

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 8

ATTACHMENT 8-I

APPROVAL of September 10, 2009 OPEN MEETING MINUTES

PRESENTED BY: Vince Mudd

November 12, 2009

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

SEPTEMBER 10, 2009

The Investment Committee met on September 10, 2009 in the State Building, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 2:10 p.m. and the following members were present: Vincent E. Mudd, Chair; Sen. Michael J. Machado (Ret.); Francis (Frank) E. Quinlan; and Alternate Steven L. Rank.

There was a quorum.

Also present: President and CEO Janet Frank; Chief Financial Officer Jay Stewart; Chief Risk Officer Doug Stewart; Chief Investment Officer Peter Guastamachio; Fiscal and Investment Services Manager Leslie Dawe; Treasury Services Manager Stephanie Chan; Vice President of Governmental Affairs Brian Watson; General Counsel and Corporate Secretary Carol R. Newman; Chief Counsel Suzanne Ah-Tye; and Assistant Chief Counsel and Assistant Secretary Judith D. Sapper.

AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 4 AND 5

Mr. Mudd requested public comment of which there was none.

The Investment Committee immediately convened into Closed Session.

AGENDA ITEM 3: APPROVAL OF JULY 9, 2009 CLOSED MEETING MINUTES Closed Session.

AGENDA ITEM 4: INVESTMENT STRATEGY, PORTFOLIO STRATEGY AND REVIEW Closed Session.

AGENDA ITEM 5: INVESTMENT MANAGER STRATEGY Closed Session.

AGENDA ITEM 6: FUTURE INVESTMENT STRATEGIES AND PROPOSED CHANGES TO INVESTMENT POLICY Closed Session.

AGENDA ITEM 7: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 3:25 p.m. following the conclusion of the Closed Session and the following Members were present: Vincent E. Mudd,

Chair; Francis (Frank) E. Quinlan; Sen. Michael Machado (Ret.); and Alternate Steven L. Rank.

There was a quorum.

Also present: President and CEO Janet Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Fiscal and Investment Services Manager Leslie Dawe; General Counsel and Corporate Secretary Carol R. Newman; Chief Counsel Suzanne Ah-Tye; and Assistant Chief Counsel and Assistant Secretary Judith D. Sapper.

AGENDA ITEM 8: APPROVAL OF JULY 9, 2009 OPEN MEETING MINUTES

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To approve the minutes of the July 9, 2009 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 9: APPROVAL OF INVESTMENT TRANSACTIONS

Fiscal and Investment Services Manager Leslie Dawe discussed the selection and retention of investments and the composition of State Fund's \$19.6B portfolio. Ms. Dawe presented the bond transactions for June and July 2009, noting 51 bonds consisting of 1 Government security, 6 Agency securities, 27 Mortgage-Backed securities (MBS), and 17 Taxable Municipal securities were purchased at \$1,128,811,638. She also reported that 17 bonds consisting of 5 Government securities and 12 Corporate securities were sold for \$177,600,000. Year-to-date through August 31, 2009, State Fund has booked a net capital gain of approximately \$1.2M. There were no short term investment transactions.

Ms. Dawe presented the compliance report for investments owned as of July 31, 2009. All of the investments were in compliance at the time of purchase. She noted State Fund's investment policy allows an investment to be retained even if it is out of compliance after a credit analysis has been completed. The 15 bonds totaling approximately \$315M that fell out of compliance make up less than 1.6% of State Fund's portfolio. California State General Obligation and California State Tax Variable Purpose bonds were added to the report and the International Lease Finance Corp., American Express Co., American General Finance, M&I Marshall & Ilsley Bank, and Johnson Controls, Inc. securities matured or were sold after the July 2009 meeting. State Fund's Executive Management concurred with the Investment Managers' recommendations with supporting rationale to hold or sell each of the non-compliant bonds. Mr. Mudd requested public comment of which there was none. After presentation of the compliance report the following actions were taken:

MOTION: Mr. Quinlan Second: Sen. Machado (Ret.)

To approve and recommend the Board of Directors ratify the bond transactions for the period of June 1, 2009 through July 31, 2009 and compliance status of the securities on the July 31, 2009 compliance report.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 10: ECONOMY AND OUTLOOK FOR INVESTMENT PORTFOLIO

Mr. Rank left the meeting. Mr. William Rotatori, Vice President, General Re--New England Asset Management (GR--NEAM), presented an economic update and outlook. He noted the U.S. economy has come through the worst post-WWII recession and is showing signs of stabilization but will have a sub-par recovery compared to prior recoveries because of the drop in borrowing and taxes. He explained the housing boom, easy credit, and \$10T in consumer spending became an excessive component of the total U.S. economy of \$14T. He noted housing prices are down 30% from the peak, there is a large inventory of houses, and problem prime Fannie Mae/Freddie Mac loans are just beginning to appear. The national unemployment rate is 9.7% with a 10.4% rate forecast for mid-2010. Mr. Rank rejoined the meeting. The current California unemployment rate is 11.5%. Borrowing is down for the first time as consumers save more and spend less. Mr. Rotatori did not predict a short term rise in interest rates. Mr. Mudd requested public comment, of which there was none.

AGENDA ITEM 11: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan commended GR--NEAM for its presentations. Mr. Mudd requested public comment of which there was none.

AGENDA ITEM 12: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER 2009 AGENDA

The Investment Committee directed inclusion of standing agenda items and requested re-examination of the benchmark in State Fund's investment guideline and the flexibility to change it periodically for the next meeting. There was no public comment.

AGENDA ITEM 13: PUBLIC COMMENT

Mr. Mudd requested public comment of which there was none.

The next Investment Committee meeting is scheduled for November 12, 2009 at 2:00 p.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 4:05 p.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary