



MINUTES OF THE BOARD OF TRUSTEES TELECONFERENCE OF June 6, 2008

A teleconference was arranged at 1:00 p.m. on June 6, 2008 for Board discussion and approval of the 2008-09 *Alternative Security Program [ASP] Risk Transfer Alternatives* contained in an MMC Securities 42 page PowerPoint handout with a 12 page *Appendix* attachment, distributed via e-mail just prior to the teleconference.

MEMBERS PRESENT: Tim East, Chairperson, The Walt Disney Company
Theresa Muir, Southern California Edison
Sean Mc Nally, Grimmway Farms
Janice Murphy, Kaiser Foundation Health Plan

MEMBERS ABSENT: Jill Dulich, Marriott International
William Zachry, Safeway *

OTHERS PRESENT: Jim Ware, Acting Manager, DIR, Self Insured Plans
Jeff Pettegrew, Executive Director
Dan Sovocool, Legal Counsel
Quentin Hills, MMC
Bennett Johnsen, MMC
Vishal Rana, MMC

1. **CALL TO ORDER**

Meeting was called to order at 1:05 p.m. by Chairperson Tim East.

2. **ITEMS DISCUSSED**

A. Purpose of the Presentation

Quentin Hills led the oral presentation and began by stating that the various figures contained in the MMC PowerPoint report were “hot off the press,” as update quotes from various counterparties were being negotiated and reconfigures up to the time of the teleconference.

The purpose of the presentation was to outline four major areas of ASP renewal consideration:

1. 2009-09 portfolio characteristics
2. Counterparty indications
3. Various risk transfer strategies and implications
4. Indicative member assessment rates pegged to various strategies

B. Discussion Summary

As noted, the 2008-09 portfolio:

1. The new **ASP notional** is **\$5.554 billion** or 4.4% over the current year's ASP. The most significant increases were attributed to the largest companies.

2. **Excluded** entities represent **\$752 mil** of deposit – a 7.0% increase over the current year’s excluded totals.
3. The average portfolio credit quality lowered by one notch to **Baa3**.
4. There are tentatively six new excluded self-insured entities (including Mervyn’s; Dole; Circuit City; Big 5; Conexant; and La-Z-Boy) totaling \$80.7 million, although two companies [Mervyn’s (\$28.4 mil) and Dole Foods (\$20.1 mil)] asked for Board consideration to remain in the ASP.
5. Excluded entities revoked prior to 2003, which are not assessed, total \$78 mil, a 6.1% decrease.
6. **Total combined security = \$6.384 billion**
7. The largest 10 self-insureds increased their notional from a total of \$1.318 bil to \$1.7 bil – a 33% increase
8. Ten other self-insureds ranging from \$6.1 mil to \$39.5 mil had credit rating level downgrades of 4 to 11 notches.

C. Dole Foods and Mervyn’s Consideration

1. **Dole Foods** has participated in the ASP with a split rating. S&P has continued to rate Dole at a single B, but Moody’s had issued a senior unsecured rating of Caa1 some years ago. The Fund has used “the most current rating” as its ASP credit level determination until the May 7, 2008 Board meeting when the Board approved a new resolution stating that any rating below single B (regardless of date of issue) would be grounds for exclusion. Dole was given short notice of its exclusion as a result and appealed to the Fund.
The Fund’s E.D. and MMC had discussions with Dole Food’s treasury and risk management executives to discuss their company’s recent positive financials (“best quarter in recent history” that was shared with S&P) and their intent to meet with Moody’s this summer to ask for an expected upgraded credit rating. Both the E.D. and MMC agreed that Dole Foods had a compelling issue and should
The Board discussed the matter and agreed unanimously to keep Dole Foods in the ASP for the coming year if Dole Foods agreed in writing to post its required deposit in a timely manner with OSIP if Moody’s fails to issue it a revised credit rating of B- or higher.
2. **Mervyn’s** was deemed excluded this year due to RiskCalc’s rating of Caa1. Although Mervyn’s complained of short notice (May 30, 2008 – the day MMC informed the Fund), the company had not submitted their financials to the Security Fund as required until well after the due date.
Theresa Muir made a motion to exclude Mervyn’s from the coming year’s ASP due to their ineligible credit rating. Sean McNally seconded the motion. The motion passed unanimously.

D. Discussion regarding CDO and CDS Risk Transfer Responses and Strategies

The Board scrutinized all of the various CDO and CDS ASP counterparty response quotations and considered the following 4 key issues:

1. **Alternative Risk Transfer Strategies**
2. **ELP** (Security Fund budget total operating expenses \$5.16 mil added as an ELP component expense)
3. **DLF** (capital adequacy)
4. **Assessment Rates**

After considerable Board review and discussion regarding the advantages and disadvantages of the various proposals outlined with respect to the current market credit cycle and business uncertainty issues, the Board focused on its preferences (page 30 of the MMC presentation – “*Risk transfer strategies IV Total program Cost – 3 year CDS; 1/100 & 1/10 capital*”

Motion by Sean McNally and Second by Theresa Muir, as follows:

To approve Option III: Modified Existing B (pg 30) which is to purchase 100% protection on each of the BBB and single A tranches of the CDO, and available 3 year CDS on companies which exceed CDO single-name maximums.

The indicative ELP fee will total \$18.45 million, and includes 6.05 mm of CDO costs, 7.25 mm of CDS costs, and a 5.16 mm of operating costs.

The DLF fee shall be set at the level which results in the same total assessment rates (ELP+DLF) for members as in the current (2007/08) plan year. The actual ELP and DLF fees will be determined after adding Dole Food Co. to the ASP portfolio, and finalizing CDS costs.

In addition, MMC is directed to negotiate with J.P. Morgan to secure a CDS with a “double trigger” which would pay out in the event of both standard ISDA events and failure to pay workers compensation claims (as certified by the Director of DIR).

12. **ADJOURNMENT:**

Chairperson Tim East adjourned the teleconference at 3:05 p.m .

Jeffrey W. Pettegrew

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Executive Secretary/ Board Secretary