

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 20, 2014

The Investment Committee met on November 20, 2014 at the State Fund Corporate Office, 333 Bush Street, 7th floor, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:20 pm and the following members were present: Chair Sen. Michael J. Machado (Ret.); Jack Neureuter; Marvin Kropke; and Scott Reid.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips.

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: CONSENT CALENDAR

- 3a. Approval of September 23, 2014 Open Meeting Minutes**
- 3b. Review and Approval of 2015 Investment Committee Schedule**
- 3c. Review and Approval of 2015 Investment Committee Agenda Items**
- 3d. Approval of Investment Transactions**

Sen. Machado asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Kropke

SECOND: Mr. Neureuter

To approve the Consent Calendar as presented.

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

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 4: MARKET OUTLOOK AND ECONOMIC UPDATE

Chief Investment Officer Peter Guastamachio introduced President William Rotatori of General-Re New England Asset Management.

Mr. Rotatori reported on the current dynamics of the fixed income markets, with particular focus on the implications of the U.S. Federal Reserve policy on interest rates. The Federal Reserve will raise rates but not dramatically as the unemployment rate is near the target maximum of 5.5% and inflation at 2%. Commodity prices have declined, with oil prices declining 20% since June 2014. As foreign countries continue to struggle and are in recession, it is expected that the U.S. Dollar will continue to strengthen.

Within the economic framework the secular outlook includes constrained economic activity with increasing debt to the GDP with more borrowing by households, businesses and government. The demographics are changing with more of the population aging and approaching retirement. There will be lower rates of growth as investments will be less aggressive. The cyclical outlook is positive with the auto, energy and housing industries doing very well.

There will be volatility in the short to intermediate maturities (2-5 years) as the Federal Reserve raises rates. Longer term yields have benefitted from reduced inflation expectations and the relative attractiveness of dollar based assets. Risk Assets and Risk Premiums are likely to experience some pressure as Quantitative Easing fades. Year 2015 should bring modestly higher rates, a flattened yield curve, and bouts of volatility that will pressure risk markets.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 8 THROUGH 10

Sen. Machado requested public comment on the appropriateness of Closed Session Agenda Items 8-10, of which there was none.

AGENDA ITEM 6: PUBLIC COMMENT

Sen. Machado requested other public comment, of which there was none. The Investment Committee immediately convened into Closed Session at 12:45 p.m.

AGENDA ITEM 11: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 2:00 p.m. and the following members were present: Sen. Michael J. Machado (Ret.) Chair; Marvin Kropke; Jack Neureuter; and Scott Reid.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips, LLP.

AGENDA ITEM 12: COMMITTEE MEMBER PRESENTATIONS

Sen. Machado requested presentations from the Committee members of which there were none.

AGENDA ITEM 13: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 19, 2015 AGENDA

Sen. Machado requested suggestions for agenda items for the February 19, 2015 Investment Committee meeting other than the standing agenda items, of which there were none. Sen. Machado requested public comment, of which there was none.

Sen. Machado asked for any public comment, of which there was none, and he noted that the next Investment Committee meeting is scheduled for February 19, 2015 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 2:05 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary