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TO: MEMBERS, INVESTMENT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 6: Market Outlook and Economic Update
II. NAME AND PROGRAM:	Treasury and Investments
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

This presentation will focus on the recent negotiations in Congress over the current budget deficit and Federal debt ceiling and what ramifications this may have for the capital markets. Topics to be covered include the potential for additional downgrades on US Treasury debt and the potential impact on Treasury yields and liquidity in the market. Lastly, this section will include an overview of the current US economy and capital markets.

This presentation will also cover an analysis and comparison of the State Fund fixed income portfolio against a peer group of both private workers' compensation companies as well as State Workers Compensation funds. The analysis will cover asset allocation as well as an overview of the fixed income portfolio. The fixed income overview will focus on attributes such as duration, sector distribution, book yield, credit quality as well as liquidity.

VI. ANALYSIS:

The resolution of the recent government shutdown created three important dates:

1. December 13th – Deadline for agreement on Budget Resolution
2. January 15th - Expiration of the Continuing Resolution for Funding the Government
3. February 7th - Expiration of the Debt Ceiling Suspension

Our view of the current situation is:

- Extreme partisanship and government dysfunction will continue.
- The risk of government shutdown and potential default still exists but the odds are lower.
- A broad fiscal deal that will meaningfully impact the economy or future deficits is highly unlikely.
- The most likely case is that a very limited in scope agreement is reached to fund the government and lift/extend the debt ceiling through the mid-term elections.