

**STATE COMPENSATION INSURANCE FUND  
INVESTMENT COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**December 10, 2015**

The Investment Committee met on December 10, 2015 at the State Fund Corporate Office, 333 Bush Street, 7<sup>th</sup> 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.); Marvin P. Kropke; Jack L. Neureuter; Scott K. Reid; and William M. Zachry.

There was a 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**

- 3a. Approval of August 18, 2015 Open Meeting Minutes**
- 3b. Review and Approval of 2016 Investment Committee Meeting Schedule and Location**
- 3c. Review and Approval of 2016 Investment Committee Agenda Items**
- 3d. Approval of Investment Transactions**

Sen. Machado asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Kropke

SECOND: Mr. Neureuter

To approve the Consent Calendar as presented.

Sen. Machado requested public comment of which there was none. Sen. Machado called for the vote.

YES: 5

NO: 0

Abstain: 0

Motion carried.

#### **AGENDA ITEM 4: MARKET OUTLOOK AND ECONOMIC UPDATE**

Wellington Management Equity Portfolio Manager Donald Kilbride provided Wellington Management's current economic and investment outlook; provided a 3Q 2015 update highlighting the performance of each broad asset class; and discussed the global macroeconomic outlook for 2016.

Mr. Kilbride reported that U.S. equities rallied from September's 2015 pullback, posting their best monthly return since October 2011. Though mixed, the U.S. economic data remained fairly constructive overall, as slower growth was offset by decreased unemployment claims and improved housing data. Among sectors, U.S. 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.

In addition, Mr. Kilbride reported that U.S. Treasuries posted negative total returns as rates rose on indications from the Federal Reserve that a rate hike in December remains a possibility. U.S. 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.

Lastly, Mr. Kilbride reported that global equities rebounded as increasing signs of extended monetary policy accommodation by major central banks supported risk assets. Within developed markets, non-U.S. equities underperformed their U.S. counterparts for the third straight month. European equities posted healthy gains. Japanese stocks led the region higher, and Japanese industrial production surged to the upside, advancing, despite recent weaker exports to China's slowing economy. Though China now has the second biggest economy in the world it is expected to slow by 5-10%.

#### **AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7, 9 AND 10**

Sen. Machado requested public comment on the appropriateness of Closed Session Agenda Items 7, 9 and 10, of which there was none.

#### **AGENDA ITEM 6: PUBLIC COMMENT**

Sen. Machado requested other public comment, of which there was none. The Investment Committee immediately convened into Closed Session at 12:15 p.m.

#### **AGENDA ITEM 11: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 1:40 p.m. and the following members were present: Chair Sen. Michael J. Machado (Ret.); Jack L. Neureuter; and William M. Zachry.

Absent: Marvin P. Kropke and Scott K. Reid

There was a 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 12: COMMITTEE MEMBER PRESENTATIONS**

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

**AGENDA ITEM 13: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 18, 2016 AGENDA**

Sen. Machado requested suggestions for agenda items for the February 18, 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 next Investment Committee meeting is scheduled for February 18, 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 1:45 p.m.

Respectfully submitted,

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Hilda B. Padua  
Board Liaison and Assistant Corporate Secretary