

FINAL

MASSACHUSETTS MEDICAL MALPRACTICE
REINSURANCE PLAN

INVESTMENT COMMITTEE

Minutes of a Meeting
Wednesday, May 6, 2009

A Meeting of the Investment Committee of the Massachusetts Medical Malpractice Reinsurance Plan (“MMMRP”; the Plan) was held at The International Conference Center, 159 Ballville Road, Bolton, MA on Wednesday, May 6, 2009 at 3:30PM.

The following committee members were present:

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

The following MMMRP Staff/Consultants were present:

William T. McGrail, President
Susan Smith, Director of Administration
Moe Edwards, CPA, CFO

Scott Notargiacomo, Dubilo & Hill

The meeting was called to order by Chairman Bacon at 3:30 PM. Ms. Susan Smith kept a record of the proceedings.

1. Previous Minutes

Minutes to previous meetings dated December 8, 2008 and April 3, 2009 had been distributed. The following amendments were requested: Mr. Kiely requested a change to the 12/8/08 minutes: page 3, number 4 - Change 15% to 20%. Mr. Bacon requested a change to the 4/3/09 minutes: page 4, near the top – remove “performance” after “duration”. Mr. Kiely requested a change to the 4/3/09 minutes: page 4, add “potential”. A **motion** was made and seconded by Dr. Coldiron to approve the minutes as amended. The motion passed unanimously.

2. Dubilo & Hill Update

Mr. Notargiacomo began by advising that he was the sole Dubilo and Hill representative since Mr. Dubilo is traveling and Mr. Hill has been ill. Mr. Notargiacomo continued with a report updating the committee on the Dubilo & Hill action items from the 4/3/09 minutes. He began by stating that Dubilo and Hill had worked with Bill Fain and moved roughly 20 securities from IBNR to Case Reserves, with a total value of approximately \$6.5 million. He also noted that the transfer of \$1.3 million from IBNR to Equities was also completed. Next, he reviewed duration from 12.31.08 (0.75 Case Reserves and 2.64 IBNR). He added that after Bill Fain moved the funds, durations are now very close to targets (2.00 Case Reserves and 5.00 IBNR, as of 4.3.09). Next he updated the Committee that assets under management at Madison Scottsdale are \$1.655 billion. He also advised the committee that Bill Maguire, the current CIO, who is retiring at Madison Scottsdale will stay with the firm through 12.31.09, and that the firm has not yet started the interview process to replace him.

3. Discussion of Asset/Liability Matching and Duration

Mr. Bacon distributed a three page exhibit which provided an overview of the asset/liability match, and a copy is included with these minutes. He noted that he received liability maturity and duration figures from Stacey Mina at Towers Perrin. The portfolio asset durations used reflect those prior to the recent rebalancing. After discussing the asset/liability data, Mr. Bacon reviewed his conclusions with the committee, as outlined on the third page of his handout. Mr. Notargiacomo noted that due to the government stimulus, inflation, which could impact asset/liability relationships, is likely to accelerate in the next 6-18 months. The committee continued to discuss duration. Mr. Bacon noted that a longer duration should allow for more active management and higher returns in IBNR. Mr. Notargiacomo reiterated that duration is now closer to policy since Mr. Fain transferred the funds.

Next, Mr. Kiely noted that the MMMRP portfolio is quite different than most “normal” insurance portfolios, citing an example that most would have a small exposure to stocks, while MMMRPs is quite large by comparison. Mr. McGrail added that the assessment puts us in a unique position, and we are very different, as we have a deficit not a surplus. Dr. Coldiron suggested that our investment policy should not be too sophisticated, due to the fact there is a great deal of uncertainty in our particular business. He believes there would be a great deal of portfolio adjustment required and that it would be difficult to implement and in the end may not prove to be effective. Mr. Kiely continued that we do have enormous uncertainty, especially on the liability side. He believes it is good to know the impact of duration, and that it is good to know roughly how much the mismatch could increase if interest rates change, which is likely.

Mr. Bacon then suggested that both duration and maturity be in the investment policy statement, perhaps stated as a range, and that it be part of reporting. Mr. Notargiacomo stated that he will work with Bill Fain to redraft the guidelines to incorporate these additions and will soon have a draft for our review. Lastly, Mr. Bacon reviewed the short term effect of the last two equity rebalancings, which has been additive to the portfolio

Mr. Tympanic joined the meeting at 4:15 PM.

4. Open Discussion: Potential Impact on Invested Reserves of:

(a) Further Economic Contraction

(b) Recovery Accompanied by Accelerating Inflation and/or Tax Burdens?

Mr. Kiely noted that he believes scenario (b) is more likely. It was further noted that projected inflation could be quite large because of the Federal deficit. Further discussion ensued regarding various economic historical scenarios compared to the current economic crisis. Mr. Bacon added that

the consensus is that there will be a period of significant inflation. The committee felt that the portfolio is positioned adequately for such a scenario, but will need to be monitored closely.

5. Open Discussion: What Metrics Should we use to Determine the Plan's Asset Allocation Decisions?

Mr. Bacon distributed and reviewed the following two handouts "Recent Asset Class Performance" and "Asset Valuation Methods", and a copy of both are included with these minutes. He noted that it would be helpful if we have agreed-upon valuation metrics in place before making further decisions. Dubilo and Hill agreed that they will complete recommendations for these criteria shortly.

6. Open Discussion: Should we Consider an Alternative Structure to the Current Equity Component? e.g. Income-Based with Equity Upside

Mr. Bacon distributed a handout with a cover chart titled "Risk vs. Return 8/31/91 – 2/28/09", showing the performance and risk history for convertible bonds, and a copy is included with these minutes. He reviewed the pros and cons of this asset class, and noted that this is just a general concept he wanted to share with the committee. Mr. Tympanic stated that he has experience with convertibles from HMIC, where they used them for many years, and noted that they had some problems tracking them as individual investments and also had difficulty weighting them. He further added that some convertibles are considered equities by regulators. Mr. Notargiacomo stated that Dubilo and Hill are not proponents of ETF convertible funds and that a segregated account would be the most prudent method of investing in this asset class. Additionally Mr. Notargiacomo stated that small cap equities had led the market year-to-date, but reiterated their recommendation to overweight large cap growth in the MMMRP portfolio.

7. Citigroup/Dubilo and Hill Booklets

All in attendance received a copy of the Citigroup/Dubilo and Hill presentation booklet dated May 6, 2009 at the meeting, and a copy is included with the minutes. Booklet contents include data on portfolio performance and asset allocation, as well as a summary report, dated 3.31.09.

Dr. Coldiron stated that he had resigned his seat on the Governing Committee, and would no longer be a member of the Investment Committee.

8. Adjournment

A motion was made and duly seconded to adjourn the Investment Committee meeting at 4:50PM. The motion passed unanimously.

The next scheduled meeting will be held September 22, 2009.

A true record transcribed on May 11, 2009.

MMMRP Investment Committee

ACTION ITEMS -

- Mr. Notargiacomo will re-write the entire investment policy statement, incorporating several changes discussed, including the addition of duration targets. He will prepare a draft for our review.
- Dubilo and Hill will report to the committee on asset/liability relationships periodically.
- Dubilo and Hill will complete a recommended set of valuation criteria for the committee's consideration to utilize in asset allocation decisions.