

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 9

ATTACHMENT 9-I

APPROVAL of March 18, 2010 OPEN MEETING MINUTES

PRESENTED BY: Michael J. Machado

May 20, 2010

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MARCH 18, 2010

The Investment Committee met on March 18, 2010 at the Milton Marks Conference Center, State Building, Benicia Room, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 2:15 p.m. and the following members were present: Sen. Michael J. Machado (Ret.), Chair; Donald E. Garcia; Thomas E. Rankin; and Francis (Frank) E. Quinlan, Alternate.

There was a quorum.

Also present: Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Financial and Investment Services Manager and Secretary Pro Tem Leslie Dawe; Treasury Manager Stephanie Chan; Staff Counsel David Freitas; Richard Sega, Chief Investment Officer and Managing Director, Conning Asset Management; and Kevin Antaya, Vice President, Conning Asset Management.

AGENDA ITEM 2: APPOINTMENT OF LESLIE DAWE AS SECRETARY PRO TEM.

MOTION: Senator Machado Second: Mr. Garcia

To approve the appointment of Leslie Dawe as Secretary Pro Tem.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 3: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 5, 6, and 7.

Sen. Machado requested public comment of which there was none.

The Investment Committee immediately convened into Closed Session

AGENDA ITEM 4: APPROVAL OF JANUARY 21, 2010 CLOSED MEETING MINUTES Closed Session.

AGENDA ITEM 5: INVESTMENT STRATEGY Closed Session.

AGENDA ITEM 6: INVESTMENT MANAGER'S REPORT Closed Session.

AGENDA ITEM 7: STANDING INVESTMENT COMMITTEE AGENDA ITEMS FOR 2010 Closed Session.

AGENDA ITEM 8: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 3:20 p.m. following the conclusion of the Closed Session and the following Members were present: Sen. Michael Machado (Ret.) Chair; Donald E. Garcia; Thomas E. Rankin; and Francis (Frank) E. Quinlan (Alternate).

There was a quorum.

Also present: Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Financial & Investment Services Manager and Secretary Pro Tem Leslie Dawe; Treasury Manager Stephanie Chan; Staff Counsel David Freitas; Richard Segal, Chief Investment Officer and Managing Director, Conning Asset Management; and Kevin Antaya, Vice President, Conning Asset Management.

AGENDA ITEM 9: APPROVAL OF JANUARY 21, 2010 OPEN MEETING MINUTES

Sen. Machado requested a motion to approve the minutes of the January 21, 2010 Open meeting of the Investment Committee as presented.

Sen. Machado requested public comment of which there was none.

MOTION: Mr. Rankin Second: Mr. Garcia

To approve the minutes of the January 21, 2010 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 10: APPROVAL OF INVESTMENT TRANSACTIONS

Leslie Dawe, Financial and Investment Services Manager, recommended that the Investment Committee approve investment transactions from December 1, 2009 to January 31, 2010. All investment transactions for this period were made in conformance with the Investment policy at the time of purchase. During the months of December 2009 and January 2010, State Fund purchased 29

securities totaling approximately \$411M, consisting of 1 U.S. Government security, 2 Sovereign securities (Canada), 18 Taxable Municipal securities, and 8 Mortgage Backed securities. During this same time period, State Fund sold 10 securities totaling \$129 M. Year-to-date through December 31, 2009, State Fund booked a net capital gain of approximately \$4.3 M and for the first month of January, 2010 there were no gain or losses in the portfolio. The book value of State Fund's portfolio as of January 31, 2010 was approximately \$19.6B.

Sen. Machado requested public comment of which there was none.

After presentation of the Bond Transactions report, the following actions were taken:

MOTION: Mr. Quinlan Second: Mr. Garcia

To approve and recommend that the Board of Directors ratify the Bond Transactions for the period of December 1, 2009 through January 31, 2010.

AYES: 3 NOES: 0 Motion carried.

Ms. Dawe presented the Compliance Report indicating that all of State Fund's investments were in compliance with the Investment Policy at the time they were purchased and that all investments must meet certain minimum credit standards at the time of purchase. As of January 31, 2010 there was 1 taxable municipal issuer which exceeded the per issuer limit of 0.5% by approximately \$2M, but Ms. Dawe indicated that this per issuer limit for taxable municipal securities was implemented after this bond was purchased. There were 10 other securities totaling approximately \$183 million whose credit ratings have fallen below the "A" credit rating, although they were in compliance at the time of purchase. One of the Oregon State bonds totaling \$25M is included on the list as it is currently not rated, but the rating for the State of Oregon is Aa2/AA. The out-of-compliance securities totaling \$308M represent less than 2% of State Fund's total investment portfolio of approximately \$19.6B.

Sen. Machado requested public comment of which there was none.

After presentation of the Compliance Report, the following actions were taken:

MOTION: Mr. Rankin Second: Mr. Garcia

To approve and recommend the Board of Directors ratify the Compliance Report for the period of December 1, 2009 through January 31, 2010.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 11: MARKET OUTLOOK /ECONOMIC UPDATE

Mr. Guastamachio introduced Rich Sega, Chief Investment Officer and Managing Director at Conning Asset Management as well as Kevin Antaya, Vice President at Conning Asset Management. Mr. Sega presented Conning's U.S. Economic outlook and discussed the following: U.S. Growth reached a remarkable high 5.9% clip in the fourth quarter of last year but overall growth for the full year of 2009 was a negative 2.4%. He expects restrained but positive expansion through 2010 and beyond. The downside risks in this cycle will switch to inflationary concerns by 2011 and beyond. Mr. Sega stated there will be a slow recovery due in large part to slow economic growth. He forecasted an inflation rate of 1.5% in 2010 and approximately 2% in the following few years.

This compares to an inflation rate of 2.7% in 2009. He expects to see a gradual increase in interest rates going forward and presented other key U.S. economic indicators for the next several years, including the Gross Domestic Product, Civilian Unemployment Rate, and Capacity Utilization. Mr. Sega indicated that employment is key to this recovery but noted the unemployment numbers are underreported due to people being underemployed or no longer counted in the unemployment statistics. California is expected to recovery later than other States, as California came into the recession later than other States.

Upon questioning from the Committee, Mr. Sega indicated he had not considered the federal health care reform in his forecast but noted there would be a negative effect with small business hit hard if the legislation were to pass.

AGENDA ITEM 12: STANDING INVESTMENT COMMITTEE AGENDA ITEMS FOR 2010

Sen. Machado reported that there is one addition to our Standing Investment Committee agenda for the month of May, 2010 which is the annual performance review of State Fund's two Portfolio Managers. This evaluation will be presented by Mr. Guastamachio. In future years, this annual review of State Fund's Portfolio Managers' performance will be done at the end of each calendar year and presented to the Investment Committee at the March meeting. State Fund deferred the performance review this year since GR-NEAM will not complete their first year as one of State Fund's Portfolio Manager until March 31, 2010.

AGENDA ITEM 13: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 14: PROPOSALS AND SUGGESTIONS FOR MAY 2010 AGENDA

Sen. Machado asked if there were any additional recommendations from the Committee for the May's agenda, of which there was none.

AGENDA ITEM 15: PUBLIC COMMENT

Sen. Machado requested if there were any speaker cards or public comment, of which there was none.

The next Investment Committee meeting is scheduled for May 20, 2010.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 3:40 p.m.

Respectfully submitted,

Leslie Dawe

Secretary Pro Tem