

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 6

ATTACHMENT 6-I

MINUTES OF MARCH 12, 2009 OPEN INVESTMENT
COMMITTEE MEETING

PRESENTED BY: Vince Mudd

May 14, 2009

**STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MARCH 12, 2009

The Investment Committee met on March 12, 2009 in the Auditorium of the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 3:00 p.m. and the following Members were present: Vincent E. Mudd, Chair; Francis (Frank) E. Quinlan; and Alternate Steven Rank.

Also present: Chief Financial Officer Jay Stewart; Fiscal and Investment Services Manager Leslie Dawe; Treasury Services Manager Stephanie Chan; Chief Investment Officer Peter Guastamachio; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Conning Asset Management Chief Investment Officer and Managing Director Richard Segal and Portfolio Management Vice President Kevin Antaya.

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

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

The Investment Committee immediately convened into Closed Session.

AGENDA ITEM 3: APPROVAL OF JANUARY 15, 2009 CLOSED MEETING MINUTES Closed Session.

AGENDA ITEM 4: EXECUTIVE SUMMARY OF PORTFOLIO RESULTS AND INVESTMENT STRATEGY Closed Session. Senator Michael Machado (Ret.) joined the meeting during this item.

AGENDA ITEM 5: INVESTMENT POLICY UPDATE Closed Session.

AGENDA ITEM 6: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 4:30 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 J. Machado (Ret.); Alternate Steven L. Rank.

Also present: Chief Financial Officer Jay Stewart; Fiscal and Investment Services Manager Leslie Dawe; Treasury Services Manager Stephanie Chan; Chief Investment Officer Peter Guastamachio; President Janet Frank; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D.

Sapper; Staff Counsel Linda S. Platisha; Randall Keen, Esq. of Manatt Phelps & Phillips; and Conning Asset Management Chief Investment Officer and Managing Director Richard Segal and Portfolio Management Vice President Kevin Antaya.

AGENDA ITEM 7: APPROVAL OF JANUARY 15, 2009 OPEN MEETING MINUTES

MOTION: Mr. Quinlan Second: Sen. Machado

To approve the minutes of the January 15, 2009 Open meeting of the Investment Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 8: APPROVAL OF INVESTMENT TRANSACTIONS AND COMPLIANCE REPORT

Fiscal and Investment Services Manager Leslie Dawe discussed the selection and retention of investments and the composition of State Fund's portfolio, which had a value of \$19B as of December 2008. Ms. Dawe presented the bond transactions for December 2008 and January 2009, noting 2 Agency securities and 8 Mortgage Backed Securities were purchased totaling \$183,417,988 during this period. She also reported that 19 corporate bonds were sold totaling \$212,110,000 during this period. The realized loss from the sale of those 19 bonds totaled approximately \$16.6M. There were no short term investment transactions. After presentation of the investment transactions the following action was taken:

MOTION: Sen. Machado Second: Mr. Quinlan

To recommend the Board of Directors ratify the bond transactions for the period of December 1, 2008 through January 31, 2009.

AYES: 3 NOES: 0 Motion carried.

Ms. Dawe presented the compliance report for investments owned as of January 31, 2009. All of the investments were in compliance at the time of purchase but 17 bonds subsequently fell below a A3/A- rating. Ms. Dawe noted State Fund's investment policy allows an investment that has been downgraded below a A3/A- rating after its original purchase to be retained even if it is out of compliance. The process requires the outside Investment Manager to review the non-compliant investment and make a recommendation with supporting rationale to hold or sell the non-compliant investment. The 17 bonds having a current value of \$291M that fell out of compliance make up 1.5% of State Fund's portfolio. State Fund's Executive Management concurs with the Investment Manager's recommendations on each of the bonds that have compliance issues. After presentation of the compliance report the following action was taken:

MOTION: Mr. Quinlan Second: Sen. Machado

To approve, and recommend the Board of Directors ratify, the compliance status of the securities on the compliance report as of January 31, 2009.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 9: STATUTORY RESTRICTIONS ON INVESTMENTS

Mr. Mudd explained that State Fund's Investment Policy language is consistent with the statutory restrictions on its investments contained in the Insurance Code. Assistant Chief Counsel Judith Sapper gave the following information: Insurance Code section 11797 provides that the Board may invest and reinvest all moneys in excess of current requirements in the same manner as provided for private insurance carriers pursuant to Article 3, commencing with Section 1170, of the Insurance Code. Article 3 generally limits investments to federal, Canadian, or Puerto Rican obligations; state, county, municipal, and school district bonds; insured mortgages; collateral trust bonds and notes; farm loan bonds; home loan securities; state warrants; and accounts in insured banks or savings and loan associations. Insurance Code section 11797 does not authorize the Board to invest excess moneys pursuant to Article 4, commencing with Section 1190, as provided for private insurance carriers. Article 4 allows domestic insurers to invest in domestic and non-domestic corporate obligations, certificates of deposit, asset-backed securities, U.S. and Canadian equities, preferred stocks, mutual funds, money market funds and hedging vehicles (derivatives).

AGENDA ITEM 10: UPDATE ADDITIONAL INVESTMENT MANAGER IMPLEMENTATION

Mr. Stewart reported that State Fund selected Conning Asset Management and New England Asset Management Group as Investment Managers and management of the portfolio will be divided equally between the two Investment Managers. State Fund is finalizing the contracts, with an implementation target date of April 2009.

AGENDA ITEM 11: REVIEW INVESTMENT CHARTER

The proposed new Investment Charter was discussed and the Committee recognized Staff Counsel Linda Platisha for her contributions to revising the existing Charter with an extensive review of best practices. A full discussion ensued regarding recommended changes for Committee member qualifications and the role of the Committee in oversight and approval of investments. Mr. Mudd requested public comment of which there was none. The Committee tabled the item for the May 2009 meeting.

AGENDA ITEM 12: MARKET OUTLOOK AND ECONOMIC UPDATE

Mr. Stewart presented an economic update and outlook. He noted the jobless rate exceeded 8% nationwide in February, with California's unemployment rate increased to 10.1% in January. The seven hardest hit categories were construction; manufacturing; trade, transportation and utilities; information; financial activities; professional and business services; and other services. Only four categories added jobs: natural resources and mining; educational and health services; leisure and hospitality; and government. The hardest hit segments represent many of State Fund's core industries, with construction being the largest. The layoffs and pay cuts will continue to have a

negative impact on payroll exposure, and thus written premium. He reported that Kiplinger's California letter forecasts 2009 job growth to be -3%, growth in personal income to be -2%, and the average unemployment rate to be 10.5%, and for 2010, job growth of .5%, growth in personal income of 1%, and an 11.5% average unemployment rate.

Mr. Stewart stated that the federal Stimulus Bill reportedly will have positive effects for California housing, transportation, and energy, which should indirectly have a positive impact on State Fund's future premium growth potential, although not likely until late 2010 or early 2011. He noted the California workers' compensation market continued to be soft and most competitors maintained their relative rate advantage over State Fund but the market appears to be bottoming out. State Fund had a strong January for new and retention business due primarily to a well-coordinated marketing effort but new business is expected to be a challenge going forward as all carriers compete for fewer opportunities. State Fund is receiving an increase in requests for quotes but is unable to acquire business because of its higher rate structure. Mr. Mudd requested public comment, of which there was none.

AGENDA ITEM 13: COMMITTEE MEMBER PRESENTATIONS

There were no Committee Member presentations. Mr. Mudd requested public comment, of which there was none.

AGENDA ITEM 14: PROPOSALS AND SUGGESTIONS FOR MAY AGENDA

In addition to the standing agenda item of the Market Outlook and Economic Update, the Investment Committee requested the agenda include a review of the Investment Policy and proposed Charter. Mr. Mudd requested public comment of which there was none.

AGENDA ITEM 15: PUBLIC COMMENT

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

The next Investment Committee meeting is scheduled for May 14, 2009 at 2:00 p.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Investment Committee, the meeting adjourned at 5:05 p.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary