

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 8

ATTACHMENT 8-I

APPROVAL of July 8, 2010 OPEN MEETING MINUTES

PRESENTED BY: Michael J. Machado

September 9, 2010

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

July 8, 2010

The Investment Committee met on July 8, 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 and Secretary Pro Tem Stephanie Chan; Investment Analyst Maribel Aleman; and Staff Counsel David Freitas.

AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION FOR ITEM 4.

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

The Investment Committee immediately convened into Closed Session

AGENDA ITEM 5: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:05 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; Investment Analyst Maribel Aleman; and Staff Counsel David Freitas.

AGENDA ITEM 6: APPROVAL OF MAY 20, 2010 OPEN MEETING MINUTES

Sen. Machado requested a motion to approve the minutes of the May 20, 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 May 20, 2010 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 7: APPROVAL OF INVESTMENT TRANSACTIONS

Stephanie Chan, Treasury Manager, recommended that the Investment Committee approve investment transactions from April 30, 2010 to May 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 April and May, State Fund purchased 21 securities totaling approximately \$326.9M. During this same time period, State Fund sold 1 security worth \$10M in par value. Year-to-date through May 31, 2010, State Fund booked a net capital gain of approximately \$4.2M. The book value of State Fund's portfolio as of May 31, 2010 was approximately \$19.2B.

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 April 30 thru May 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 May 31, 2010 there was one taxable municipal issuer, Southern California Public Power Authority, exceeded the per issuer limit of 0.5% by approximately \$4M, however, Ms. Chan indicated that the per issuer limit for taxable municipal securities was implemented after this bond was purchased. The Rancho Cucamonga bond is

currently rated below single "A", but was in compliance at the time of purchase. One of the Oregon State bonds totaling \$25M is included on the list because the issuer did not have its own rating and this bond 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 then withdrawn. It was noted that the underlying ratings for all State of Oregon bonds are Aa2/AA. The out-of-compliance securities totaling \$139M represent less than 1% 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 April 30 thru May 31, 2010.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 8: MARKET OUTLOOK /ECONOMIC UPDATE

Mr. Guastamachio presented the U.S. Economic Update. The Federal Open Market Committee met in June and suggests that high unemployment, low inflation, and stable price expectations are likely to warrant exceptionally low levels of the federal funds rate for an extended period. The Gross Domestic Product (GDP) for the 1st quarter of 2010 was 2.7% and the GDP forecast for 2011 is likely to adjust downward to the 1.5% and 2.0% range. Several trends including payrolls, home sales, retail sales, and factory orders indicate that there is a slowdown in economic activity. However, Mr. Guastamachio noted that exports continue to be strong in the short to medium term. Business spending has shown some recovery, particularly in the computers and software sector. Lastly, the likelihood of the Federal Reserve raising fed fund rates this year remains very low.

AGENDA ITEM 9: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 10: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER 9, 2010
AGENDA

Sen. Machado asked if there were any additional recommendations from the Committee for the September's agenda. Proposals and suggestions include: Investment Manager's report (presented by General Re New England Asset Management); status of pending investment legislation and potential impact on investment strategy in 2011 and future years; US Banking Reforms legislation and impact on the investment strategy; and an analysis of how investment yield would impact the operational results of State Fund.

AGENDA ITEM 11: 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 September 9, 2010.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 11:40 a.m.

Respectfully submitted,

Stephanie Chan
Secretary Pro Tem