

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 6

ATTACHMENT 6-I

APPROVAL of MAY 20, 2010 OPEN MEETING MINUTES

PRESENTED BY: Michael J. Machado

July 8, 2010

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 20, 2010

The Investment Committee met on May 20, 2010 at the Milton Marks Conference Center, State Building, Santa Barbara Room, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 10:00 a.m. and the following members were present: Sen. Michael J. Machado (Ret.), Chair; Donald E. Garcia; and Thomas E. Rankin.

There was a quorum.

Also present: Chief Investment Officer Peter Guastamachio; Financial and Investment Services Manager and Secretary Pro Tem Leslie Dawe; Treasury Manager Stephanie Chan; and Staff Counsel David Freitas.

AGENDA ITEM 2: APPOINTMENT OF STEPHANIE CHAN AS SECRETARY PRO TEM.

MOTION: Mr. Rankin Second: Mr. Garcia

To approve the appointment of Stephanie Chan as Secretary Pro Tem.

AYES: 3 NOES: 0 Motion carried.

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

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

AGENDA ITEM 8: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:15 a.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 Investment Officer Peter Guastamachio; Financial & Investment Services Manager and Secretary Pro Tem Leslie Dawe; Treasury Manager and Secretary Pro Tem Stephanie Chan; and Staff Counsel David Freitas.

AGENDA ITEM 9: APPROVAL OF MARCH 18, 2010 OPEN MEETING MINUTES

Sen. Machado requested a motion to approve the minutes of the March 18, 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 March 18, 2010 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 10: APPROVAL OF INVESTMENT GUIDELINES AND CHARTER

Sen. Machado requested a motion to recommend that the Board adopt the new Investment Policy Statement and Guidelines Resolution No. 919 effective May 21, 2010 as presented. A copy of the new Investment Policy Statement and Guideline Resolution No 919 is attached to these minutes.

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

MOTION: Mr. Rankin Second: Mr. Garcia

To recommend that the Board adopt the new Investment Policy Statement and Guidelines Resolution No. 919 effective May 21, 2010 as presented.

AYES: 3 NOES: 0 Motion carried.

The Committee noted that there were no recommendations at this time for any updates to the Investment Committee Charter.

AGENDA ITEM 11: APPROVAL OF INVESTMENT TRANSACTIONS

Stephanie Chan, Treasury Manager, recommended that the Investment Committee approve investment transactions from February 1, 2010 to March 31, 2010. All investment transactions for this period were made in accordance with the Investment Policy at the time of purchase. During the months of February and March, State Fund purchased 33 securities totaling approximately \$803.6M. During this same time period, State Fund sold 15 securities totaling \$119.7M. Year-to-date through March 31, 2010, State Fund booked a net capital gain of approximately \$136,000. The book value of State Fund's portfolio as of March 31, 2010 was approximately \$19.4B.

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

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

MOTION: Mr. Rankin Second: Mr. Garcia

To approve and recommend that the Board of Directors ratify the Bond Transactions for the period of February 1, 2010 thru March 31, 2010.

AYES: 3 NOES: 0 Motion carried.

Ms. Chan presented the Compliance Report indicating that all of State Fund's investments were in compliance with the Investment Policy and met certain minimum credit standards at the time of purchase. As of March 31, 2010 there was one taxable municipal issuer, Southern California Public Power Authority, which exceeded the per issuer limit of 0.5% by approximately \$3M, but Ms. Chan indicated that the 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, but they were in compliance at the time of purchase. One of the Oregon State bonds totaling \$25M is included on the list because it has no ratings as it was initially rated based solely on the financial strength of insurance enhancement. Originally, the insurance carrier was rated AAA, however, subsequently the ratings were downgraded and finally dropped. It was noted that the underlying ratings for all State of Oregon bonds are Aa2/AA. The out-of-compliance securities totaling \$308M represent less than 2% of State Fund's total investment portfolio.

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 February 1, 2010 thru March 31, 2010.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 12: MARKET OUTLOOK /ECONOMIC UPDATE

Mr. Guastamachio presented the U.S. Economic Update. Recent data shows that the Gross Domestic Product is fairly strong; business is improving as companies are restocking inventories; and consumer recovery appears to be underway. However, unemployment remains high and the jobless claims count continues to grow. Mr. Guastamachio noted that consumer spending during the second half of the year will be a better indicator for economic recovery. Although there are signs of recovery in the housing market, it is uncertain if the recovery will be sustainable absent the Federal programs. In addition, the numbers of delinquencies and foreclosures continue to climb. The likelihood of the Federal Reserve raising federal fund rates this year is very small.

The Committee questioned Mr. Guastamachio about the recent financial crisis in Europe, and the possible impact on the U.S. economy. A discussion ensued. Mr. Guastamachio summarized that the European crisis is creating global uncertainty, volatility in the markets and creating a flight to quality; but State Fund's portfolio is strong and he expects it can weather this economic storm.

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 July 2010
AGENDA

Sen. Machado asked if there were any additional recommendations from the Committee for the July's agenda. Mr. Guastamachio mentioned that the peer analysis will be presented unless the 2009 results are not available in time for the July meeting.

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 July 8, 2010.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 11:45 a.m.

Respectfully submitted,

Stephanie Chan
Secretary Pro Tem