing in five years or less.
16. The duration of the portfolio will be managed within a strategic range of 3.0 to 6.5, which is reviewed and approved by the Board annually. An operational target within the duration range will be established and reviewed by the Chief Investment Officer periodically.
17. The performance of the portfolio will be compared to the return of the benchmark noted in section F. At a minimum, the benchmark will be reviewed and reauthorized by the Board on an annual basis.
18. Purchases of Commercial Paper must be rated A1/P1 by two NRSRO's and split rating is not allowed. Eligible Commercial Paper may not exceed 180 days' maturity, or represent more than 10 percent of the outstanding paper of an issuing corporation. No single Commercial Paper issuer may exceed 10% of the Total Cash Management Holdings. Eligible Commercial Paper is further limited to issuing corporations having shareholders' equity in excess of \$10 Billion. Commercial Paper holdings are limited to a maximum of 70% of the Total Cash Management Holdings.
19. Shares in any one mutual fund may not exceed 3% of State Fund's total assets, or 50% of the total Cash Management Holdings, whichever is less. Total investment in all mutual funds may not exceed 7% of State Fund's total assets.
20. The terms for any CDs should never exceed a year. CDs per issuer may not exceed \$50 million or 10% of the total Cash Management Holdings, whichever is less. CDs are further limited to issuing corporations having shareholders' equity in excess of \$10 Billion. CD holdings are limited to a maximum of 30% of the Total Cash Management Holdings. CD issuers must be rated A1/P1 by two NRSRO's.

21. Balances maintained in the PMIF will be monitored regularly by the Treasury and Investments staff, and reported to the Treasury and Investments Committee on a monthly basis.
 22. If any of the above mentioned rules are breached, the Investment Manager will conduct an analysis and present it with a recommendation to the Chief Investment Officer.
- F. Performance Benchmark
1. The benchmarks are for individual mandates and the overall portfolio for fixed income is Barclay's U.S. Treasury Intermediate Index: 12.5%, Barclay's U.S. Agency Intermediate Index: 15%, Barclay's Taxable Municipal Index: 12.5%, Barclay's U.S. Corporate A or better Intermediate Index: 25%, and Barclay's Fixed Rate MBS Index: 35%.

RESOLVED, that this Resolution No. **XXX** shall replace Investment Resolution No. 967 effective February 16, 2012.

BOARD OF DIRECTORS

STATE COMPENSATION INSURANCE FUND

INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION

WHEREAS, the Board of Directors of the State Compensation Insurance Fund (State Fund) is required to invest and reinvest the moneys of the State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code; and

WHEREAS, the State Fund is a non-tax paying entity; and

WHEREAS, the opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board in advance of each separate transaction; and

WHEREAS, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities; and

RESOLVED, by the Board of Directors of the State Fund in regular meeting assembled at San Francisco on **February 16, 2012** that:

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 - 1. The preservation of State Fund's principal and surplus, while maximizing income, will be the primary and underlying criteria for the selection and retention of securities.
 - 2. State Fund assets will be managed and controlled in a manner consistent with prudent business practices.
 - 3. The long-term objective is to exceed established benchmarks.

- B. The President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, are hereby authorized to purchase or sell, exchange, or otherwise dispose of at the market, securities which are authorized by law for the investment of the funds of private insurance carriers provided the type of security to be acquired is described hereafter in this section and meets the conditions and standards set forth in Sections C, D, E and F as approved by the Board of Directors.

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5. Publicly traded fixed income securities issued by a corporation organized under the laws of the United States or any State thereof, **or of the Dominion of Canada, or of any province of the Dominion of Canada which are payable in US dollars**, including securities issued under Rule 144(a).
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2. The weighted credit rating of the fixed income portfolio shall average at least Aa2/AA/AA, at Moody's, S&P and Fitch, respectively, at all times.
3. There is no per issuer limit of US Treasuries and US Agencies.
4. The investment manager shall not purchase corporate securities rated below **A3/A-** by any NRSRO.
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