

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 14, 2013

The Investment Committee met on November 14, 2013 at the State Fund Corporate Office, 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 Sen. Michael J. Machado (Ret.); Marvin Kropke; Francis E. Quinlan; and Scott Reid.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol Newman; 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 14, 2013 OPEN MEETING MINUTES

Sen. Machado requested a motion to approve the minutes of the August 14, 2013 Open meeting of the Investment Committee as presented.

MOTION: Mr. Kropke

SECOND: Mr. Quinlan

To approve the minutes of the August 14, 2013 Open Meeting of the Investment Committee as presented.

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 4: APPROVAL OF INVESTMENT TRANSACTIONS

Sen. Machado noted that this agenda item was "read only" unless there were questions from the Committee.

MOTION: Mr. Reid

SECOND: Mr. Kropke

To approve the Bond Transactions for the period July 1, 2013 through September 30, 2013.

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

YES: 4 NO: 0 Motion carried.

MOTION: Mr. Quinlan SECOND: Mr. Kropke

To approve the Compliance Report for the period July 1, 2013 through September 30, 2013.

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

YES: 4 NO: 0 Motion carried.

AGENDA ITEM 6: REPORT ON INVESTMENT AUDITS

Chief of Internal Affairs Dante Robinson reported that the 2012 Investments Program was audited by the Model Audit Rule (MAR) Unit in the Financial Reporting & Systems Department; KPMG; and Internal Audit/PriceWaterHouse Coopers (PwC). Audit results from the three entities were reviewed by management and all findings were remediated and recommendations were implemented.

AGENDA ITEM 6: MARKET OUTLOOK AND ECONOMIC UPDATE

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

Mr. Rotatori provided an update on the recent negotiations in Congress over the current budget deficit and Federal debt ceiling and ramifications these may have for the capital markets. Mr. Rotatori reported that the recent government shutdown created three important dates: i) December 13, 2013 – the deadline for agreement on budget resolution; ii) January 15, 2014 – the expiration of the continuing resolution for funding the government; and February 7, 2014 – expiration of the debt ceiling suspension.

Mr. Rotatori noted that General-Re's view on the current situation is extreme government dysfunction will continue. The risk of government shutdown and potential default still exists but the odds are lower. A broad fiscal deal that will meaningfully impact the economy or future deficits is highly unlikely. The most likely case is that a very limited in scope agreement is reached to fund the government and lift/extend the debt ceiling through the mid-term elections.

In addition, Mr. Rotatori provided an analysis and comparison of the State Fund fixed income portfolio against a peer group of both private workers' compensation companies as well as State Workers Compensation funds. The analysis covered asset allocation as well as a fixed income analysis. The fixed income analysis focused on attributes such as duration, sector distribution, book yield, credit quality and liquidity.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 13

Sen. Machado requested public comment on the appropriateness of Closed Session Agenda Items 10-13, of which there was none.

AGENDA ITEM 8: PUBLIC COMMENT

Sen. Machado requested other public comment, of which there was none. The Investment Committee immediately convened into Closed Session at 12:40 p.m.

AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:55 p.m. and the following members were present: Sen. Michael J. Machado (Ret.) Chair; Marvin Kropke; Francis E. Quinlan and Scot Reid.

There was a quorum.

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

AGENDA ITEM 15: 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. Mr. Machado noted that at the August Board meeting, the Investment Committee directed staff to amend the State Fund Investment Policy Statement and Guidelines to prohibit investments where the majority of the business operations is in tobacco.

MOTION: Mr. Quinlan

SECOND: Mr. Reid

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

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

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 16: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 17: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 20, 2014 AGENDA

Sen. Machado requested suggestions for agenda items for the February 20, 2014 Investment Committee meeting other than the standing agenda items, of which there was 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 20, 2014 at the State Fund's corporate office, 333 Bush Street, San Francisco unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 2:00 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary