STATE COMPENSATION INSURANCE FUND

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Date: November 23, 2015

TO: MEMBERS, INVESTMENT COMMITTEE

I.	**AGENDA ITEM # AND TITLE :**	Open Agenda Item 4 – Market Outlook and Economic Update
II.	**NAME AND PROGRAM:**	Treasury and Investments
III.	**ACTIVITY:**	☒ Informational ☐ Request for Direction ☐ Action Proposed ☐ Exploratory
IV.	**JUSTIFICATION:**	☒ Standard/Required Item ☐ Board Request – New Item ☐ New Topic from Staff

V. EXECUTIVE SUMMARY:

Donald Kilbride, Equity Portfolio Manager, will provide Wellington Management's current economic and investment outlook. He will provide a recap of the 3rd quarter, highlighting the performance of each broad asset class. He will also discuss the global macroeconomic outlook for 2016.

VI. ANALYSIS:

US equities rallied from September's pullback, posting their best monthly return since October 2011. Though mixed, the US economic data remained fairly constructive overall, as slower growth was offset by encouraging initial jobless claims and housing data. Among sectors, US equity gains were broad based; each of the 10 sectors in the S&P 500 Index posted positive results. Materials and energy, the two worst year-to-date performers entering the month, surged amid the bounce in commodities and diminished anxiety about the prospect of a global recession.

US Treasuries posted negative total returns as rates rose on indications from the Fed that a rate hike in December remains a possibility. The Barclays US Aggregate Index returned 0.02% for the month, outperforming duration-equivalent Treasuries by 0.38%. US investment-grade corporate bonds outperformed duration equivalent Treasuries. Commodity sensitive sectors, such as energy and metals & mining, were the best performing sectors, as spreads recovered during the period. In securitized sectors Agency Mortgage Backed Securities and Commercial Mortgage Backed Securities outperformed duration-equivalent Treasuries, while consumer Asset Backed Securities slightly underperformed, as a surge in primary issuance drove spreads wider.

Global equities rebounded as increasing signs of extended monetary policy accommodation by major central banks supported risk assets. Within developed markets, non-US equities underperformed their US counterparts for the third straight month. European equities posted healthy gains as dovish commentary from the European Central Bank (ECB) helped offset tepid economic data releases. Stocks in the export-driven economies of the Pacific Basin surged, outperforming broader developed markets and reentering the black year to date. Japanese stocks led the region higher, and Japanese industrial production surprised to the upside, advancing, despite recent weaker exports to China's slowing economy.

The Barclays Global Aggregate Index returned 0.32% in USD-hedged terms, outperforming duration-equivalent government bonds by 0.34%. Global government bond yields were mixed. Monetary policy divergence was in focus, as expectations of incremental easing by the Bank of Japan and ECB led to a decline in Japanese and German yields while sovereign yields in US, UK, and Canada increased over the month. Global investment grade corporate bonds outperformed duration-equivalent government bonds. In a reversal from the previous month, metals & mining and energy sectors were the best performers. Regionally, euro-denominated corporate bonds outperformed their sterling- and US dollar-denominated peers, driven by ECB easing expectations.

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Economic and Investment Outlook

9 December 2015

Donald J. Kilbride Equity Portfolio Manager
Wellington Management Company LLP

Eric M. Tanaka, CFA, CPA Director, Financial Reserves Relationship Management
Wellington Management Company LLP

Neeta Madahar: Falling 1 (detail), 2005, Lightjet print mounted on aluminum. 48 x 48 inches (122 x 122 cm)

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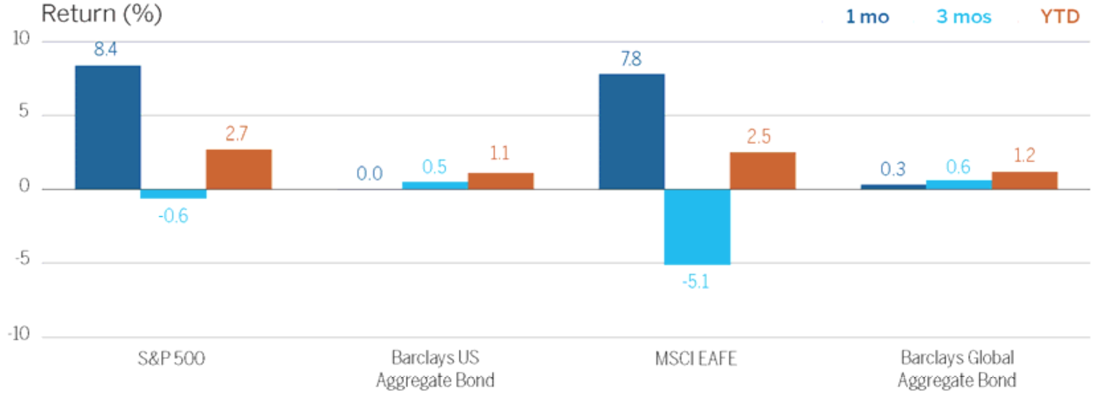
Market review

31 October 2015



October monthly highlights

US equities rallied from September's pullback, posting their best monthly return since October 2011. Though mixed, the US economic data remained fairly constructive overall, as slower growth was offset by encouraging initial jobless claims and housing data. Among sectors, US equity gains were broad based; each of the 10 sectors in the S&P 500 Index posted positive results. Materials and energy, the two worst year-to-date performers entering the month, surged amid the bounce in commodities and diminished anxiety about the prospect of a global recession.

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All returns expressed in USD | Source: Wellington Management | Indexes used: S&P 500, Barclays US Aggregate Bond Index, MSCI EAFE USD hedged, Barclays Global Aggregate Bond USD hedged

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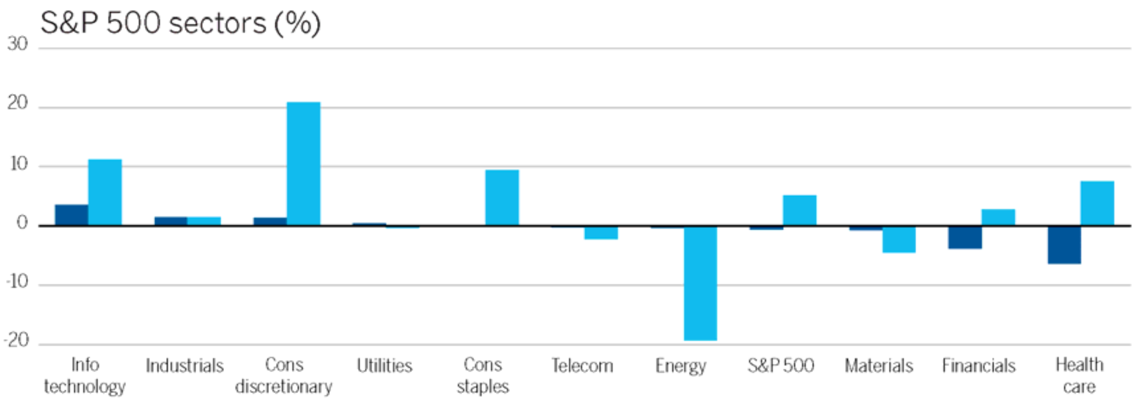
US Equity Markets
31 October 2015



Third quarter highlights

US equities (-6.4%) retreated for the first time in eleven quarters. While the growth slowdown in China and its implications for global commerce fueled investor anxiety, uncertainty about the Fed's rate hike timeline also weighed on sentiment.

Overall, the US economy remained on solid footing, with a sharp rebound in GDP, a seven year low in unemployment, and a healthy housing market

Unfavorable developments included sluggish manufacturing activity, a widening trade deficit, and weaker-than-expected consumer confidence

Within the S&P 500 Index (-6.4%), nine of the 10 sectors posted negative results. The traditionally defensive utilities (+5.4%) and consumer staples (-0.2%) sectors performed best amid the pickup in risk aversion.

The energy sector (-17.4%) fell for the fifth-straight quarter, retreating 21.3% year to date

All returns expressed in USD | Sources: DataStream, Wellington Management