

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 12, 2011

The Investment Committee met on May 12, 2011 at the Omni San Francisco Hotel, Russian Hill Room, 500 California Street, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 12:00 p.m. and the following members were present: Chair Senator Michael J. Machado (Ret.); Scott K. Reid; and Francis E. Quinlan (Alternate). Donald E. Garcia joined the meeting at agenda item 2.

There was a quorum.

Also present: President Tom 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 Chan; Treasury & Investments Manager Maria Quintanilla; and Staff Counsel David Freitas.

AGENDA ITEM 2: APPROVAL OF MARCH 17, 2011 OPEN MEETING MINUTES

Sen. Machado requested a motion to approve the minutes of the March 17, 2011 Open meeting of the Investment Committee as presented.

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

MOTION: Mr. Reid SECOND: Mr. Garcia

To approve the minutes of the March 17, 2011 Open meeting of the Investment Committee as presented.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 3: APPROVAL OF INVESTMENT TRANSACTIONS

Stephanie Chan, Treasury & Investments Program Manager, recommended that the Investment Committee approve investment transactions from February 1, 2011 to March 31, 2011. 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 2011, State Fund purchased 85 securities totaling approximately \$911M. During this same time period, State Fund sold 4 bonds for a total of \$50M. Year-to-date through March 31, 2011, State Fund recognized a

after a recession but the current housing situation is holding back our economic recovery.

Commodity prices continue to rise and unrest in the Middle East has caused a spike in oil prices. In addition, Japan's increasing demand for oil following the tsunami and earthquake crisis could put more pressure on oil prices. Manufacturing output has risen but there is still a lot of capacity in this area indicating that the U.S. economy is not yet running on all cylinders. The forecast for Core Consumer Price Index (CPI) is 1.4% in 2011 and 1.6% in 2012. The forecast for oil prices in 2012 is \$130/barrel. Many economists believe that oil prices above \$125/barrel for a prolonged period could trigger another recession.

Conning Asset management's current sector strategy is underweight in U.S. Treasuries and Agencies and overweight in investment grade Corporates. Some market strategists state that shorter durations in portfolios will allow reinvestment at higher yields when rates go higher but Conning is recommending a ladder investment approach.

AGENDA ITEM 5: INVESTMENT COMMITTEE CHARTER

Sen. Machado requested the Investment Committee Charter be deferred and discussed at the next meeting.

AGENDA ITEM 6: INVESTMENT TRAINING TOPICS

The committee reviewed four prospective training topics and discussed adding additional topics that would be helpful for the committee members. Committee members agreed to schedule training on equities in July 2011 in order to learn how this sector can help diversify a portfolio by potentially raising yields and lowering risk. The committee acknowledged that State Fund cannot enter the equity market without legislative action but learning about this sector will be useful. The committee also discussed that in September 2011, General Re-New England Asset Management should provide training on the challenges of reaching for yield in the current market environment.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 12

Senator Machado requested public comment of which there was none.

The Investment Committee immediately convened into Closed Session.

AGENDA ITEM 13: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:51p.m. following the conclusion of the Closed Session and the following Members were present: Sen. Michael Machado (Ret.) Chair; Donald E. Garcia; Scott K. Reid; and Francis E. Quinlan.

There was a quorum.

Also present: President Tom 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 Chan; Treasury & Investments Manager Maria Quintanilla; and Staff Counsel David Freitas.

AGENDA ITEM 14: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 15: PROPOSALS AND SUGGESTIONS FOR JULY 14, 2011 AGENDA

Senator Machado asked if there were any additional recommendations from the committee for the July 14, 2011 agenda. Committee members requested the following items be added to the agenda: Discussion of the Request for Proposal process and review of the current investment manager contracts regarding the notice provisions and the length of the contracts; Discussion of potential Investment Manager firms for the RPF; and reserving time for training to be covered in July.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 1:55 pm.

Respectfully submitted,

Stephanie Chan
Assistant Corporate Secretary