

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

February 19, 2015

The Investment Committee met on February 19, 2015 at the State Fund Corporate Office, 333 Bush Street, 7th floor, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:00 pm and the following members were present: Chair Sen. Michael J. Machado (Ret.); Marvin P. Kropke; Jack L. Neureuter; Scott K. Reid; and William M. Zachry.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips.

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: CONSENT CALENDAR

**3a. Approval of November 20, 2014 Open Meeting Minutes
3b. Approval of Investment Transactions**

Sen. Machado asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Kropke

SECOND: Mr. Neureuter

To approve the Consent Calendar as presented.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote. Mr. Zachry initially voted "Yes" but changed his vote to "Abstain" because he was not a member of the Investment Committee in 2014.

YES: 4

NO: 0

Abstain: 1

Motion carried.

AGENDA ITEM 4: ECONOMIC AND INVESTMENT OUTLOOK

Chief Investment Officer Peter Guastamachio introduced Director, Global Investment Strategist Nelli Oster of Blackrock Management who presented on the economic and investment outlook for 2015. Ms. Oster characterized the past few years as the “Age of Recovery” because the Federal Reserve and other central banks kept their interest low to help the economy recover. The United States economy is now entering the “Age of Divergence” where the U.S. economy is getting stronger while Europe and Japan continue to struggle. Ms. Oster discussed the Blackrock list of “5 Things to Know in 2015”: (1) The U.S. Dollar will be stronger; (2) long-term interest rates will remain low; (3) the U.S. economy is improving relative to Europe and Japan; (4) U.S. inflation rates will remain low; and (5) stocks will face increased market volatility.

Ms. Oster explained that, in contrast to the Federal Reserve, central banks in Europe and Japan continue to stimulate their economies by lowering rates. Higher rates in the U.S. will increase demand for long-term U.S. bonds and strengthen the U.S. dollar. Ms. Oster noted that the U.S. has a 3% inflation rate with decreasing debt levels and good return on real estate. The Federal Reserve will slowly raise interest rates but the long term outlook is for rates to stay relatively low. There is a 20% probability of the first rate hike in June or July in 2015. Ms. Oster also noted that U.S. wage growth has not kept up with inflation. Retail sales are showing improvement with lower oil prices helping to boost consumer spending. U.S. gross domestic product (GDP) is at a 2.5-3% rate in 2015, while Europe and Japan are battling deflation and unable to attain the 2% growth target. The prediction for inflation in the U.S. is to remain low with the European Central Bank combating deflation with easing measures. Ms. Oster predicted that stock market volatility will revert back to normal with more typical levels of volatility with more opportunities for long-term investors. As market volatility increases, the Federal Reserve will step back from aggressively buying assets which will give investors more opportunities and selection of stocks. Stocks in certain sectors (technology and large integrated oil companies) may provide a greater value versus defensive sectors (utilities) which are more vulnerable to losses with rising rates. Stocks are still preferred over bonds and cash, even with rising volatility.

In conclusion, Ms. Oster noted for more detailed information to visit Blackrock’s website under the section on “Investment Directions”.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 8 THROUGH 10

Sen. Machado requested public comment on the appropriateness of Closed Session Agenda Items 8-10, of which there was none.

AGENDA ITEM 6: PUBLIC COMMENT

Sen. Machado requested other public comment, of which there was none. The Investment Committee immediately convened into Closed Session at 12:15 p.m.

AGENDA ITEM 11: 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 P. Kropke; Jack L. Neureuter; Scott K. Reid; and William M. Zachry.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips, LLP.

AGENDA ITEM 12: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 13: PROPOSALS AND SUGGESTIONS FOR MAY 21, 2015 AGENDA

Sen. Machado requested suggestions for agenda items for the May 21, 2015 Investment Committee meeting other than the standing agenda items, of which there were none. Sen. Machado requested public comment, of which there was none, and he noted that the next Investment Committee meeting is scheduled for May 21, 2015 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California 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 Interim Corporate Secretary