



333 Bush Street
 San Francisco, CA 94104
 (415) 263-5400
 www.statefundca.com

Date: February 17, 2017

TO: MEMBERS, INVESTMENT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Agenda Item 4 – Market Outlook and Economic Update
II. NAME AND PROGRAM:	Wellington Management
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<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 4th quarter, highlighting the performance of each broad asset class. He will also discuss the global macroeconomic outlook for 2017.

VI. ANALYSIS

US equities rose for the third straight month as the Trump rally rolled on. In a month when politics dominated the headlines, hopes surrounding Trump’s tax reform, deregulation, and infrastructure plans outweighed investors’ fears about further US Federal Reserve (Fed) tightening and potential tariff and trade policy shifts. At the sector level, eight of the 11 sectors in the S&P 500 Index advanced.

The Bloomberg Barclays US Aggregate Index returned 0.20% for the month, underperforming duration-equivalent Treasuries by 0.03%. US yields were virtually unchanged as initial euphoria over expected growth-friendly policies, such as tax reform – was tempered by concerns about aggressive pushback against international trade. US investment-grade corporate bonds generated positive total returns, outperforming duration-equivalent Treasuries. In securitized sectors, ABS and CMBS outperformed duration-equivalent Treasuries, while Agency MBS lagged.

Non-US equities rallied for the second consecutive month. While US President Donald Trump's inauguration and first week in office dominated many investors' minds, political uncertainty in Europe also played a prominent role in the narrative, notably over Brexit and the French election. European economic data was mostly upbeat, helping to offset the political concerns. Within developed markets, non US equities outpaced their US counterparts in USD hedged terms, as most currencies rallied versus the US dollar after President Trump said that the greenback is already "too strong." Pacific Basin equities began 2017 on a positive note, led by Hong Kong and Singapore.

The Bloomberg Barclays Global Aggregate Index returned -0.36% in USD-hedged terms, underperforming duration-equivalent government bonds by 0.09%. Most global government yields rose over the month on signs of reviving inflation. Global investment-grade corporate bonds generated positive total returns and outperformed duration-equivalent government bonds with all major sectors generating positive excess returns. Pound sterling and euro denominated bonds outperformed US dollar corporate bonds.

State Compensation
Insurance Fund (SCIF)

WELLINGTON
MANAGEMENT®

Economic and Investment Outlook

2 March 2017

Donald J. Kilbride Equity Portfolio Manager

Wellington Management Company LLP

Eric M. Tanaka, CFA, CPA Director, Financial Reserves

Relationship Management

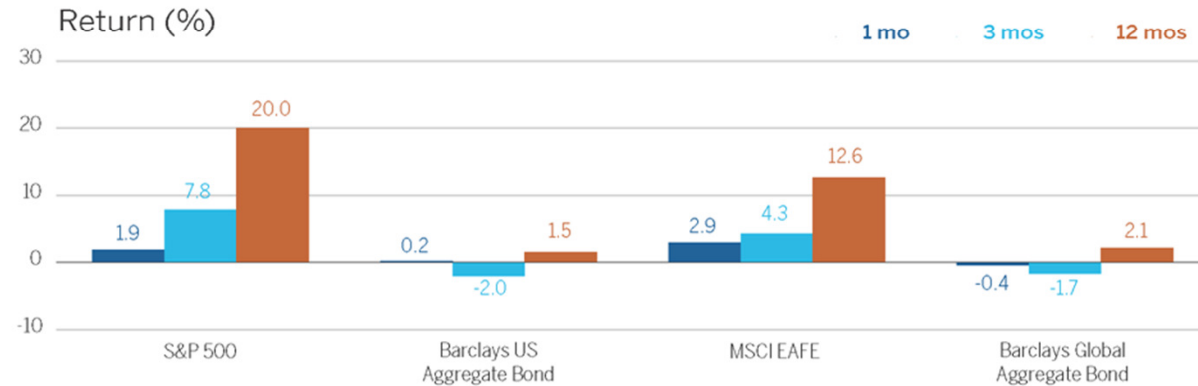
Wellington Management Company LLP

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

Wellington Management Company LLP

State Compensation Insurance Fund
Investment Committee - March 2, 2017
Open Agenda Item 4 - Market Outlook and Economic Update

Market review 31 January 2017



January monthly highlights

US equities rose for the third straight month as the Trump rally rolled on. In a month when politics dominated the headlines, hopes surrounding Trump's tax reform, deregulation, and infrastructure plans outweighed investors' fears about further US Federal Reserve (Fed) tightening and potential tariff and trade policy shifts. At the sector level, eight of the 11 sectors in the S&P 500 Index advanced.

The Bloomberg Barclays US Aggregate Index returned 0.20% for the month, underperforming duration-equivalent Treasuries by 0.03%. US yields were virtually unchanged as initial euphoria over expected growth-friendly policies – such as tax reform – was tempered by concerns about aggressive pushback against international trade. US investment-grade corporate bonds generated positive total returns, outperforming duration-equivalent Treasuries. In securitized sectors, ABS and CMBS outperformed duration-equivalent Treasuries, while Agency MBS lagged.

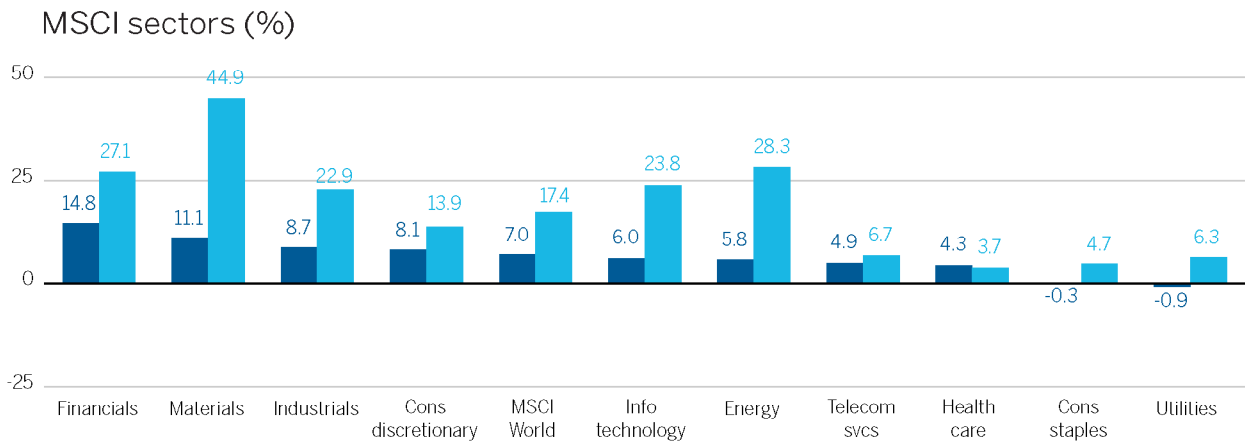
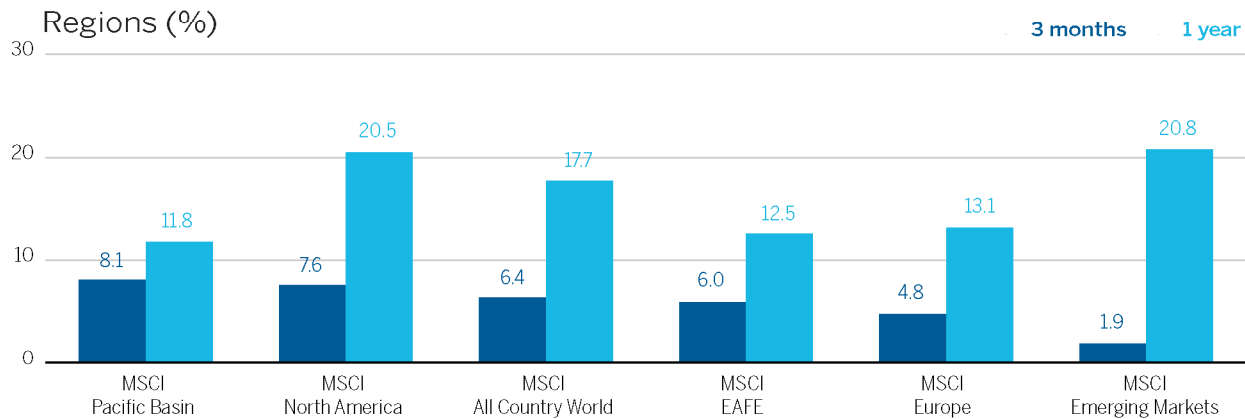
Non-US equities rallied for the second consecutive month. While US President Donald Trump's inauguration and first week in office dominated many investors' minds, political uncertainty in Europe also played a prominent role in the narrative, notably over Brexit and the French election. European economic data was mostly upbeat, helping to offset the political concerns. Within developed markets, non US equities outpaced their US counterparts in USD hedged terms, as most currencies rallied versus the US dollar after President Trump said that the greenback is already "too strong." Pacific Basin equities began 2017 on a positive note, led by Hong Kong and Singapore.

The Bloomberg Barclays Global Aggregate Index returned -0.36% in USD-hedged terms, underperforming duration-equivalent government bonds by 0.09%. Most global government yields rose over the month on signs of reviving inflation. Global investment-grade corporate bonds generated positive total returns and outperformed duration-equivalent government bonds with all major sectors generating positive excess returns. Pound sterling and euro denominated bonds outperformed US dollar corporate bonds.

All returns expressed in USD | Source: Wellington Management | Indexes used: S&P 500, Barclays US Aggregate Bond Index, MSCI EAFE USD hedged, Barclays Global Aggregate Bond USD hedged

Global Equity Markets

31 January 2017



All returns expressed in local currency | Sources: DataStream, Wellington Management

January highlights

Global equities (+1.6%) rallied for the third consecutive month as the “animal spirits” dynamic remained intact

US equities (+1.9%) rose for the third straight month as the Trump rally rolled on. Hopes surrounding tax reform, deregulation, and infrastructure plans outweighed investors’ fears about further US Federal Reserve (Fed) tightening and potential tariff and trade policy shifts.

Pacific Basin equities (+0.9%) began 2017 on a positive note

European stocks (-0.3%) fell slightly for the month with stronger returns in Denmark (+2.0%) and Sweden (+1.7%) offset by weaker performance in Italy (-4.8%)

Emerging market equities (+4.0%) enjoyed a positive start to the year, shrugging off fears of protectionism, trade wars, and a slowdown in China

At the sector level, eight of the 11 sectors in the S&P 500 Index (+1.9%) advanced. The two worst-performing sectors, energy (-3.6%) and telecommunication services (-2.5%), were hindered by high-profile earnings disappointments.

State Compensation Insurance Fund (SCIF)

2 March 2017