

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 2

ATTACHMENT 2-I

APPROVAL of September 9, 2010 OPEN MEETING MINUTES

PRESENTED BY: Michael J. Machado

November 18, 2010

**STATE COMPENSATION INSURANCE FUND  
INVESTMENT COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**September 9, 2010**

The Investment Committee met on September 9, 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 & Investment Services Manager and Secretary Pro Tem Leslie Dawe; Treasury & Strategic Analysis Manager and Secretary Pro Tem Stephanie Chan; Treasury Manager Maria Quintanilla; Staff Counsel David Freitas; Bill Ratatori, President, General Re New England Asset Management (GR-NEAM); Chip Clark, Client Strategist, GR-NEAM; and Christian Auger, Client Strategist, GR-NEAM.

**AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 4 THROUGH 6.**

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

The Investment Committee immediately convened into Closed Session

**AGENDA ITEM 7: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 11:15 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 & Strategic Analysis Manager and Secretary Pro Tem Stephanie Chan; Treasury

Manager Maria Quintanilla; Staff Counsel David Freitas; Bill Ratatori, President, General Re New England Asset Management (GR-NEAM); Chip Clark, Client Strategist, GR-NEAM; and Christian Auger, Client Strategist, GR-NEAM.

**AGENDA ITEM 8: APPROVAL OF July 8, 2010 OPEN MEETING MINUTES**

Sen. Machado requested a motion to approve the minutes of the July 8, 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 July 8, 2010 Open meeting of the Investment Committee as presented.

AYES: 3                      NOES: 0                      Motion carried.

**AGENDA ITEM 9: APPROVAL OF INVESTMENT TRANSACTIONS**

Stephanie Chan, Treasury & Strategic Analysis Manager, recommended that the Investment Committee approve investment transactions from June 30, 2010 to July 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 June and July, State Fund purchased 30 securities totaling approximately \$671.7M. During this same time period, State Fund sold 3 securities totaling approximately \$34.7M. Year-to-date through July 31, 2010, State Fund booked a net capital gain of approximately \$4.3M. The book value of State Fund's portfolio as of July 31, 2010 was approximately \$19.4B.

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 June 30 through July 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. There were no changes to the Report since the last meeting. As of July 31, 2010 there was one taxable municipal issuer, Southern California Public Power Authority, which exceeded the per issuer limit of 0.5%, 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. 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 June 30 through July 31, 2010.

AYES: 3                      NOES: 0                      Motion carried.

#### **AGENDA ITEM 10: MARKET OUTLOOK /ECONOMIC UPDATE**

Bill Ratatori, President of GR-NEAM, presented the U.S. Market Outlook and Economic Update. Mr. Ratatori reviewed the recent economic figures in housing, employment, U.S. and household debt, and credit extension/bank lending activity. These economic figures indicate that there is a lingering weakness in the underlying fundamentals of our economy. The economy remains vulnerable to shocks and recovery remains fragile. In addition, it is likely that the Federal Reserve will continue to use unconventional measures and set policies to stimulate the economy. Mr. Ratatori also discussed the current interest rates, persistent low yield environment, and the expected market returns in the near term.

#### **AGENDA ITEM 11: COMMITTEE MEMBER PRESENTATIONS**

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

**AGENDA ITEM 12: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 18, 2010**  
**AGENDA**

Sen. Machado asked if there were any additional recommendations from the Committee for the November's agenda, of which there were none.

**AGENDA ITEM 13: 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 November 18, 2010.

**ADJOURNMENT**

There being no further business before the Investment Committee, the meeting adjourned at 12:00 p.m.

Respectfully submitted,

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Stephanie Chan  
Secretary Pro Tem