

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

February 20, 2014

The Investment Committee met on February 20, 2014 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:10pm and the following members were present: Chair Sen. Michael J. Machado (Ret.); Marvin Kropke; Jack Neureuter; and Scott Reid.

There was a quorum.

Also present: Acting President and CEO Carol Newman; Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Treasury & Investments Program Manager and Assistant Corporate Secretary Stephanie K. Chan; Board Liaison and Interim Corporate Secretary Hilda B. Padua; 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 14, 2013 Open Meeting Minutes**
- 3b. Approval of Investment Transactions**
- 3c. Approval of Investment Policy Statement and Guidelines**

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. Reid

To approve the Consent Calendar as presented.

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

YES: 3

NO: 0

Abstain: 1

Motion carried.

Mr. Neureuter was not present at the November 2013 Audit meeting and thus did not vote on the approval.

AGENDA ITEM 4: ECONOMIC AND INVESTMENT OUTLOOK

Chief Investment Officer Pete Guastamachio introduced Director of Financial Reserves Relationship Management Eric Tanaka and Equity Portfolio Manager Donald Kilbride of Wellington Management.

Mr. Kilbride presented 4Q 2013 Investment results, highlighting the performance of each broad asset class. Mr. Kilbride reported that State Compensation Insurance Fund had a strong year in the equity market. U.S. equities reached another all-time high in December amid strong corporate earnings, an improving housing market, and accommodative rhetoric from the Federal Reserve. U.S. equities, as represented by the S&P 500 index, returned 10.5% for the 4th quarter to finish 2014 with an annual return of 32.4%. The fixed income declined slightly in the quarter, impacted by Federal Reserve tapering expectations. The Barclays U.S. Aggregate Bond Index returned -0.1% for the 4th quarter and -2.0% for the year.

In addition, most currencies fell against the U.S. dollar with the notable exception of European currencies. When comparing the U.S. Dollar vs. a Trade Weighted Basket of Major Currencies, USD was up 0.4% for the 4th quarter and 4.5% for the year. The Commodities declined modestly in the 4th quarter. The Production-Weighted S&P GSCI (commodity index) was down -0.3%, and down -1.2% for the year, with Energy being the only positive sector over the quarter.

Mr. Kilbride discussed the global macroeconomic outlook for 2014, which includes proceeding with more caution, with a more defensive approach for the portfolio. Mr. Kilbride noted that the Federal Reserve will continue tapering with strategy and policies remaining the same through the transition from Ben Bernanke to Janet Yellen.

Discussion ensued regarding emerging markets, specifically, the effect of China's market in the global market. Mr. Kilbride noted that there are three key factors: i) U.S. tapering will impact the emerging markets. It is changing from an infrastructure to consumption economy; ii) companies find it difficult to compete in China and are pulling out; and iii) chaos in emerging market countries (political issues).

Lastly, discussion ensued on how an optimistic outlook on the economy would look. Mr. Kilbride noted that the unemployment rate would decrease and more confidence from big companies would be seen through more hiring and spending.

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 12:25 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 Kropke; Jack Neureuter; and Scot Reid.

There was a quorum.

Also present: Acting President and CEO Carol Newman; Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Treasury & Investments Program Manager and Assistant Corporate Secretary Stephanie K. Chan; Board Liaison and Interim Corporate Secretary Hilda B. Padua; 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 15, 2014 AGENDA

Sen. Machado requested suggestions for agenda items for the May 15, 2014 Investment Committee meeting other than the standing agenda items, of which there was none. Sen. Machado requested public comment, of which there was none.

Sen. Machado asked for any public comment, of which there was none, and he noted that the next Investment Committee meeting is scheduled for May 15, 2014 at the State Fund's corporate office, 333 Bush Street, San Francisco 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