

INVESTMENT COMMITTEE MEETING (OPEN)

AGENDA ITEM 9

ATTACHMENT 9-I

MINUTES OF NOVEMBER 20, 2008 INVESTMENT COMMITTEE

PRESENTED BY: Vince Mudd

January 15, 2009

**STATE COMPENSATION INSURANCE FUND  
INVESTMENT COMMITTEE**

**MINUTES OF MEETING**

**November 20, 2008**

The Investment Committee met on November 20, 2008 in the Monterey Room 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 3:40 p.m. and the following Voting Members were present: Vincent E. Mudd, Chair; Don Moulds. Absent: Francis (Frank) E. Quinlan.

Also present: Chief Financial Officer Jay Stewart; Fiscal and Investment Services Manager Leslie Dawe; President Janet Frank; General Counsel Carol R. Newman; Assistant Chief Counsel and Board Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

**AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 4 THROUGH 8**

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

The Investment Committee immediately convened into Closed Session.

**AGENDA ITEM 3: APPROVAL OF SEPTEMBER 10, 2008 CLOSED MEETING MINUTES** Closed Session.

**AGENDA ITEM 4: PENDING/POTENTIAL LITIGATION** Closed Session.

**AGENDA ITEM 5: RFP FOR INVESTMENT MANAGER SELECTION** Closed Session.

**AGENDA ITEM 6: INVESTMENT PORTFOLIO RISK AND COMPETITIVE STRATEGY** Closed Session.

**AGENDA ITEM 7: ECONOMIC UPDATE AND IMPACT ON STATE FUND'S COMPETITIVE STRATEGY** Closed Session.

**AGENDA ITEM 8: AUDITOR'S PERSPECTIVE ON INVESTMENT STRATEGY** Closed Session.

**AGENDA ITEM 9: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 4:25 p.m. following the conclusion of the Closed Session and the following Voting Members were present: Vincent E. Mudd, Chair; Don Moulds. Absent: Francis (Frank) E. Quinlan.

**AGENDA ITEM 10: INTRODUCTIONS**

Mr. Mudd introduced the Investment Committee members.

**AGENDA ITEM 11: APPROVAL OF SEPTEMBER 10, 2008 OPEN MEETING MINUTES**

The minutes of the September meeting were approved.

MOTION: Mr. Moulds      Second: Mr. Mudd

To approve the minutes of the meeting of the Investment Committee of September 10, 2008.

AYES: 2      NOES: 0      Motion carried.

**AGENDA ITEM 12: APPROVAL OF INVESTMENT TRANSACTIONS**

Fiscal and Investment Services Manager Leslie Dawe discussed the selection and retention of investments and the composition of State Fund's \$20B portfolio. Ms. Dawe presented the bond transactions for August and September 2008, noting 18 bonds were purchased at \$374,190,213 and 4 were sold for \$150M. There were no short term investment transactions. After presentation of the compliance report the following action was taken:

MOTION: Mr. Moulds      Second: Mr. Mudd

To recommend the Board of Directors ratify the bond transactions for the period of August 1, 2008 through September 30, 2008 and accept the compliance status of the securities on the compliance report.

AYES: 2      NOES: 0      Motion carried.

**AGENDA ITEM 13: MARKET OUTLOOK AND ECONOMIC UPDATE**

Mr. Stewart discussed the State Fund investment portfolio including the market values, yields, interest rate and duration of the holdings. He noted that 99% of the portfolio was A rated or better and the whole portfolio was investment grade or better at the time of purchase. Mr. Stewart then reported that State Fund recorded approximately \$96M in impairments of its holdings, primarily Lehman Brothers, and AIG bonds through nine months. He stated that net investment income is projected for full year 2008 to be \$995M, or \$17M higher than budgeted, and that net investment gain, net of impairments, is projected to be \$895M versus a budget of \$978M.

Mr. Stewart presented an economic update and outlook, noting the length and severity of the credit crisis and global situation. Indications are the recession will be longer than

forecast according to Conning's analysts The UCLA Anderson forecast indicates California does not expect to turn its economy around until 2010. Unemployment is expected to continue to rise which will cause workers' compensation premium to shrink. As interest rates fall on bonds, State Fund is well positioned to maintain its current portfolio yield with less than 10% of the portfolio turning over each year of the next 3 years.

**AGENDA ITEM 14: COMPLIANCE REPORT**

Ms. Dawe presented the compliance report for investments owned as of September 30, 2008. All of the investments were in compliance at the time of purchase. She noted State Fund's investment policy allows an investment 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 13 bonds at \$210M that fell out of compliance make up 1% 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.

**AGENDA ITEM 15: PROPOSALS AND SUGGESTIONS FOR JANUARY AGENDA**

The Investment Committee requested the Market Outlook and Economic Update remain as a standing agenda item.

**AGENDA ITEM 16: PUBLIC COMMENT**

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

**ADJOURNMENT**

There being no further business before the Investment Committee, the meeting adjourned at 4:45 p.m.