

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 26, 2016

The Investment Committee met on May 26, 2016 at the State Fund Corporate Office, 333 Bush Street, 7th floor, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:05 p.m. and the following Members were present: Chair Sen. Michael J. Machado (Ret.) and Marvin P. Kropke.

Absent by prior arrangement: Jack L. Neureuter and William M. Zachry.

There was no quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

AGENDA ITEM 2: ANTITRUST ADMONITION

Senator Machado called attention to and requested acknowledgment that the Investment Committee members read State Fund's Antitrust Admonition included in each Committee member's meeting materials.

AGENDA ITEM 3: CONSENT CALENDAR – DEFERRED

- 3a. Approval of February 18, 2016 Open Meeting Minutes**
- 3b. Approval of Investment Transactions**
- 3c. Annual Review of Investment Committee Charter**

Sen. Machado noted that due to the lack of a quorum, items 3, 9 and 15 would be deferred for approval at the July 2016 Investment Committee meeting.

AGENDA ITEM 4: REPORT ON BANK ACCOUNTS, CASH MANAGEMENT HOLDINGS AND LONG-TERM INVESTMENT HOLDINGS

Sen. Machado called upon Chief Financial Officer Peter Guastamachio to report on the bank accounts and cash management holdings. Mr. Guastamachio reported that KPMG, State Fund's independent auditors, completed the 2015 audit and issued the statutory financial statement for State Fund as of December 31, 2015. KPMG found no material audit difference related to cash and investments as of or for the year ended December 31, 2015.

In addition, Mr. Guastamachio noted that the Bank of America account was kept open for a year but is now closed. The negative balance is not an overdraft but a reconciled item.

AGENDA ITEM 5: ECONOMIC AND INVESTMENT OUTLOOK

Tushar Yadava of BlackRock's iShares Investment Strategy Team provided an update of the valuation of assets with the current valuation of risky assets becoming marginally cheaper relative to fixed income as compared to last year with the exception of commodities. The market is challenged with asset performance strikingly different from the previous year with Crude Oil and Gold as the top two gainers in asset classes. The strength of the U.S. Dollar is weaker compared to most of the foreign currencies.

Mr. Yadava noted earnings have rolled over since the energy decline, which is reflected in low earnings and declining oil prices. As the market recovers and earnings improve, the higher equity prices will be justified. Global growth is overall slow and the yield curves have become increasingly flatter as reflected in government bonds. U.S. Treasuries are still attractive to foreign buyers.

In International Global Markets, Mr. Yadava reported that Europe is showing signs of recovery with GDP and credit activity increasing. China set their currency weaker to manage currency internationally and to discourage capital out of the country. China's housing prices are accelerating. Japan's economy is affected by slow global recovery, a strengthening yen, and low consumption. Japan needs to push forth monetary and fiscal measures and structural reforms to achieve sustainable growth.

Lastly, Mr. Yadava reported that the Federal Reserve may increase interest rates this year and there is an uncertainty of the outcomes. The stock market is unprepared for the Federal Reserve to increase the pressure on the dollar and credit is spread wider at a slow and gradual pace. Economic recovery in a majority of models and forecasts has poor predictability. U.S. growth remains slow and sustainable economic policies are needed. Healthcare is an emerging market with diagnosis and treatments consumption increasing with the aging population. There is a shift occurring from private retirement funding for baby boomers to accruing student debt and less assets held by younger generations.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 8, 10 THROUGH 13

Sen. Machado requested public comment on the appropriateness of Closed Session Agenda Items 8, 10 through 13, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Sen. Machado requested other public comment, of which there was none. The Investment Committee immediately convened into Closed Session at 12:25 p.m.

AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:55 p.m. and the following Members were present: Chair Sen. Michael J. Machado (Ret.) and Marvin P. Kropke.

Absent by prior arrangement: Jack L. Neureuter and William M. Zachry.

There was no quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

AGENDA ITEM 15: APPROVAL OF INVESTMENT POLICY STATEMENT AND GUIDELINES – DEFERRED

AGENDA ITEM 16: COMMITTEE MEMBER PRESENTATIONS

Sen. Machado requested presentations from the Committee members, of which there were none.

AGENDA ITEM 17: PROPOSALS AND SUGGESTIONS FOR JULY 27, 2016 AGENDA

Sen. Machado requested suggestions for agenda items for the July 27, 2016 Investment Committee meeting other than the standing agenda items, of which there were none.

Sen. Machado requested public comment, of which there was none, and he noted that the Investment Committee will hold an Ad Hoc meeting on July 19, 2016 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 2:00 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary