FINAL

MASSACHUSETTS MEDICAL MALPRACTICE
REINSURANCE PLAN

INVESTMENT COMMITTEE

Minutes of a Meeting
Thursday, August 21, 2008

A meeting of the Investment Committee of the Massachusetts Medical Malpractice Reinsurance Plan ("MMMRP"; the plan) was held at the offices of MMMRP, in Westborough, MA, on August 21, 2008, at 1:30pm.

The following members were present:

Peter F. Kiely, Chairman
John W. Tympanick
John S. Coldiron
James R. Bacon

The following MMMRP Staff/Consultants were present:

William T. McGrail, Chairman MMMRP
Maurice (Moe) Edwards, CPA, Controller

Ned Dublio, Smith Barney/Dubilo & Hill
Frank Hill, Smith Barney/Dubilo & Hill
William Fain, Madison Scottsdale, LLC (via phone)

Mr. Kiely called the meeting to order at 1:30pm. Mr. Kiely & Mr. Bacon kept a record of the proceedings in the absence of Dolores Ivester. Due to Ms. Ivester's absence the minutes of the April 30, 2008 Committee meeting are not yet available, and will be provided prior to the next meeting. Mr. Kiely asked if any of the attendees had topics in addition to the normal agenda they would like the Committee to address. There were three items:

1. Dubilo & Hill: Cash flow requirements for the Plan and potential portfolio impact
2. Mr. McGrail: The Committee is required by the Insurance Commission to appoint a Secretary and should do so
3. Mr. Bacon: Ask Mr. Fain to address Madison's focus on 'book yield' as

compared with ‘total return’ in the management of the fixed income assets.

Dubilo & Hill also placed an agenda for the meeting, including, in addition to the above:

- Conference call with Bill Fain of Madison Scottsdale, Fixed Income Manager
- Capital markets review- 2nd quarter
- Portfolio investment returns-2nd quarter
- New business

Discussion:

Cash flow: It is estimated the Plan will need to return premium of $6-8mil by 1Q 2009, vs. $8 mil in ’07. This is higher than anticipated, and is based on TPF&C’s most-recent revision- from 55% to 85% confidence level on claims coverage. Return of premium is necessary to avoid corporate tax. The actuarial confidence level is the key statistic in determining retention levels. The increase- @ 50% vs. prior years was significant & unexpected. A higher confidence level may represent excessive conservatism and an unnecessarily high cash reserve level in the absence of any change in the Plan’s finances. The historical rationale for actuarial confidence levels has been the Plan’s single line of business income market environment, noting that the “fear bid” of early 2008. which pushed-down U.S. Treasury yields to abnormally low levels, had subsided, and that yield spreads on non-Treasury debt had retreated somewhat, both indicating some increase in confidence in bonds, and that the worst of the credit crisis may be behind us. He gave as an example the two largest mortgage entities, FNMA and FMAC, which have been the targets of recent Government support legislation. Their bonds, while trading at historically high yield spreads vs. Treasuries, are still reasonable compared with non-financial sector debt of 300-400bps over, and suggest that the two companies which could experience greater volatility. One offset to this is a recent trend of rising claims payments. Management may consider obtaining a second opinion from another actuary and/or the Insurance Division in order to support continuation of the Plan’s historic 55% level.

In addition to the Plan’s Case Reserve managed portfolio of $14,041,122, (Madison figs a/o 7/31/08), the Plan currently holds separate reserve cash at Avidia and Clinton Savings Banks of $3.3million.

Fixed Income Manager Conference Call {6/30 & 7/31 report emailed & distributed}:

Mr. Fain discussed the recent fixed are still viable. The issue of whether the new legislation actually provides an explicit U.S. Treasury backing for these company's bonds is still open. In any case, the Plan's holdings in mortgage bonds issued by these two companies are primarily in U.S. Agency- backed, rather than directly-issued paper.

FNMA and FMAC, despite substantial write-offs and operating losses, are still over-capitalized, and would have to experience multiple, sequential quarters of continued losses, and no new capital raised to see their viability threatened. The key to short term confidence will be their ability to roll-over $250 bil in existing debt by Sept 30th. The 'worst case' scenario for the two companies is a U.S. Treasury capital injection, most likely in the form senior preferred stock. Mr. Fain believes that concerns over FNMA and FMAC issued mortgages or balance sheet debt are not justified.

Book yield vs. total return, as potentially conflicting objectives, were discussed. Due to the unique nature of insurance investing, i.e. accounting conventions requiring the use of book rather than market values for investments, transactions can create unwanted volatility within the Plan's financial statements. This factor, along with the typical insurance priority of income generation and liquidity for claims obligations, leads Madison to focus on book yield- i.e. purchasing and trading the portfolio with an emphasis on optimizing and maintaining yield booked at the time of purchase. However, Madison also recognizes the requirement to outperform on a total return basis, i.e. the combination of yield and capital gains or losses. Madison accommodates this dual need through 'macro' changes in the portfolio over longer periods. Mr. Fain compared this aspect to piloting a sea tanker vs. a speed boat. They attempt to get the trends right over a cycle, by altering duration and sector allocation. He sited the short term negative performance of 3Q 2007, then the improvement in 2008 as an example, as well as the since inception results. The key to measuring total return, as opposed to asset/liability related success is the benchmark. There was discussion on this point complicated by the inability of Dubilo and Madison to obtain similar benchmark performance data. It was agreed that Dubilo and Madison will review the benchmarks again to ascertain their relevance in the two portfolios, and explore unified access to data for reporting to the Plan. A drawback of the current Merrill indices are the limited maturity slices at the short ends, where most of the Plan assets are held. Other services such as Lehman may be a better alternative.

It was proposed that the Plan's investment objective as expressed in the Statement of Investment Policy, be revised to prioritize income and liquidity based on book value first, and total return second.

Mr. McGrail raised the question of whether the two portfolios's split benchmarks and target durations were accurate given on-going cash outflows. Outflows may diminish asset duration, currently 5.5 years for IBNR. Liabilities are not considered as rate-sensitive for the Plan. Mr. Kiely observed that actuaries typically look at duration and maturity, and that we need to look at assets and liabilities across comparable measures. Assets and liabilities have both maturities and durations, the latter being a more precise measure of interest rate sensitivity.

In terms of portfolio strategy, a concern to Madison which is greater than credit risk, discussed earlier, is inflation. Currently U.S. Treasuries trade at negative real yields on the 1-10 year maturities. Inflation levels globally are trending to the highest levels in decades, and bond yields will need to rise to offset that, unless inflation proves transitory and subsides. The implication for this is an absolute rise in rates and negative performance for bonds. For this reason, the portfolios remain short of their benchmarks on maturity. The current steepness of the yield curve indicates an increasing probability of rising yields on longer term maturities, but little change in short rates due to U.S. economic pressures.

Corporate bond holdings have been reduced approximately 6%, and governments/agencies reduced approximately 14%, respectively, from 1Q 2008.

Subsectors within those categories are similar between the two periods, and overall portfolio quality rankings remain at "Aaa". The Cash Reserve portfolio allocation is distorted by its 15.2% cash position, reflecting the buildup of cash required later this year. Mr. Bacon raised the question of whether the cash needed for premium return in 1Q 2009 might be moved to the Plan's savings accounts which provide higher yields and no management fees. Mr. Tympanic and Mr. Edwards will examine this option.

Capital Markets Review.

Dubilo and Hill distributed their portfolio review for 2Q 2008 and reviewed the outlook for the economy and markets. In summary, they indicated the U.S. economy continues to perform at substantially reduced levels, though not negative, as a whole, the U.S. equity market is undervalued, and the U.S. bond market is fairly valued except for short U.S. Treasuries. Most overseas markets, especially emerging (except for certain South American) markets have declined more that the U.S., suggesting they may be more attractive.

MMMRP Portfolio

Asset allocation between fixed income and equity has not changed significantly from 1Q 2008, with the ratio currently (8/15/08) at 83%/17% vs. the 80/20 neutral position. Allocation within the equity ETF's has shifted somewhat based on relative performance. While all asset categories except currency declined since 3/31/08, the total portfolio declined just 1.00% due to the approximately flat fixed income performance. Equities taken separately declined 3.76% in the period with currency +1.20 the best, and International REIT -12.61 the worst performer. It was suggested that the allocation between fixed and equity should represent the greatest value added from allocation. At a minimum, this should be rebalanced, if not overweighted based on the Committee's judgment, and advised by Dubilo.

The appropriateness of the Dubilo "Composite" benchmark was raised, given that the Plan no longer has active managers. It was suggested that a single standard benchmark such as the S&P 500 and Lehman Bros Aggregate, shown for equities and fixed income, respectively, would allow us to gauge the impact of asset allocation on performance and risk within equities and bonds.. Similarly, a neutral benchmark placing the two benchmarks at the 80/20 fixed income/equity ratio would gauge the value added from any variance from neutral.

Dubilo and Hill will construct replacement composite benchmarks.

Nomination & Election of Investment Committee Secretary

It was nominated and seconded that Mr. Bacon be named Secretary, and that Dolores Ivester be named Assistant Secretary, of the Investment Committee.

Follow-up Steps:

1. Management to explore other opinions on actuarial confidence levels
2. Dubilo & Hill to alter Statement of Investment Policy to reflect investment priorities of the Plan
3. Dubilo and Hill to coordinate search for possible alternative fixed income benchmarks and target durations for two bond portfolios
4. Management to explore transferring cash needed in 1Q 09 from Madison portfolio to the Savings Banks
5. Dubilo & Hill to recommend rebalancing of assets before or at the next meeting.
6. Dolores Ivester to issue minutes from the 4/30/08 meeting.
7. Management will notify the Committee of the next meeting, most likely late Oct, early Nov, 2008.

Adjournment

The meeting was adjourned at 3:15pm

A true record transcribed on August 28, 2008

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MMMRP Investment Committee