

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

FEBRUARY 14, 2013

The Investment Committee met on February 14, 2013 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:20 p.m. and the following members were present: Chair Senator Michael J. Machado (Ret.); Donald E. Garcia; Scott K. Reid; and Francis E. Quinlan (Alternate).

There was a quorum.

Also present: President and CEO Tom 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 NOVEMBER 15, 2012 OPEN MEETING MINUTES

MOTION: Mr. Reid SECOND: Mr. Garcia

To approve the minutes of the November 15, 2012 Open meeting of the Investment Committee as presented.

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

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 4: APPROVAL OF INVESTMENT TRANSACTIONS

Sen. Machado noted that this agenda item was "read only" unless there are questions from the Committee. Mr. Machado asked Treasury and Investments Program Manager Stephanie Chan to discuss the three issuers added to the Compliance report. They are Hewlett Packard, Eaton, and New Brunswick. She reported that State Fund holds a total of \$62.5M par value in four Hewlett-Packard issues. Given Hewlett-Packard's solid liquidity,

State Fund's Investment Manager continues to recommend holding these positions at this time. State Fund holds \$15M par value in the Eaton bond, which is due to mature in March 2017. Eaton was downgraded to Baa1/BBB+ by Moody's and Fitch, respectively, due to the recently announced acquisition. The Investment Manager expects the new ratings to remain stable over the long-term. Lastly, State Fund holds \$85M par value in the New Brunswick position, which is due to mature in February 2017. The Investment Manager recommends holding this bond given the province's strong liquidity position. There were no further committee discussions.

MOTION: Mr. Garcia SECOND: Mr. Reid

To approve the Bond Transactions for the period October 1, 2012 through December 31, 2012.

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

YES: 3 NO: 0 Motion carried.

MOTION: Mr. Garcia SECOND: Mr. Reid

To approve the Compliance Report for the period October 1, 2012 through December 31, 2012.

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

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 5: ECONOMIC AND INVESTMENT OUTLOOK

Hilda Padua left the meeting. Peter Guastamachio introduced Eric Tanaka, Vice President and Director of Financial Reserves Relationship Management Group at Wellington Management Company. Wellington's Senior Vice President and Partner Donald Kilbride provided a high level overview of the current stock market and the economy. Given the global economic instability and uncertain political/social environment, Mr. Kilbride observed that the current stock market price is higher than one would expect based on the current macroeconomic situation. Mr. Kilbride cited from the most recent Duke University/CFO Global Business Outlook survey that CFOs are growing more pessimistic about the American economy, with hiring and spending plans significantly weakening since the last quarter. Overall, Mr. Kilbride concludes that his investment strategy is to remain cautious in the short-term but still optimistic in the long-term.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 11

Sen. Machado requested public comment on the appropriateness of closed session agenda items 9-11, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Sen. Machado requested further public comment of which there was none. The Investment Committee immediately convened into Closed Session at 12:50 p.m.

AGENDA ITEM 12: 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; Donald E. Garcia; Scott K. Reid; and Francis E. Quinlan. (Alternate).

There was a quorum.

Also present: President Tom 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 (joined during item 13).

AGENDA ITEM 13: 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 the new Investment resolution is for the Board of Directors to further diversify the portfolio by allowing the purchase of highest rated category of "medium grade" corporate bonds (i.e. rated Baa1/BBB+). In addition, the maximum indirect exposure in the equity portfolio has been decreased from 25% to 15% of the market value of the equity portfolio.

MOTION: Mr. Garcia

SECOND: Mr. Reid

To approve the Investment Policy Statement and Guidelines as presented and attached hereto and to recommend to the Board of Directors for approval on Friday, February 15, 2013 during Open Board session under agenda item 25.

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

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 14: APPROVAL OF FEDERAL HOME LOAN BANK MEMBERSHIP RESOLUTION

Sen. Machado noted that the Committee reviewed the Federal Home Loan Bank Membership and will recommend to the Board of Directors that it be approved as presented. Senator Machado noted that effective as of January 1, 2013 State Fund is able to invest in corporate stock and asset backed securities and purchase the stock of the Federal Home

Loan Bank (FHLB). State Fund may purchase stock issued by the FHLB once its membership application for the FHLB of San Francisco is accepted.

The first Resolution attached hereto authorizes State Fund to apply for membership with the FHLB of San Francisco, to purchase stock issued by the FHLB, and to periodically take advances and secure the advances with pledges of investment grade securities owned by State Fund as collateral. Also attached hereto is a second Resolution called the Resolution – Authorized Persons for transactions with the FHLB of San Francisco. This resolution lists the names and officer titles of the State Fund “Authorized Persons” who can enter into transactions on behalf of State Fund with the FHLB of San Francisco. Both of these Resolutions are required by the FHLB of San Francisco as part of the membership application procedure.

MOTION: Mr. Reid

SECOND: Mr. Garcia

To approve the membership in the Federal Home Loan Bank of San Francisco (Resolution No. 1069) and to approve the authorized persons for transactions with the Federal Home Loan Bank of San Francisco (Resolution No. 1070) as presented and attached hereto and to recommend to the Board of Directors for approval on Friday, February 15, 2013 during Open Board session under agenda item 26.

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

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 15: COMMITTEE MEMBER PRESENTATIONS

Sen. Machado asked if there were any presentations from the Committee members of which there were none.

AGENDA ITEM 16: PROPOSALS AND SUGGESTIONS FOR MAY 16, 2013 AGENDA

Sen. Machado requested suggestions for agenda items for the May 16, 2013 Investment Committee meeting other than the standing agenda items, of which there was none. Sen. Machado requested public comment, of which there was none.

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 Assistant Corporate Secretary