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Date: February 7, 2014

**TO: MEMBERS, INVESTMENT COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 4 – Economic and Investment Outlook
<b>II. NAME AND PROGRAM:</b>	Treasury and Investments
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

Donald Kilbride, Equity Portfolio Manager, will provide Wellington Management’s current economic and investment outlook. He will provide a recap of the 4<sup>th</sup> quarter, highlighting the performance of each broad asset class. He will also discuss the global macroeconomic outlook for 2014.

**VI. ANALYSIS:**

US equities reached another all-time high in December amid strong corporate earnings, an improving housing market, and accommodative rhetoric from the Fed. US equities, as represented by the S&P 500 index, returned 10.5% for the 4<sup>th</sup> quarter to finish 2014 with an annual return of 32.4.

Fixed income declined slightly in the quarter, impacted by Fed tapering expectations. The Barclays US Aggregate Bond Index returned -0.1% for the 4<sup>th</sup> quarter and -2.0% for the year.

Most currencies fell against the US dollar with the notable exception of European currencies. When comparing the US Dollar vs. a Trade Weighted Basket of Major Currencies, USD was up 0.4% for the 4<sup>th</sup> quarter and 4.5% for the year.

Commodities declined modestly in the fourth quarter. The Production-Weighted S&P GSCI was down -0.3%, and down -1.2% for the year, with Energy being the only positive sector over the quarter.

State Compensation  
Insurance Fund (SCIF)

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# Economic and Investment Outlook

20 February 2014

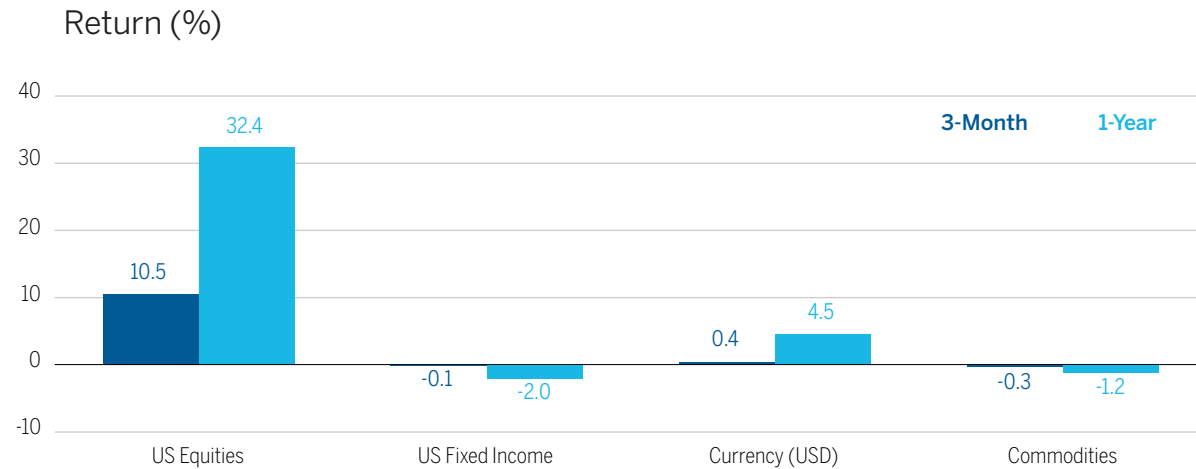
**Donald J. Kilbride** Equity Portfolio Manager

**Eric M. Tanaka, CFA, CPA** Director, Financial Reserves  
Relationship Management

Neeta Madahar, Falling 1 (detail), 2005. Lightjet print mounted on aluminum, 48 x 48 inches (122 x 122 cm)

# US Market Review

## 31 December 2013



### Fourth Quarter Highlights

US equities reached another all-time high in December amid strong corporate earnings, an improving housing market, and accommodative rhetoric from the Fed

Fixed income declined slightly in the quarter, impacted by Fed tapering expectations

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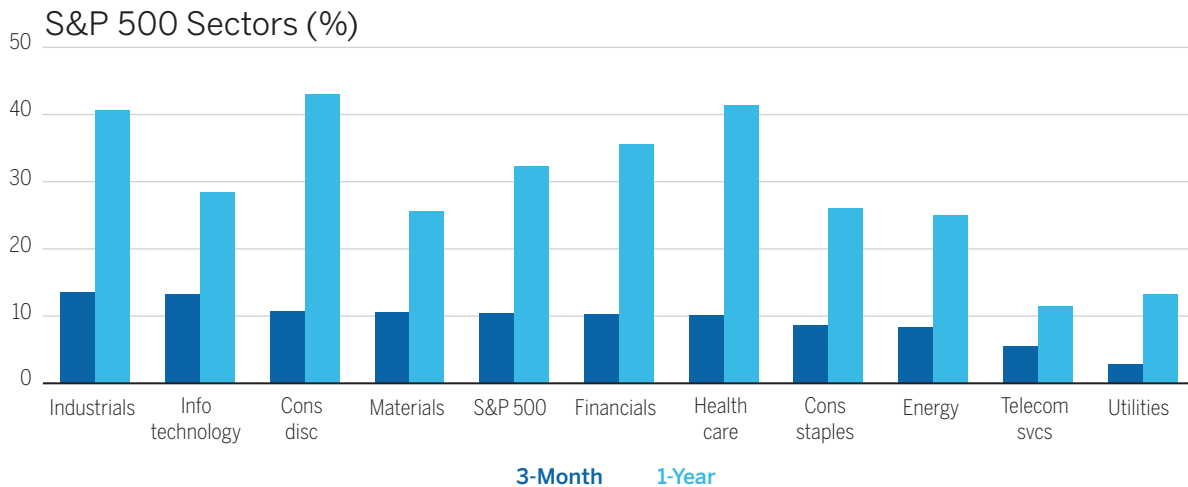
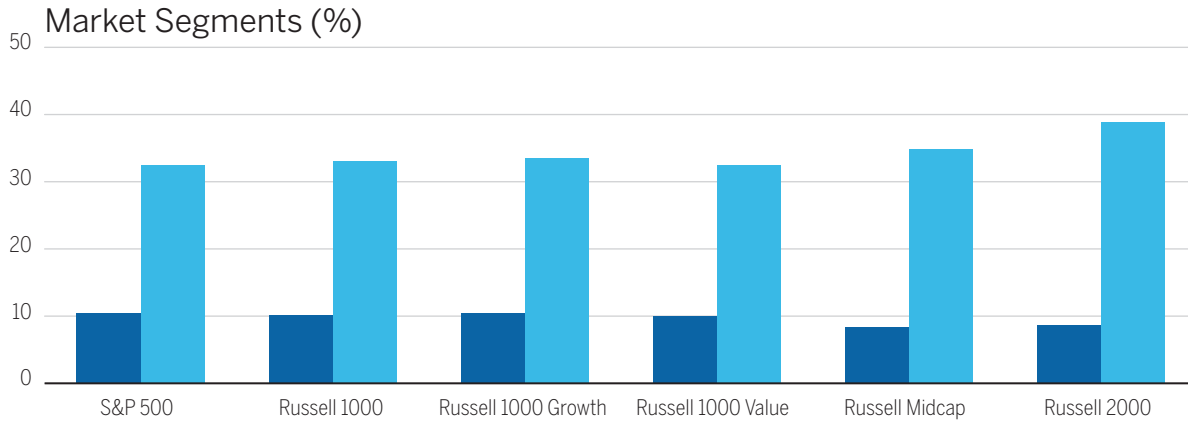
Commodities declined modestly in the fourth quarter; Energy was the only positive sector

Indexes used: S&P 500, Barclays US Aggregate Bond Index, US Dollar vs Trade Weighted Basket of Major Currencies, Production-Weighted S&P GSCI | All returns expressed in USD. | Source: Wellington Management



# US Equity Markets

## 31 December 2013



### Fourth Quarter Highlights

US equities rose for the fourth consecutive quarter, led by solid corporate earnings and an upward-trending housing market

Manufacturing expanded at its fastest pace since April 2011, driven by resilient motor vehicle sales, the recovery in housing, and healthier export markets

Despite higher mortgage rates, new home sales continued to rise and house prices posted their biggest year-over-year gain since 2006

Nonfarm payrolls exceeded expectations in November and December and the unemployment rate fell to a five-year low

All returns expressed in USD | Source: Wellington Management