

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

May 16-17, 2013

The Board of Directors of the State Compensation Insurance Fund met on May 16, 2013 at State Fund Stockton Office, 3247 West March Lane, Stockton, California and on May 17, 2013 at Wine & Roses, 2505 West Turner Road, Lodi, California.

May 16, 2013

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on May 16, 2013 at 11:35 a.m.

Mr. Mulryan welcomed the new board members, Marvin Kropke and Robin Baker. The particulars of the two new appointments are as follows. Mr. Kropke was appointed on March 8, 2013 by Governor Edmund Brown Jr. for a term expiring on January 15, 2018. Mr. Kropke assumed Donald Garcia's expired position. The oath provided by the governor was administered by a Notary Public on March 14, 2013 and submitted to State Fund Executive Office on March 19, 2013. Ms. Baker was appointed on March 8, 2013 by Governor Edmund Brown Jr. for a term expiring on January 15, 2014. Ms. Baker assumed the vacant Board position. The oath provided by the governor was administered by a Notary Public on March 20, 2013 and submitted to State Fund Executive Office on March 20, 2013.

Mr. Kropke has been the business manager and financial secretary of the International Brotherhood of Electrical Workers (IBEW) Local 11 since 1997. He has been a member of IBEW since 1979. Mr. Kropke serves as executive secretary at the California State Association of Electrical Workers and is co-chairman of Working Californians, a research and advocacy organization promoting quality of life issues

Ms. Baker has been director of research at the University of California, Berkeley Center for Occupational and Environmental Health and at The Center for Construction Research and Training since 2010. She was director at the UC Berkeley's Labor Occupational Health Program from 1981 to 2010 and director at the Project on Health and Safety in Electronics, Santa Clara Center for Occupational Safety and Health from 1978 to 1981. Ms. Baker is a member of the American Federation of Teachers and the American Public Health Association. She earned a Master of Public Health degree from the University of California, Berkeley.

Mr. Mulryan also recognized outgoing Board member Donald Garcia's contributions to the Board in advancing the best interests of California employers and the people and programs of State Fund.

Mr. Mulryan requested Ms. Padua to call roll. The following were present: Lawrence E. Mulryan, Chair; Robin Baker, Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Sen. Michael

J. Machado (Ret.); Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William M. Zachry.

Absent by prior arrangement: Nonvoting member Christine Baker.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Mulryan called attention to and requested confirmation that the Board members read State Fund's Antitrust Admonition, which is included in each Board member's meeting materials.

AGENDA ITEM 3: CONSENT CALENDAR

Mr. Mulryan noted that agenda item 3c would be removed from the Consent Calendar and would be considered separately after the vote on the remaining Consent Calendar items listed.

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

MOTION: Ms. Chalupa

Second: Mr. Rankin

To approve the Consent Calendar as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11

NO: 0

Motion carried.

Mr. Mulryan returned to item 3c of the Consent Calendar. Mr. Mulryan noted that the Governance Committee has the duty and responsibility to recommend the membership of the various committees of the Board which appoints the members. The Governance Committee has reviewed the membership of the Audit Committee and the Investment Committee and recommends an expanded membership for each committee. As Board Chair, Mr. Mulryan has reviewed the experience and interest of Board members Ms. Baker and Mr. Kropke for appointment to the Board committees and recommends Ms. Baker be appointed as a regular member of the Audit Committee increasing that Committee from 3 to 5 members and Mr. Kropke be appointed as a regular member of the Investment Committee increasing that Committee from 3 to 4 members and appointing the alternate members to be regular member.

MOTION: Sen. Machado

Second: Mr. Zachry

To increase the membership of the Audit Committee from three (3) regular members and an alternate member to five (5) regular members; that alternate member Ms. Sheryl Chalupa become a regular member; and that Ms. Robin Baker be appointed to the Audit Committee as a regular member. In addition, to increase the membership of the Investment Committee from three (3) regular members and an alternate member to four (4) regular members; that

alternate member Mr. Frank Quinlan become a regular member; and that Mr. Marvin Kropke be appointed to the Investment Committee as a regular member.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11

NO: 0

Motion carried.

AGENDA ITEM 4: PERSONNEL MATTERS

Senior Vice President of Human Resources and Organizational Development Andreas Acker presented an update on personnel matters.

a. Workforce Update

As of March 31, 2013 there were 74 separations. The annualized separation rate was 6.45%. There were 28 new hires and 78 promotions.

b. Employee Leave Balance and Usage

There are a total of 186,946 annual leave and vacation hours over the 640 hour cap. There were 813 employees with leave balances exceeding the cap at the end of March 2013, compared to 808 employees from December 2012. More progress is needed to reduce the large leave balances. Reducing the large leave balances remains a high priority for 2013. The goal is to have all employees that are over the 640 hour cap use all leave accruing in 2013, plus 10% of their accrued time over the 640 hours cap. Ethics and Labor Relations will continue to monitor and implement leave usage plans.

c. Veteran Hiring

Mr. Acker reported that job fairs have been conducted at Camp Pendleton, Fresno, Los Angeles, Ontario and Oakland to attract leaders separating from the military. Ten candidates have been interviewed and the first offer was made last week to a lieutenant colonel. The expectation is to have about 10 to 15 hires from the veterans recruitment drive in place by July 1, 2013.

AGENDA ITEM 6: FINANCIAL UPDATE – 1ST QUARTER 2013

Chief Financial Officer Dan Sevilla reported on State Fund's unaudited statutory financial results for the year ended March 31, 2013. State Fund's financial results are significantly impacted by economic conditions, including unemployment and market pricing. State Fund continues to maintain disciplined pricing and wrote approximately 35,000 policies, which was 5% less than budget and 10% less than the three months ended March 31, 2012. The average premium per policy was approximately \$8,500 or 4% more than the budget and 19% more than the same period in the prior year. Estimated annual premiums grew over the prior year for five consecutive months, amounting to 7% for the quarter. Net premiums earned of \$214M were 1% more than budget and 9% less than the prior year. The loss and loss adjustment expense (LAE) ratio of 97.5% was on budget and slightly lower compared to the same period in the prior year. The combined ratio of 131.6% was four points lower than budget and 8 points lower than the prior year, and the related underwriting loss of \$69M was 10% lower than budget and 21% less than the prior year.

Net investment income of \$172M was 6% lower than budget and 14% less than the prior year. Reinvestment yields were lower than planned and investing in equities started later than planned. State Fund realized capital gains of \$12M more than budget and \$3M higher than the prior year. Other expenses represent charge-offs of uncollectible premiums and were \$4M less than budget and \$1M more than the prior year.

Net income of \$113M was \$12M more than budget and \$9M less than the prior year. Policyholders' surplus grew by 2% to more than \$6.1B since December 31, 2012. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 6: STATEMENT OF ACTUARIAL OPINION

Mr. Avagliano reported State Fund's gross carried reserves were \$13.1B and \$12.9B net. A Loss Portfolio Transfer reduced \$400M from the reserves leaving an overall net reserve of \$12.5B. Milliman's reserve estimate was slightly below that amount. Milliman provided a clean opinion, noting the reserves set were consistent with California State standards; consistent with Actuarial standards; and were reasonable. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 7: STATE OF CALIFORNIA AGRICULTURE

Mr. Mulryan noted that the Farm Bureau and State Fund have been partners since 1943. Mr. Mulryan introduced Mr. Wenger, President of the California Farm Bureau who noted that it truly has been a good partnership with State Fund. There are carriers that have come into and gone out of the market but State Fund has always been there for the Farm Bureau.

Mr. Wenger then presented on the state of California Agriculture and the Farm Bureau's main goal is to promote job safety and that progress has been made with Agriculture business evolving and demand increasing. Over the last four years, there has been growth in California Ag products. California is considered a specialty crop state and this has become a big income earner attracting attention from the rest of the country and even China's growing middle class. Mr. Wenger also reported on potential new legislation; effectively managing California's water infrastructure; impact of a new proposition on the poultry industry; harvesting challenges faced by farmers; and immigration reform. Lastly, Mr. Wenger noted that the Farm Bureau in 2019 will be celebrating its 100th year anniversary. This year, the first County Farm Bureau, Humboldt, will celebrate its centennial anniversary.

AGENDA ITEM 8: PRESIDENT'S REPORT

Mr. Mulryan called on Tom Rowe to present the President's report. Mr. Rowe noted that he would focus on how State Fund is performing in the current market. Mr. Rowe reported that State Fund just finished its sixth month of consecutive growth and there were clear signs of a sustained pattern of growth. Mr. Rowe noted that the market is showing maturing signs of firming which should be sustainable for quite some time. In addition, Mr. Rowe reported that State Fund tiered rating went to effect March 1, 2013. The tiered rating allowed for rates to be spread out, with decreased rates for best customers, and appropriate rate adjustments for those that present more difficult risk profiles. The tiered rating has been well received in the market. As a result, State Fund experienced an acceleration of its growth pattern that is expected to continue for quite some time.

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

AGENDA ITEM 9: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

10a: GOVERNANCE COMMITTEE

9ai: GOVERNANCE AND COMPLIANCE UPDATE

This item was “read only” and there were no discussions.

9aii: ANNUAL REVIEW AND APPROVAL OF STATE FUND BY-LAWS AND COMMITTEE CHARTERS

Mr. Mulryan reported that the Governance Committee reviewed the State Fund By-Laws and Committee Charters. There were no recommended changes to the Audit and Investment Committee Charters. Mr. Mulryan reported that there are recommended changes to the State Fund By-Laws and Governance Charter as noted on the summary of changes.

Mr. Mulryan requested a motion and a second.

MOTION: Mr. Zachry

SECOND: Ms. Chalupa

To approve the recommended changes to the State Fund By-Laws and Governance Committee Charter as presented and attached hereto and incorporated herein.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11

NO: 0

Motion carried

9aiii: ANNUAL REVIEW AND APPROVAL OF BOARD DELEGATED AUTHORITY AND APPROVAL LEVELS

There was no discussion of this item and is deferred to the August 2013 Board meeting.

9aiv: BOARD AND COMMITTEE EFFECTIVENESS

Mr. Mulryan provided an update on the status of the Board and Committee Effectiveness evaluation. Mr. Mulryan noted that there are set expectations that State Fund's Board of Directors will periodically assess its effectiveness in fulfilling its role for State Fund. In April, the Board asked Mercer to help conduct a formal assessment of how the members are doing as a Board and see if there are ways to improve. The assessment included an online survey and confidential individual interviews conducted with State Fund's board members, including one outgoing director. Two incoming directors were interviewed, but they did not participate in the survey. Some topics that were covered in the survey and interviews included the extent to which Board members are fulfilling their primary roles as a Board, the makeup of the Board, how the Board is structured, Board processes for working together, and the dynamics among the directors, the CEO and senior management. The results suggest that the Board has continued to improve its effectiveness over time, and that right now, the Board is functioning very well. The assessment highlighted a number of strengths.

- In terms of roles, Directors generally believe that the Board is fulfilling its most important role and is highly committed to its fiduciary duty to State Fund
- The current Board represents a good mix of backgrounds and capabilities

- Most believe the current committee structure is appropriate and that the Board focuses its agendas on the right topics
- Discussion is high quality, and Board members feel free to share their perspectives and constructively debate issues
- Directors view the dynamics among Board members as healthy, collegial and respectful
- Overall, leadership of the Board Chairman and Committee Chairs is viewed as strong

Furthermore, Mr. Mulryan reported that there were a number of areas where the Board may want to take action – to review and discuss in more depth and potentially find opportunities to improve. These areas include:

- Bolstering CEO succession planning
- Strengthening Director education
- Revisiting the scope of the Governance Committee
- More sharply focusing the agenda items and discussion topics at meetings
- Taking a closer look at the level of engagement between the Board and the CEO and between the Board and senior management.

Time has been set aside at the August Board meeting to discuss these topics in more depth and to work together to continue enhancing their effectiveness as a Board.

9b: AUDIT COMMITTEE

9bi. UPDATE ON COMPLETED CLOSED AUDITS

Mr. Quinlan noted that the Audit Committee's purpose is to assist the Board of Directors in its oversight responsibilities for State Fund's legal, ethical, and regulatory compliance obligations. Mr. Quinlan reported on the following activities:

Completed Closed Audits - There were six completed closed audits. All the findings were correctible and there were no major findings in any of the six audits and no significant risks to State Fund.

Whistleblower Hotline – The Hotline was implemented last year. All reports made through the Ethics Hotline are investigated. The majority of the reports for the 1Q 2013 were related to privacy and security breaches.

Audit Committee Charter - The staff has reviewed the Audit Charter and there were no recommended changes.

Internal Audit Charter –The recommended revisions include non-substantive and formatting changes; aligned titles where appropriate, "Senior VP of Internal Affairs/Chief Audit Executive was changed to "Chief of Internal Affairs". There were no significant changes to the Internal Audit Charter.

Report of External Auditor – The External Auditor reported that there were no significant deficiencies and material weaknesses identified.

Internal Audit 1Q 2013 Report – Internal Audit is down 44% of planned staffing of 27 employees and continues to recruit staff for Staff Services Management Auditor positions.

The California Department of Insurance (CDI) has commenced its Triennial Financial examination of State Fund. The Internal Audit Department and Finance have taken the lead role in coordinating with the CDI exam team to ensure CDI receives accurate and timely information from State Fund business units to complete the examination. In addition, as part of Internal Audit's responsibility to track and monitor issues, Internal Audit has begun testing closed issues to validate that management has implemented corrective action plans that properly address previously identified issues.

Disaster Recovery Plan Update –The Committee received a report on the opportunities to engage replacement of critical staff in the event of an emergency.

Pending and Potential Litigation– Special Investigations Unit continues to work with internal business units, law enforcement and authorized governmental agencies to identify and eliminate fraud and the risk of fraud.

Model Audit Rule – There is no expectation of material weaknesses or significant deficiency in internal controls for 1Q 2013.

Pension and Other Post-Employment Benefits (OPEB) Update - State Fund's estimated share of the State's unfunded pension and OPEB liabilities is reflected on State Fund's balance sheet.

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

9c: INVESTMENT COMMITTEE

9ci: BOND TRANSACTIONS AND COMPLIANCE REPORTS

Senator Machado noted that the Investment Committee's purpose is to assist the Board in fulfilling its oversight responsibilities for the investment of State Fund money into various types of securities and financial instruments.

The Committee heard a report from the Deutsche Asset Management Fund designated equity managers and a report on the Investment portfolio and strategy. The investment transactions and compliance reports for the period of January 1, 2013 to March 31, 2013, were approved by the Investment Committee pursuant to its delegated authority. Further, the Committee reviewed the Investment Policy Statement and Guidelines, which will be presented to the Board for approval during the Open session on Friday, May 17, 2013.

AGENDA ITEM10: CHAIRMAN'S REPORT

Mr. Mulryan noted State Fund is in the midst of a significant transformation that will enable it to serve California employers as the industry leader and best value for workers' compensation. In 2013 the organization's focus and efforts are directed at improving business processes, technology and customer service. There are several notable milestones and State Fund teams to acknowledge.

SB863 - Reform Implementation – State Fund filed for an overall rate decrease of 7% as part of its tiered rate filing for March 2013, confident that SB 863 introduced significant savings into the system. SB863 also introduced significant change to claims handling practices and the information technology systems that support claims processing. Implementing reform successfully has been a top priority. A team of Claims and Legal

leaders led the work to redesign new processes and work with IT on the new system requirements in addition to providing innovative training programs. State Fund, in partnership with California Workers Compensation Institute, will continue to monitor emerging trends and the impact of Senate Bill 863 and vigorously protect the intent of reform.

Tiered Rating – Tiered rating clearly marks an important milestone in State Fund's ability to offer fair prices to all California employers in the marketplace. The internal implementation of Tiered Rating also marked a milestone in State Fund's ability to successfully deliver large scale technology projects.

PriceNow – In May 2013 State Fund launched a new online submission interface for brokers, PriceNow. This is an important step in State Fund's phased approach to creating a better experience for brokers. PriceNow allow brokers to manage their submission flow with State Fund by giving immediate pricing indications for their clients to determine if it would be worthwhile to make a submission to State Fund for a quote. PriceNow was piloted with a dozen brokerages throughout the state and the response has been very positive. PriceNow marks the first phase of our automation plan to replace all legacy systems and is a positive development in making it easier for brokers and their clients to learn about State Fund's rates.

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

AGENDA ITEM 11: BOARD MEMBER REPORTS

Mr. Mulryan requested any Board Member reports. Ms. Chalupa thanked the staff of the State Fund Stockton office who coordinated the office tour and the employees for their hospitality.

AGENDA ITEM 12: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 15-28

Mr. Mulryan requested public comment on the appropriateness of closed session for items 15-28, of which there was none.

AGENDA ITEM 13: PUBLIC COMMENT

Mr. Mulryan requested further public comment of which there was none.

ADJOURNMENT

There being no further business, Mr. Mulryan adjourned the meeting at 12:30 p.m. to immediately reconvene in Closed Session.

May 17, 2013

The Board of Directors of State Compensation Insurance Fund continued their Open Session on May 17, 2013 at Wine and Roses, Garden Ballroom, 2505 West Turner Road, Lodi, California.

AGENDA ITEM 29: CALL TO ORDER AND ROLL CALL

The meeting was called to order on May 17, 2013 at 11:40 a.m. and the following were present: Lawrence E. Mulryan, Chair; Robin Baker; Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Francis M. Quinlan; Steven L. Rank; Scott K. Reid; Thomas E. Rankin; and William M. Zachry.

Absent by prior arrangement: Sen. Michael J. Machado (Ret.) and nonvoting member Christine Baker.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; and Board Liaison and Assistant Corporate Secretary Hilda Padua.

AGENDA ITEM 30: APPROVAL OF INVESTMENT POLICY STATEMENT AND GUIDELINES

Mr. Mulryan reported that the Investment Committee recommends to the Board approval of the Investment Policy Statement and Guidelines as presented. Mr. Mulryan requested a motion and a second.

MOTION: Mr. Kropke

SECOND: Mr. Reid

To approve the Investment Policy Statement and Guidelines Resolution No. 1082 as presented and attached hereto and incorporated herein by reference.

Mr. Mulryan asked for public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10

NO: 0

Resolution carried

AGENDA ITEM 31: PROPOSALS AND SUGGESTIONS FOR AUGUST 14, 2013 AGENDA

Mr. Mulryan requested additional items for the August 14, 2013, Board meeting, of which there were none.

Mr. Mulryan requested public comment, of which there was none, and he noted that the next Board meeting is scheduled for August 14, 2013 at the Marriott Marquis, San Diego, California unless noticed for a new date and time.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary



STATE COMPENSATION INSURANCE FUND
OF THE
STATE OF CALIFORNIA

THIRD AMENDED AND RESTATED BY-LAWS

[3rd Amended]

Governance Committee: Approved May 8, 2013

Board of Directors: Approved May 16, 2013

1. Name, Organization and Purpose. These Third Amended and Restated By-Laws (these "By-laws") are intended to supplement California Insurance Code Section 11770 et seq., as may be amended from time to time (hereinafter referred to as the "Insurance Code"). Wherever in these By-laws the name "State Fund" is used, it shall mean State Compensation Insurance Fund of the State of California; and wherever "Board" or "Board of Directors" is used, it shall mean the Board of Directors of State Fund.

2. Governing Authority. All powers of the Board shall be exercised pursuant to and in compliance with the authority provided in Division 2, Part 3, Chapter 4 (Section 11770 et seq.) of the California Insurance Code (hereinafter referred to as the "Insurance Code"), as may be amended from time to time.

All Board proceedings and deliberations shall comply with the provisions of the Bagley-Keene Open Meeting Act, California Government Code Section 11120 et seq., as may be amended from time to time (hereinafter referred to as the "Bagley-Keene Act").

3. Board Membership. The Board is composed of up to eleven voting members (hereinafter referred to as the "Voting Members") who shall be appointed and serve in such capacity in accordance with Insurance Code Section 11780, as may be amended from time to time. The Director of Industrial Relations shall be an ex officio, non-voting member of the Board (hereinafter referred to as the "Non-Voting Member"). Wherever in these By-laws the term "members" is used, it shall mean the Voting Members and the Non-Voting Member.

4. Term of Office. The terms of office of the Voting Members shall be as specified in Section 11770 of the Insurance Code, as may be amended from time to time, and the Voting Members shall hold office until the appointment and qualification of their successors.

5. Chairperson. As provided in Section 11770 of the Insurance Code, as may be amended from time to time, the Governor shall appoint the Chairperson of the Board (the "Chairperson"). The Chairperson may, at the Chairperson's discretion, appoint a Vice Chairperson from among the Voting Members.

The Chairperson shall preside at all meetings of the Board. Subject to the direction of the Board, the Chairperson shall generally manage the business and affairs of the Board and perform such other duties as assigned by the Board. In the absence or disability of the Chairperson, the Vice Chairperson, if any, shall assume the duties of the Chairperson. In the absence or disability of the Vice Chairperson, the Voting Member present at a meeting of the Board holding the longest consecutive term of service as a member of the Board shall preside at such meeting of the Board.

6. Principal Office. The principal office of State Fund is located in the City and County of San Francisco, California, or at such other location as the Board shall determine.

7. Place of Meetings. Regular and special meetings of the Board shall be held at the principal office of State Fund or at such other place as shall be designated in the notice of the meeting.

8. Regular Meetings. Regular meetings of the Board shall be held at least four times each calendar year on such dates and at such times as may be determined from time to time by the Board. With the approval of a majority of the Voting Members present at a meeting, any scheduled regular meeting may be advanced or postponed to another date.

9. Special and Emergency Meetings. Special and emergency meetings of the Board may be called pursuant to the provisions of the Bagley-Keene Act and shall be held at the principal office of State Fund or at such other place as shall be designated in the notice of the meeting.

10. Notice of Special and Emergency Meetings. Notice of the time and place of special and emergency meetings of the Board shall comply with the provisions of the Bagley-Keene Act.

11. Closed Sessions. Closed sessions of the Board may be held at any regular, special or emergency meeting pursuant to the provisions of the Bagley-Keene Act.

12. Adjournment. A majority of the Voting Members present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

13. Notice of Adjournment. Notice of the time and place of holding an adjournment meeting shall be provided in compliance with the provisions of the Bagley-Keene Act.

14. Attendance. Attendance of Board members at regular, special or emergency meetings may be by conference telephone, electronic video screen communication or electronic transmission in compliance with the provisions of the Bagley-Keene Act, if all members of the Board participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

15. Quorum: A majority of the appointed number of Voting Members shall constitute a quorum for the transaction of business, except to adjourn as herein provided, provided that at no time shall a quorum be established with less than five Voting Members. Every act or decision done or made by a majority of the Voting Members present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board.

16. Committees of the Board. The Board may, by resolution adopted by a majority of the Voting Members present at a meeting duly held at which a quorum is present, designate one or more committees to serve at the pleasure of the Board. Each committee of the Board shall consist of two or more Voting Members. In accordance with all legal and other applicable requirements, the chair, members and alternate members, if any, of each committee shall be nominated by the Chairperson, reviewed and approved by the Corporate Governance Committee (as hereinafter referenced in Section 17) and subject to final approval of a majority of the Voting Members present at a meeting duly held at which a quorum is present. Alternate members of any committee may replace any absent member at any meeting of such committee.

Each committee shall have the responsibilities and authority as designated from time to time by resolution of the Board, a Board-approved committee charter, or as otherwise prescribed by applicable law, including the ability to delegate to a subcommittee of a committee, with Board approval, except with respect to:

- (a) the filling of vacancies on the Board or in any committee;
- (b) the amendment or repeal of the By-laws or the adoption of new By-laws;
- (c) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; or
- (d) the appointment of any other committees of the Board or the members thereof.

17. Standing Committees. The standing committees of the Board of Directors shall be: (a) the Audit Committee, (b) the Investment Committee, (c) the Governance Committee and (d) any other committees the Board determines are necessary.

18. Ad Hoc Committees. In addition to the standing committees of the Board of Directors, the Board may, by resolution adopted by a majority of the Voting Members present at a meeting duly held at which a quorum is present, designate one or more ad hoc committees.

19. Resignation of Committee Members. Any committee member may resign at any time by giving written notice thereof to the Chairperson or the Secretary. Any such resignation shall take effect on the date of receipt of such notice by one of the above-specified officers, or at such later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

20. Removal of Committee Members. Any committee member may be removed at any time and for any reason by the Chairperson or by a majority of the Voting Members present at a meeting duly held at which a quorum is present.

21. Committee Vacancies. Vacancies in any committee howsoever arising may be filled by the Chairperson, and subject to the approval of a majority of the Voting Members present at a meeting duly held at which a quorum is present. Committee members appointed pursuant to this Section 21 shall serve for the unexpired portion of the term of the

committee member whose death, resignation or removal gave rise to the applicable vacancy, and until his or her successor shall have been elected and qualified, subject however, to such replacement committee member's earlier death, resignation or removal.

22. Meetings and Action of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of these By-laws with such changes in the context of the By-laws as are necessary to substitute the respective committee and its members for the Board of Directors and its members. The Board of Directors may adopt rules for the governance of any committee not inconsistent with the provisions of these By-laws and with the provisions of the Bagley-Keene Act.

23. Minutes. Minutes shall be kept of all regular, special and emergency Board and committee meetings, and shall show the names of the members who are present and a succinct statement of each matter brought before the Board for consideration together with a record of the number of "Yes" and "No" votes thereon, unless a member asks that his/her vote be specifically recorded.

24. Secretary and Assistant Secretary. The Voting Members shall elect by majority vote at a meeting duly held at which a quorum is present a person to serve as Secretary of State Fund. The Secretary shall attend all meetings of the Board and its committees, and be responsible for the keeping of proper minutes of such meetings. The Secretary will be the custodian of the minutes and the records of the Board, and will perform such other duties as may be assigned to him or her from time to time. The Voting Members may also elect one or more persons to serve as Assistant Secretary. In the absence of the Secretary, the Assistant Secretary shall assume the duties and perform the responsibilities of the Secretary. In the absence of the Secretary or an Assistant Secretary, the Chairperson shall designate a Secretary, pro tem.

25. Officers. The officers of State Fund are: (1) President, (2) Chief Financial Officer, (3) Chief Operating Officer, (4) Chief Information Officer, (5) Chief Investment Officer, (6) Chief Risk Officer, (7) General Counsel, (8) any members of the Executive Committee not specifically listed herein and (9) any such other officers as the affairs of State Fund may require, each of whom shall hold office for such period, have such authority and perform such duties and assume such responsibilities as the President may from time to time prescribe. The President shall apprise the Board from time to time as to the current officers of State Fund and their respective duties and responsibilities.

26. President. The President of State Fund shall manage and conduct the business and affairs of State Fund under the general direction and subject to the approval of the Board of Directors and shall also perform such other duties as the Board prescribes. The President shall have the powers and duties conferred by law. The Board may delegate to the President any additional power, function or duty conferred by law on the Board in connection with the administration, management and conduct of the business and affairs of State Fund. The President may exercise those powers with the same force and effect as the Board.

In the absence or disability of the President, the Board may designate any other officer of State Fund, as defined by Section 25, to perform the duties of the President.

27. Removal of Officers. The President may at any time remove the designation as an officer of State Fund from any person previously designated as such, except for those persons appointed by the Board pursuant to Insurance Code section 11785, and whether such designation as an officer was obtained by operation of the By-laws or by action of the President. A majority of the Voting Members present at a meeting duly held at which a quorum is present may remove the designation as an officer of State Fund from any person designated as such, whether such designation was obtained by operation of the By-laws or by action of the President. Notwithstanding any such removal, the continued employment by State Fund of any officer so removed shall be governed exclusively by applicable law and without prejudice to the rights and obligations, if any, then existing under such law.

28. Resignation of Officers. Any officer may resign at any time by giving written notice to the Board, the Chairman, or the Secretary. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of State Fund under any contract to which the officer is a party. Notwithstanding any such resignation, the continued employment by State Fund of any officer who has resigned shall be governed exclusively by applicable law and without prejudice to the rights and obligations, if any, then existing under such law.

29. Inspection by the Board of Directors. Every member of the Board shall have the absolute right at any reasonable time to inspect all books, records, documents of every kind, and the physical properties of State Fund. This inspection by a member of the Board may be made in person or by an agent or attorney of such member, and the right of inspection includes the right to copy and make extracts of documents. The rights to inspect and copy are subject to, and may be circumscribed in, instances where such rights conflict with California or federal law pertaining to access to or possession of books, records and documents.

30. Liability of Members, Officers and Other Agents; Indemnification of Members, Officers and Other Agents.

(a) Liability of Members, Officers and Other Agents. The liability, in a private capacity, of any Board member, officer or other agent of State Fund shall be circumscribed by Insurance Code Section 11772.

(b) Indemnification - Third Party Proceedings. Notwithstanding Section 30(a), State Fund shall indemnify any person (each, an "Indemnitee") who is or was a party or is threatened to be made a party to any proceeding (other than an action by or in the right of State Fund to procure a judgment in its favor) by reason of the fact that Indemnitee is or was i) a member, ii) officer, or iii) appointed by the Board as President, Chief Financial Officer, Chief Operating Officer, Chief Information Technology Officer, Chief Investment Officer, Chief Risk Officer, or General Counsel of State Fund (collectively, a "Board Appointee"), by reason of any action or inaction on the part of Indemnitee while a member, officer or Board Appointee against actual and reasonable expenses (including subject to Section 30(f), attorneys' fees and any expenses of establishing a right to indemnification pursuant to this Section 30 or under California law), judgments, fines, settlements (if such settlement is approved in advance by State Fund, which approval shall not be unreasonably withheld) and

other amounts actually and reasonably incurred by Indemnitee in connection with such proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of State Fund and, in the case of a criminal proceeding, if Indemnitee had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of State Fund, or with respect to any criminal proceedings, would not create a presumption that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(c) Indemnification - Proceedings by or in the Right of State Fund. State Fund shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action by or in the right of State Fund to procure a judgment in its favor by reason of the fact that Indemnitee is or was a member, officer or Board Appointee by reason of any action or inaction on the part of Indemnitee while a member, officer or Board Appointee against expenses (including subject to Section 30(f), actual and reasonable attorneys' fees and expenses of establishing a right to indemnification pursuant to this Section 30 or under California law) and, to the fullest extent permitted by law, amounts paid in settlement, in each case to the extent actually and reasonably incurred by Indemnitee in connection with the defense or settlement of the proceeding if Indemnitee acted in good faith and in a manner Indemnitee believed to be in or not opposed to the best interests of State Fund, except that no indemnification shall be made with respect to any claim, issue or matter to which Indemnitee shall have been adjudged to have been liable to State Fund in the performance of Indemnitee's duty to State Fund, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

(d) Successful Defense on Merits. To the extent that Indemnitee without limitation has been successful on the merits in defense of any proceeding referred to in Sections 30(b) or 30(c) above or in defense of any claim, issue or matter therein, State Fund shall indemnify Indemnitee against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

(e) Certain Terms Defined. For purposes of this Section 30, references to "proceeding" shall include any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative.

(f) Advancement of Expenses. State Fund shall advance all actual and reasonable expenses incurred by Indemnitee in connection with the investigation, defense, settlement (excluding amounts actually paid in settlement of any action, suit or proceeding) or appeal of any civil or criminal action, suit or proceeding referenced in Sections 30(b) and (c) hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall be determined ultimately that Indemnitee is not entitled to be indemnified by State Fund as authorized hereby. The

advances to be made hereunder shall be paid by State Fund to Indemnatee within twenty (20) days following delivery of a written request therefor by Indemnatee to State Fund.

(g) Notice of Claim. Indemnatee shall, as a condition precedent to his or her right to be indemnified under this Section 30, give State Fund notice in writing as soon as practicable of any claim made against Indemnatee for which indemnification will or could be sought under this Section 30. Notice to State Fund shall be directed to the Secretary at the principal office of State Fund (or such other address as State Fund shall designate in writing to Indemnatee). In addition, Indemnatee shall give State Fund such information and cooperation as it may reasonably require and as shall be within Indemnatee's power.

(h) Enforcement Rights. Any indemnification provided for in Sections 30(b), 30(c) or 30(d) shall be made no later than sixty (60) days after receipt of the written request of Indemnatee. If a claim or request under this Section 30 or under any statute providing for indemnification is not paid by State Fund, or on its behalf, within sixty (60) days after written request for payment thereof has been received by State Fund, Indemnatee may, but need not, at any time thereafter bring suit against State Fund to recover the unpaid amount of the claim or request, and subject to Section 30(r), Indemnatee shall also be entitled to be paid for the expenses (including actual and reasonable attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that Indemnatee has not met the standards of conduct which make it permissible under applicable law for State Fund to indemnify Indemnatee for the amount claimed, but the burden of proving such defense shall be on State Fund, and Indemnatee shall be entitled to receive interim payments of expenses pursuant to Section 30(f) unless and until such defense may be finally adjudicated by court order or judgment for which no further right of appeal exists. The parties hereto intend that if State Fund contests Indemnatee's right to indemnification, the question of Indemnatee's right to indemnification shall be a decision for the court, and no presumption regarding whether the applicable standard has been met will arise based on any determination or lack of determination of such by State Fund (including its Board or independent legal counsel).

(i) Assumption of Defense. In the event State Fund is obligated to pay the expenses of any proceeding against Indemnatee, State Fund shall be entitled to assume the defense of such proceeding with counsel approved by Indemnatee, which approval shall not be unreasonably withheld, upon delivery to Indemnatee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnatee and the retention of counsel by State Fund, State Fund will not be liable to Indemnatee under this Section 30 for any fees of counsel subsequently incurred by Indemnatee with respect to the same proceeding, unless (i) the employment of counsel by Indemnatee has been previously authorized by State Fund, (ii) Indemnatee shall have reasonably concluded, based on written advice of counsel, that there may be a conflict of interest of such counsel retained by State Fund between State Fund and Indemnatee in the conduct of such defense, or (iii) State Fund ceases or terminates the employment of such counsel with respect to the defense of such proceeding, in any of which events the fees and expenses of

Indemnitee's counsel shall be at the expense of State Fund. At all times, Indemnitee shall have the right to employ other counsel in any such proceeding at Indemnitee's expense.

(j) Approval of Expenses. No expenses for which indemnity shall be sought under this Section 30, other than those in respect of judgments and verdicts actually rendered, shall be incurred without the prior consent of State Fund, which consent shall not be unreasonably withheld.

(k) Subrogation. In the event of payment under this Section 30, State Fund shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall do all things that may be necessary to secure such rights, including the execution of such documents necessary to enable State Fund effectively to bring suit to enforce such rights.

(l) Exceptions. Notwithstanding any other provision herein to the contrary, State Fund shall not be obligated pursuant to this Section 30:

(i) Excluded Acts. To indemnify Indemnitee (a) as to circumstances in which indemnity is expressly prohibited pursuant to California or Federal law, or (b) for any acts or omissions or transactions from which person may not be relieved of liability pursuant to California or Federal law; or

(ii) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Section 30 or any other statute or law but such indemnification or advancement of expenses may be provided by State Fund in specific cases if the Board has approved the initiation or bringing of such suit; or

(iii) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Section 30, if a court of competent jurisdiction determines that such proceeding was not made in good faith or was frivolous; or

(iv) Insured Claims. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee by an insurance carrier under a policy of liability insurance maintained by State Fund.

(m) Partial Indemnification. If Indemnitee is entitled under any provision of this Section 30 to indemnification by State Fund for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by the Indemnitee in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, State Fund shall

nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

(n) Coverage. This Section 30 shall, to the extent permitted by law, apply to acts or omissions of Indemnitee which occurred prior to the adoption of this Section 30 if Indemnitee was a member, officer or Board Appointee of State Fund at the time such act or omission occurred. All rights to indemnification under this Section 30 shall be deemed to be provided by a contract between State Fund and the Indemnitee in which State Fund hereby agrees to indemnify Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by these By-laws or by statute. Any repeal or modification of these By-laws or any applicable law shall not affect any rights or obligations then existing under this Section 30. The provisions of this Section 30 shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though the Indemnitee may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding. This Section 30 shall be binding upon State Fund and its successors and assigns and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns.

(o) Non-Exclusivity. Nothing herein shall be deemed to diminish or otherwise restrict any rights to which Indemnitee may be entitled under these By-laws, any agreement or under the laws of the State of California.

(p) Severability. Nothing in this Section 30 is intended to require or shall be construed as requiring State Fund to do or fail to do any act in violation of applicable law. If this Section 30 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then State Fund shall nevertheless indemnify Indemnitee to the fullest extent permitted by any applicable portion of this Section 30 that shall not have been invalidated.

(q) Attorneys' Fees. In the event that any action is instituted by Indemnitee under this Section 30 to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees incurred by Indemnitee with respect to such action, unless as a part of such action, the court of competent jurisdiction determines that the action was not instituted in good faith or was frivolous. In the event of an action instituted by or in the name of State Fund under this Section 30, or to enforce or interpret any of the terms of this Section 30, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee in defense of such action (including with respect to Indemnitee's counterclaims and cross-claims made in such action), unless as a part of such action the court determines that Indemnitee's defenses to such action were not made in good faith or were frivolous.

(r) Notice. All notices, requests, demands and other communications under this Section 30 shall be in writing and shall be deemed duly given (i) if delivered by hand and receipted for by the addressee, on the date of such receipt, (ii) if sent by electronic transmission by State Fund, at the time sent, or (iii) if mailed by domestic certified mail, with postage prepaid, return receipt requested, on the third business day after the date postmarked.

31. Amendment to By-Laws. The Voting Members shall have the authority to repeal, alter or amend these By-laws or adopt new By-laws at any regular meeting by the affirmative vote of a majority of the appointed number of Voting Members, provided that a quorum is present and the Voting Members shall not make or alter any By-law fixing Board membership, term of office or qualification for Board membership, unless such amendment thereof is necessary to make these By-Law provisions consistent with the laws of California.

Whenever an amendment or new By-Law is adopted, it shall be placed in State Fund's book of minutes and proceedings with the By-Laws. If any By-Law is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted shall be stated in such book of minutes and proceedings.



STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE CHARTER
(Amended August 15, 2012)
(Adopted August 16, 2012)

Purpose

The purpose of the Audit Committee of the Board of Directors of the State Compensation Insurance Fund (the "State Fund") is to assist the Board of Directors (the "Board") in its oversight responsibilities for State Fund's legal, ethical and regulatory compliance obligations by:

1. Overseeing the preparation, presentation and integrity of the State Fund's financial statements and financial reporting processes, policies and practices;
2. Maintaining adequate internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations;
3. Overseeing State Fund's internal accounting systems, enterprise risk management initiatives and financial and operational controls;
4. Assessing the qualifications and independence of the independent auditor;
5. Evaluating and assuring the performance of the Internal Audit function responsible for reviewing and auditing State Fund management's assessment of its controls and procedures
6. Hiring, evaluating and assuring the performance of the independent auditor responsible for planning and carrying out a proper audit of State Fund's annual financial statements;
7. Monitoring State Fund's compliance with legal, ethical and regulatory requirements, including the National Association of Insurance Commissioners' Model Audit Rule ("MAR").

In carrying out its oversight responsibilities, the Audit Committee does not provide expert or special assurance as to State Fund's financial statements or legal and regulatory compliance or any professional certification as to the work of the independent auditor. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work, or other types of auditing or accounting reviews or procedures, or to set auditor independence standards, and each member of the Audit Committee shall be entitled to rely on:

1. The integrity of those persons and organizations within and outside of State Fund from which it receives information, including State Fund's independent and internal auditors;
2. The accuracy of the financial and other information provided to the Audit Committee by

such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors);

3. Representations made by management as to any non-audit services provided by the independent auditor. The Internal Audit department and independent auditors report to the Board through the Committee, and shall provide the Committee with periodic reporting on the status of their activities and findings.

In discharging its oversight role, the Audit Committee may investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the State Fund and the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties (including the approval of the fees and other retention terms of such independent counsel and advisers).

Organization

The Committee is a standing committee of the Board and shall be composed of not less than three and not more than five members of the Board. Members are recommended by the Governance Committee and appointed by the Board annually. All members should have general knowledge of financial and auditing matters and the Board shall have, at all times, a member with an auditing background for the purposes of fulfilling the responsibility of the Chair of the Audit Committee pursuant to Insurance Code 11770(b)(1) as may be amended. All members must comply with the minimum requirements of Section 14 of MAR, as may be amended.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings as required. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene"). The Committee may invite members of management, auditors or others to attend meetings and the Committee will hold separate closed sessions where necessary to further the business of the Committee to meet with management, the internal auditors and independent auditors, as in the Committee's judgment is required. Board members who are not members of the Committee may attend the Committee's open session meeting as observers and may attend closed sessions only at the Committee's request. The Committee will regularly report on its actions to the full Board at the next scheduled meeting.

Committee Duties and Responsibilities

The Committee shall have the following duties and responsibilities:

1. Independent Auditor

- a. Select and retain, evaluate and terminate when appropriate, the independent auditors, set the independent auditors' compensation and oversee the work of the independent auditors for the purpose of preparing or issuing the State Fund audited financial report or related work.
- b. Pre-approve all audit services and non-audit services performed by the independent auditor and the related fees and consider whether the provision of any such non-audit services is compatible with the independence of the independent auditor.

Review the independent auditors' annual audit plan, including the planning, scope and staffing and approach.

- c. Review the qualifications, independence and performance of the independent auditors at least once annually, in accordance with the established measures approved by the Committee and including a discussion of the performance of the independent auditors with management.
- d. Review and confirm the independence of the independent auditors by obtaining statements from the auditors on relationships between the independent auditors and the State Fund, including non-audit services, and discuss any relationships with the independent auditors.
- e. Monitor and ensure the independent audit partner in charge is rotated as required by law or regulation.
- f. At least annually, obtain and review a report either in writing or orally by the independent auditors describing the independent auditor's internal quality control procedures; material issues raised by recent internal quality control reviews of the firm, and any investigations by governmental or professional authorities concerning independent audits conducted by the firm for the last five years.
- g. On a regular basis and in accordance with Bagley-Keene, meet separately with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

2. *Accounting Principles and Policies, Financial Reporting and Internal Control over Financial Reporting*

- a. Receive periodic reports from the Chief Financial Officer relating to significant accounting developments including emerging issues, the impact of the accounting changes where material, including the effect of regulatory and accounting initiatives.
- b. Review and discuss reports obtained by the independent auditors in connection with State Fund's audited financial statements that are required by or referred to in SAS 61, (and management's responses thereto) or that describe all significant accounting policies and material permitted practices used, all material alternative treatments within statutory accounting principles that have been discussed with management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors; and any material written communications between the independent auditors and management such as any management letter or schedule of unadjusted differences.
- c. Review with management and the independent auditors all matters required to be communicated to the Committee under generally accepted auditing standards and any significant findings prepared by the independent auditors and internal audit together with management's responses.
- d. Review and discuss with management and the independent auditor, State Fund's annual audited financial statements [and quarterly financial statements] and discuss

State Fund's financial reports filed with the Department of Insurance and the California State Controller's Office and solicit the independent auditor's opinion with respect to the financial statements in the reports.

- e. Review with management and the independent auditor significant issues regarding accounting principles and financial statement presentation, including any significant changes in the selection or application of accounting principles; any significant deficiencies or material weaknesses in State Fund's internal controls and State Fund's remediation plans regarding these issues; and any special audit steps adopted in light of material control deficiencies.
- f. Review with management and the independent auditors the results of the audit, including any difficulties encountered, and State Fund's accounting practices, policies and compliance with accounting standards.
- g. Review with management, independent and internal auditors, the integrity of State Fund's financial reporting processes and controls, any significant financial risk exposures, and State Fund's policies, guidelines and steps management has taken to monitor, control and report such risk exposures.
- j. Review and assess all significant matters related to audits, examinations, investigations or inquiries regarding State Fund by the California State Auditor and other appropriate State and Federal agencies.
- k. Review and discuss reports from the General Counsel on legal matters determined by the General Counsel to warrant the Audit Committee's attention, including legal, compliance or regulatory matters that may have a material impact on State Fund's business, financial statements or compliance policies and any material reports or inquiries received from regulators and government agencies.

3. *Internal Audit*

- a. Review with management and the Chief Audit Executive and Internal Audit manager the charter, budget, activities, staffing and organizational structure of the Internal Audit function, Internal Audit's compliance with applicable standards and guidelines, and any recommendations with respect to the quality, timeliness, performance or strengthening of that function.
- b. Review and recommend approval of the annual audit plan, all major changes to the plan and the annual update of the biennial plan.
- c. Review and evaluate the performance of the Internal Audit function including a review of the performance of the chief Audit Executive and, if appropriate, recommend the selection of a new Chief Audit Executive.
- d. Review with the internal auditor any difficulties including restriction on scope of work, access to required information, and any other issues the Committee deems appropriate.

- e. On a regular basis and in accordance with the Bagley-Keene Open Meeting Act, meet separately with the internal auditor to discuss any matters that the Committee or auditors believe should be discussed privately.

4. *Ethics and Legal Compliance*

- a. Review with management, the internal auditors and independent auditors, as applicable, on at least a quarterly basis, the adequacy and effectiveness of State Fund's systems and controls for monitoring and managing legal and regulatory compliance, including State Fund's disclosure procedures and controls.
- b. Establish procedures for the receipt, retention and treatment of complaints received by State Fund regarding [State Fund's employees], accounting, internal controls or auditing matters, including complaints received by the California State Auditor regarding State Fund, and for the confidential, anonymous submission of complaints and tips by State Fund's employees [regarding questionable accounting or auditing matters] as mandated by the Board or by law.
- c. Establish procedures for the receipt, retention, and treatment of reports of investigations and audits conducted of State Fund by the California State Auditor.
- d. Review and recommend to the Board any changes to the Code of Conduct and related policies and/or other compliance policies and guidelines that relate to financial reporting, and receive reports regarding compliance with the Code.
- e. Recommend to the Board, as appropriate, any other compliance policies and guidelines that the Committee deems appropriate to ensure compliance with applicable laws and regulations.
- f. Review and approve State Fund's compliance plan [frequency], recommend and approve changes as needed
- g. Obtain regular updates from State Fund's management and State Fund's legal counsel regarding compliance matters and assurances that compliance functions are performed with independence and in accordance with professional standards. Discuss annually with the General Counsel the effectiveness of State Fund's compliance program in detecting and preventing violations of law, the State Fund Code of Conduct and Business Ethics Policy.
- h. Review with management, State Fund's policies and procedures with respect to officers and key employees' expense accounts and perquisites, including excess benefit transactions, and review the results of any audit of these areas by the internal or independent auditors.

5. *Enterprise Risk Management*

- a. Review and discuss with management State Fund's major financial risk exposures and the steps management has taken to monitor and control such exposures and policies with respect to risk assessment and risk management.

- b. Review with State Fund's Chief Risk Officer and Risk Committee the testing of processes and controls in place to mitigate certain risks identified by the Board that could have a material impact on State Fund.
 - c. Review with management the effectiveness of State Fund's Enterprise Risk Management system including the design and function of the processes; effectiveness and efficiency of risk responses and control activities; and completeness and accuracy of risk management reporting.
 - d. Review with management the effectiveness of State Fund's management of the risk of fraud.
6. *Evaluation of Committee and Charter*
- a. Conduct and report to the Board the results of an annual self evaluation of its performance in accordance with the requirements of this charter.
 - b. Review this charter at least annually and recommend any changes to the Board.

Powers

The Audit Committee shall have the following powers:

- a. To obtain advice and assistance from internal or external legal, accounting or other advisors and to have direct access to advisors without the presence of any officer of State Fund and to initiate, direct and conduct investigations using outside experts of any kind at the direct cost of the State Fund.
- b. To interview and meet with any employee of State Fund without the presence of any officer of State Fund.
- c. To form and delegate authority to subcommittees, with Board approval.
- d. To recommend to the Board amendments to any provisions of this Charter as appropriate due to new laws, regulations or needs of State Fund or the Board.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes and responsibilities under this Charter.

To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.



STATE COMPENSATION INSURANCE FUND GOVERNANCE COMMITTEE CHARTER

(Amended)

Governance Committee: Approved May 8, 2013

Board of Directors: Approved May 16, 2013

Purpose

The purpose of the Governance Committee of the Board of Directors of the State Compensation Insurance Fund (the "State Fund") is to assist the Board of Directors (the "Board") in shaping State Fund's governance policies and practices by:

1. Overseeing that State Fund operates in a legal, ethical, and socially responsible manner;
2. Overseeing Enterprise Risk Management ("ERM") issues which may have a material impact on State Fund;
3. Advising and updating the Board on corporate governance trends and issues within the industry;
4. Recommending to the Board, a State Fund Governance Guide (the "Governance Guide") which, along with State Fund's By-Laws (the "By-Laws"), State Fund's Code of Conduct (the "Code of Conduct"), State Fund Governance Policies (the "Governance Policies"), the charters of the various Board committees, Insurance Code Section 11770 *et seq.*, as amended pursuant to AB 1874, and Government Code Sections 6251 *et seq.* (Public Records Act) and 11120 *et seq.* (Bagley-Keene Open Meeting Act), provides the framework for the governance of State Fund; and
5. Monitoring and evaluating State Fund's compliance with applicable policies and guidelines.

Organization

The Committee is a standing committee of the Board and shall be composed of three (3) members and not more than five (5) members of the Board and shall include a Chair of the Committee who shall serve until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-Laws.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings as required. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene") and State Fund By-Laws. The Governance Committee will hold separate closed sessions when necessary to further the purpose of duties of the Committee. Board members who are not members of the

Committee may attend the Committee's open session meetings as observers and may attend closed sessions only at the Committee's request. The Committee will regularly report on its actions to the full Board at the scheduled meeting.

a. The Committee may, at its discretion, invite members of management and/or other Directors to attend the Committee's meetings where necessary to further the business of the Committee. Notwithstanding the foregoing, the total number of members of the Board (including Committee members) attending the Committee's meeting at any one time shall not equal or exceed a majority of the number of members of the Board.

b. Unless the Committee determines otherwise, the Committee shall hold a closed session at each regularly scheduled meeting. Closed sessions of the Committee may be held at any meeting pursuant to the provisions of Bagley-Keene and California Government Code section 11120 et seq., as may be amended. During a portion of this closed session, the President or the General Counsel, or both, will be present.

c. A majority of the Committee shall constitute a quorum. Each member of the Committee will have one vote and actions at the meeting shall be approved by a majority of the members present.

d. Minutes shall be prepared at each meeting and filed with the minutes of State Fund's Board.

e. The Governance Committee Chairperson or the Chairperson's designee shall give a full report of the Committee's actions at the earliest scheduled Board meeting.

Committee Duties and Responsibilities

In discharging its duties and responsibilities to shape State Fund's governance policies and practices, the Committee shall:

1. Oversight

a. Oversee that State Fund operates in a legal, ethical, and socially responsible manner and that all directors, officers, and employees support State Fund's Code of Conduct which is designed to promote (1) honest and ethical conduct; (2) full, fair, accurate, timely, and understandable disclosures in the periodic reports required to be filed by State Fund; and (3) compliance with applicable laws, rules, and regulations.

b. Oversee the orientation and continuing education of the members of the Board. In this regard, the Committee shall, from time to time, recommend educational programs for the full Board, any Committee or any individual Director as the Committee may determine is necessary or appropriate.

c. Assist in developing criteria for the assessment of the performance of the Board and management and take the lead in overseeing the evaluation of the Board and State Fund's management on no less than an annual basis.

d. Oversee the material projects recommended by State Fund's management which relate to State Fund's governance.

e. Work with State Fund's Chief Risk Officer and Risk Committee in overseeing the identification, assessment, and where appropriate, the development of mitigation plans for risks within State Fund.

f. Oversee and assist Human Resource Operations regarding personnel compliance, performance and compensation issues to support State Fund's strategic objectives.

2. Recommend

a. Review the qualifications of members suggested to be Chairperson and Directors of the Board, and make recommendations to the appointing authority concerning these members.

b. Recommend to the Board, director nominees for appointment to the Committee or any sub-committee in compliance with the procedures outlined in State Fund's By-Laws.

c. Recommend the establishment, charter, and membership of the various committees of the Board.

d. Recommend changes to the charters of other State Fund Board committees.

e. Recommend governance guidelines for State Fund.

f. On an ad hoc basis, and upon the request of the Board, review specific operational segments of State Fund that may pose unusual, significant risks that could have a material impact on the risk profile of State Fund and make recommendations to the Board to address any such risks.

3. Approve

a. Review, and approve, with any revisions deemed appropriate by the Committee, the proposals of the President of State Fund for the appointment and setting of salaries of State Fund's exempt appointments, including but not limited to Chief Financial Officer, Chief Operating Officer, Chief Information Technology Officer, Chief Investment Officer, Chief Risk Officer, General Counsel.

b. Review and approve appropriate changes to State Fund's governance documents such as By-Laws, Code of Conduct, Code of Ethics, Conflict of Interest Code, Enterprise Risk Management Plan, and other compliance policies, and as requested, the other committees' charters.

b. Approve procurement contracts with an aggregate value in excess of \$25 million.

4. Advise

a. Advise the Board on matters related to governance as deemed appropriate by the Board.

- b. Advise the Board on corporate governance trends, issues and changing business, legislative, regulatory, legal or other conditions within the industry that may affect State Fund's governance.
- c. Advise the Board with respect to Board procedures including the frequency and structure of the Board meetings.
- d. Advise the Board on qualifications for leadership positions within State Fund.
- e. Advise and assist the Board in its responsibilities relating to succession planning, particularly with respect to the President and other identified executive positions.

5. Evaluate

- a. Conduct a self-evaluation, on a regular basis, of the performance of the Committee and deliver to the Board a written report setting forth the results of its evaluation which shall be discussed with the full Board and acted upon as appropriate.
- b. Evaluate, at least annually, the overall performance of the Board as a whole and in consultation with all Board members, conduct an assessment of individual Board members.
- c. Evaluate on an annual basis whether the committees of the Board are functioning effectively and within the guidelines as set forth in their respective charters.
- d. Evaluate, at least annually, the quality, sufficiency and currency of information furnished by management to the Directors in connection with Board and committee meetings and other activities of the Directors.

Powers

The Governance Committee shall have the following powers:

- a. To obtain advice and assistance from internal or external legal, accounting or other advisors and to have direct access to advisors without the presence of any officer of State Fund.
- b. To interview and meet with any employee of State Fund without the presence of any officer of State Fund.
- c. To form and delegate authority to subcommittees.
- d. To amend or repeal the Charter or any provisions of the Charter as appropriate due to new laws or regulations and recommend any changes to the Board.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes and responsibilities under this Charter.
- f. To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.



STATE COMPENSATION INSURANCE FUND
INVESTMENT COMMITTEE CHARTER
(Adopted July 14, 2011)

Purpose

The purpose of the Investment Committee of the State Fund Board of Directors (the "Investment Committee") is to assist the Board of Directors (the "Board") of State Compensation Insurance Fund ("State Fund") in fulfilling its oversight responsibilities for the investment of State Fund money into various types of securities and financial instruments by:

1. Overseeing State Fund's capital and financial resources.
2. Advising the Board on issues related to State Fund's Investment Policy Statement and Guidelines Resolutions ("Investment Resolution") particularly in light of changing business, legislative, regulatory, legal or other conditions.
3. Recommending, granting approval or ratifying, making necessary decisions, and providing direction on items related to the investments of State Fund.
4. Monitoring, reviewing and evaluating the work of State Funds' Chief Investment Officer and outside Investment Managers relating to the investments of State Fund.
5. Monitoring the investment decisions to determine compliance with the investment regulations in the Insurance Code, including but not limited to Insurance Code Sections 11787 and 11797 as amended from time to time.
6. Overseeing the account activity at any bank or financial institution that pursuant to Insurance Code Section 11800 is a depository financial institution having custody of State Fund money.
7. Verifying the custodial accounts that pursuant to Insurance Code 11788 are held by the State Treasurer for the safekeeping of securities owned by State Fund.
8. Verifying the accounts and balances of any accounts that pursuant to Insurance Code Section 11800.1 State Fund establishes with the State Treasurer.

In carrying out its oversight responsibilities, the Investment Committee is not providing expert or special advice to State Fund regarding the selection of investments in various securities or financial instruments and is not providing legal and regulatory advice regarding compliance with applicable laws or regulations concerning investments made by State Fund. As such, it is not the duty or responsibility of the Investment Committee or its members to conduct field work or other types of detailed analysis of the State Fund

investment portfolio or detailed analysis of the outside Investment Managers, and each member of the Investment Committee shall be entitled to rely on:

- a. The integrity of those persons and organizations within and outside of State Fund from which it receives information, including State Fund's auditors and outside Investment Managers. The Treasury & Investments Department and the outside Investment Managers report to the Board through the Investment Committee, and shall provide the Investment Committee with periodic reporting on the status of their activities and results.
- b. The accuracy of the financial and other information provided to the Investment Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).
- c. Representations made by management as to any non-investment services provided to State Fund that assist management in accounting for the portfolio investments made by State Fund.

In discharging its oversight role, the Investment Committee may investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the State Fund and the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties (including the approval of the fees and other retention terms of such independent counsel and advisers).

Organization

The Investment Committee is a standing committee of the Board and shall be composed of not less than three (3) members and not more than five (5) members of the Board. Members of the Investment Committee are appointed annually. All Committee members must possess an understanding of the detailed responsibilities of the Investment Committee and of State Fund's business, operating, financial, and investment environment. The Investment Committee members shall maintain an effective working relationship with the Board, State Fund's Chief Investment Officer, State Fund's Chief Financial Officer, State Fund's management, the outside Investment Managers, and financial consultants.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings as required. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene") and State Fund's By-laws. The Investment Committee will hold separate closed sessions when necessary to further the purpose and duties of the Committee.

- a. The Investment Committee may invite members of management and/or other persons or independent advisors to attend the Committee's meetings where necessary to further the purpose and business of the Committee. Board members who are not members of the Committee may attend the Committee's open session meetings as observers and may attend closed sessions only at the Investment Committee's request. State Fund's Chief Investment Officer and

Chief Financial Officer shall be present or available by phone during all regularly scheduled Investment Committee meetings. The outside Investment Managers shall be present at Investment Committee meetings as deemed appropriate by the Committee.

- b. A majority of the Committee shall constitute a quorum. Each member of the Committee will have one vote and actions at the meeting shall be approved by a majority of the members present.
- c. Minutes shall be prepared at each meeting and filed with the minutes of State Fund's Board.
- d. The Investment Committee Chairperson or the Chairperson's designee shall give a full report of the Committee's actions at the earliest scheduled Board meeting.

Duties and Responsibilities

In shaping the investment policies and practices, the Investment Committee shall have the following duties and responsibilities:

1. *Oversight*

- a. Oversee that State Fund operates in a legal, ethical, and socially responsible manner and complies with all applicable laws in the execution of State Fund's Investment Resolutions.
- b. Oversee all transactions as required by the Investment Resolutions and in compliance with the Insurance Code as amended from time to time and approve or ratify all investment transactions, as appropriate within the parameters established by the Investment Resolutions and set forth in State Fund's Statutory Annual Statement to the Insurance Commissioner of the State of California.
- c. Oversee the material projects recommended by State Fund's management that relate to the Investment Resolutions or the investment guidelines or practices or procedures of State Fund.

2. *Recommend*

- a. Work with State Fund's Chief Investment Officer to develop criteria for the selection and recommendation of an outside Investment Manager(s) to the Board based on those criteria.
- b. Recommend the discharge of an Investment Manager, if necessary.
- c. Recommend and approve updates and/or changes to the Investment Resolutions and or the investment guidelines or practices or procedures of State Fund.

3. *Advise*

- a. Advise the Board on matters related to State Fund's Investment Resolutions and investment guidelines or practices or procedures of State Fund.
- b. Advise the Board of changing business, legislative, regulatory, legal or other conditions that may affect State Fund's investment strategy.
- c. Advise the Board on investment trends and related issues within the insurance industry.

4. *Evaluate*

- a. Evaluate the Investment Managers' performance, fee structures, services and any other relevant factors on an annual basis.
- b. Evaluate the effectiveness of the system used for monitoring compliance with State Fund's Investment Resolutions and investment guidelines or practices or procedures of State Fund.
- c. Evaluate the current investment strategy to determine if it is consistent with meeting State Fund's strategic goals.
- d. Evaluate the investment portfolio managed by outside Investment Managers and make recommendations based on that evaluation.
- e. Review peer company investments on an annual basis.
- f. Review State Fund's account activity with depository financial institutions and the State Treasurer on an annual basis.
- g. Self-evaluate on an annual basis the Investment Committee's performance, which evaluation should among other things, compare the Investment Committee's performance with the requirements of this Charter.
- h. Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.

Powers

The Investment Committee shall have the following powers:

1. To meet with senior management and other appropriate parties to receive information and discuss investment strategies, including but not limited to strategic allocations, strategic duration and/or a method of determining an appropriate duration, and benchmarks, as necessary, and to measure relevant

- investment manager performance and overall investment performance of State Fund.
2. To oversee and consult with State Fund's Chief Investment Officer on matters related to investment strategies in accordance with State Fund's Investment Resolutions.
 3. To hire appropriate experts and authorize management to hire appropriate experts to execute investment and oversight functions.
 4. To delegate to the President and Chief Investment Officer, the authority to direct investment transactions on behalf of State Fund and, in their absence, to delegate to either the Chief Financial Officer or Chief Risk Officer that authority to the extent deemed appropriate by the Investment Committee and subject to the limitations set forth in the Investment Resolutions.
 5. To perform other investment functions as requested by the Board.
 6. To form and delegate certain authority to subcommittees.
 7. To amend or repeal the Charter or any provisions of the Charter as appropriate due to new laws or regulations and recommend any changes to the Board.
 8. To execute other powers as may be necessary and appropriate in order to fulfill the Investment Committee's responsibility under this Charter.
 9. To perform such other functions as assigned by State Fund's Charter, bylaws, or the Board.



BOARD OF DIRECTORS

STATE COMPENSATION INSURANCE FUND

INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION

WHEREAS, the Board of Directors of the State Compensation Insurance Fund (State Fund) is required to invest and reinvest the moneys of the State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code; and

WHEREAS, the State Fund is a non-tax paying entity; and

WHEREAS, the opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board in advance of each separate transaction; and

WHEREAS, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities; and

RESOLVED, by the Board of Directors of the State Fund in regular meeting assembled at San Francisco on May 16, 2013 that:

A. Investment Philosophy and Strategy

All Portfolios are structured and managed in a manner consistent with prudent and conservative investment practices. All purchases must meet the following criteria and any further detailed criteria for the specific mandate.

1. Fixed Income Portfolio:

The objective of the Fixed Income Portfolio is to preserve State Fund's principal and surplus, while maximizing current income and exceeding established benchmarks over the long-term.

2. Equity Portfolio:

The objective of the Equities Portfolio is to preserve State Fund's principal and surplus by adding diversity to the portfolio and reducing volatility of the results over the long term. The objective is to seek long-term total return and current income by investing primarily in large cap, high quality dividend paying stocks of United States and Canada companies that show a consistent history of strong dividend growth and sustainability. The Portfolio is expected to exceed the performance of its established benchmark over the long term.

3. Federal Home Loan Bank Portfolio:

The objective of the Federal Home Loan Bank (FHLB) Portfolio is to preserve State Fund's principal and surplus and to create a readily available funding source to help manage State Fund's liquidity and emergency needs as well as to add incremental income by matching loans (or advances) to the reinvestment of cash in three to five year fixed income securities. The target spread over the FHLB advance rate should exceed the established benchmark.

4. Cash and Cash Equivalents:

The objective of the cash portfolio is to preserve State Fund's surplus and principal, to maintain liquidity, and to provide a readily available funding source for settlement of trades, claims payments, and other necessary operational expenses.

B. Delegation of Authority

1. In accordance with Sections 11787 and 11797 of the Insurance Code, the President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, are hereby authorized to purchase or sell, exchange, or otherwise dispose of at the market, securities which are authorized by law for the investment of the funds of private insurance carriers provided the type of security to be acquired is described hereafter in this section and meets the conditions and standards set forth in Sections C through L as approved by the Board of Directors.
2. Any Investment Manager approved by the Board of Directors and under contract with State Fund may purchase and sell securities on behalf of State Fund per the terms, limitations and guidelines set forth in this INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION under the primary direction of the Chief Investment Officer and, in his/her absence, the direction of the aforementioned officers in this section.

C. Fixed Income Portfolio Attributes

Allowable securities include the following assets and with Board approval can include other asset classes as allowed under applicable regulations:

1. Bonds, notes, certificates of indebtedness, or other obligations for which the faith and credit of the United States of America are pledged.
2. Obligations of US Government Agencies and Government Sponsored Entities (GSEs).
3. Obligations of the Dominion of Canada, or of any province of the Dominion of Canada, or obligations for which are pledged the faith and credit of the Dominion of Canada, or of any province or city of the dominion which are payable in US dollars.
4. Mortgage-backed securities (MBS) issued by the US Government Agencies and GSEs, including pass-throughs, PAC CMOs (Planned Amortization Class Collateralized Mortgage Obligations), TAC CMOs (Targeted Amortization Class Collateralized Mortgage Obligations), VADM CMOs (Very Accurately Defined Maturity Collateralized Mortgage Obligations) and Sequential pay CMOs, but

excluding such mortgage derivatives as inverse floaters, interest only strips, principal only strips, and "support bonds." No direct sub-prime or Alt-A MBS are allowed.

5. Publicly traded fixed income securities issued by a corporation organized under the laws of the United States or any State thereof, or of the Dominion of Canada, or of any province of the Dominion of Canada which are payable in US dollars, including securities issued under Rule 144(a).
6. General obligations of any State for which the faith and credit of the State are pledged for the payment of principal and interest.
7. Obligations issued under authority of law by any county, municipality, or school district in any State, or in any province of the Dominion of Canada or in any political subdivision of the Commonwealth of Puerto Rico, including bonds of any county water district.
8. Asset-backed securities (ABS) securitized by credit card receivables or auto loans are allowed. No other ABS is allowed.
9. Commercial mortgage-backed securities (CMBS) issued by the US Government Agencies and GSEs and non-Agency CMBS.

D. Fixed Income Portfolio Characteristics and Limitations

1. To monitor compliance, the Investment Manager will assign a credit rating to each security using the following logic: a) If one nationally recognized statistical rating organizations (NRSRO) rates the security, the rating will apply; b) If two NRSRO rate the security, the lower rating will apply; c) If all three NRSRO rate the security, the second lowest will apply; d) When considering the credit rating of the municipal securities, the higher of the financial guarantor or the underlying credit will be used.
2. The weighted credit rating of the fixed income portfolio shall average at least Aa3/AA-/AA-, at Moody's, S&P and Fitch, respectively, at all times.
3. There is no per issuer limit of US Treasuries and US Agencies.
4. The Investment Manager shall not purchase corporate securities rated below Baa1/BBB+ by any NRSRO. The total amount of corporates rated below A3/A- shall not exceed 5% of the book value of this portfolio. Corporates rated below Baa1/BBB+ are considered out of compliance.
5. Single corporate issuer rated Aa3/AA- or better may not exceed 1.5% of the book value of this portfolio. Single corporate issuer rated A or the equivalent (A1/A+, A2/A, or A3/A-) may not exceed 1.0% of the book value of this portfolio. Single corporate issuer rated Baa1/BBB+ or below may not exceed 0.5% of the book value of this portfolio.
6. Corporate securities in aggregate shall not exceed 45% of the book value of this portfolio, including the Cash Management Holdings.

7. The Investment Manager shall not purchase municipal securities rated below A3/A- by any NRSRO.
8. Single municipal issuer rated Aa3/AA- or better may not exceed 1.00% of the book value of this portfolio. Single municipal issuer rated below Aa3/AA- may not exceed 0.75% of the book value of this portfolio.
9. Municipals in aggregate shall not exceed 20% of the book value of this portfolio, including the Cash Management Holdings.
10. Notwithstanding sections D.6. and D.9., the aggregate total of corporates and municipals shall not exceed 55% of the book value of this portfolio, including the Cash Management Holdings.
11. The Investment Manager shall not purchase any Build America Bonds issued directly by the State of California.
12. MBS issued by the US Government Agencies and GSEs shall comprise no more than 45% of the total fixed income portfolio, including the Cash Management Holdings. No single MBS pool may exceed 1% of the book value of this portfolio. MBS will include all Agency MBS, CMOs and CMBS for the aforementioned limits.
13. Securities issued and/or guaranteed by the Government of Canada and political subdivisions must be rated Aa3/AA- or better by a NRSRO. No single Canadian political subdivision may exceed 1.5% of the book value of this portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the book value of this portfolio, including the Cash Management Holdings.
14. Securities issued and/or guaranteed by the US Government, US Agencies, and GSEs that have not been rated by a NRSRO will apply the rating assigned by the NRSRO to the issuer or the guarantor of the security.
15. ABS and non-Agency CMBS must be rated Aaa/AAA by a NRSRO at the time of purchase. The aggregate total value of ABS and non-Agency CMBS shall be no more than 1% of the book value of this portfolio, including the Cash Management Holdings.
16. Zero coupon bonds shall not be purchased without the prior approval of the Chief Investment Officer.
17. Each of the Fixed Income Investment Managers will calculate the sector limits based on the book value of their respective portfolio. However, when calculating the sector limits at month-end, the Treasury & Investments staff will include both the book value of the total portfolio and the Cash Management Holdings.
18. 15% or more of the portfolio shall be maintained in securities maturing in five years or less.
19. The duration of the portfolio will be managed within a strategic range of 3.0 to 6.5, which is reviewed and approved by the Board annually. An operational target within the duration range will be established and reviewed by the Chief Investment Officer periodically.

20. If any of the above mentioned rules are breached, the Investment Manager will conduct an analysis and present it with a recommendation to the Chief Investment Officer.

E. Equity Portfolio Attributes

The following types of equity securities are permissible:

1. Federal Home Loan Bank stock purchased directly by State Fund.
2. Common and preferred stock of companies domiciled in the US or Canada, and denominated in US Dollars. Stock and other equity securities issued by foreign domiciled companies shall not be purchased for the Equity Portfolio.

F. Equity Portfolio Characteristics and Limitations

1. Position size in any one issuer shall not exceed 5% of market value of the portfolio.
2. No one position shall be greater than \$25 million in market value at the time of purchase.
3. Equity holdings in any one industry shall not exceed 15% of the market value of the equity portfolio, or +/- 10% of that of the benchmark index, whichever is greater.
4. The portfolio shall invest in companies with market capitalization of \$2 billion or above at the time of purchase.
5. The portfolio shall hold approximately 40 to 120 different issuers of securities, but no less than 40 different securities.
6. The portfolio shall not invest in issuers whose concentration of business risk is similar to that of State Fund (i.e. catastrophic risk). A pre-approved list of insurance and reinsurance issuers that can be purchased will be established and mutually agreed upon by the Investment Manager and Chief Investment Officer.
7. The portfolio shall not invest in stock of debt issuers whose underlying rating is below investment grade (lower of splits Baa3/BBB-) at the time of purchase. Any exceptions must be pre-approved by the Chief Investment Officer.
8. No American depository receipts ("ADRs") are allowed.
9. As set forth in Insurance Code Section 1191, excess funds investments may be made in the stock of any corporation organized and carrying on business under the laws of this or any other state, or of the United States, or of the District of Columbia, or of the Dominion of Canada or any province of the Dominion of Canada.
10. All investment income of the equity portfolio and capital gains, if any, will be added to the assets of the portfolio, unless otherwise directed by the Chief Investment Officer.

11. If any of the above mentioned rules are breached, the Investment Manager is not necessarily required to dispose of all or part of the investment immediately. The Investment Manager will, however, inform the Chief Investment Officer without delay and make a proposal on the best way to bring the portfolio back into compliance with the limits.

G. Federal Home Loan Bank Portfolio Attributes

The following types of assets are allowable:

1. Bonds, notes, certificates of indebtedness, or other obligations for which the faith and credit of the United States of America are pledged.
2. Obligations of US Government Agencies and Government Sponsored Entities (GSEs).
3. Publicly traded fixed income securities issued by a corporation organized under the laws of the United States or any State thereof, or of the Dominion of Canada, or of any province of the Dominion of Canada which are payable in US dollars, including securities issued under Rule 144(a).
4. General obligations of any State for which the faith and credit of the State are pledged for the payment of principal and interest.
5. Obligations issued under authority of law by any county, municipality, or school district in any State, or in any province of the Dominion of Canada or in any political subdivision of the Commonwealth of Puerto Rico, including bonds of any county water district.

H. Federal Home Loan Bank Portfolio Characteristics and Limitations

1. To monitor compliance, the Investment Manager will assign a credit rating to each security using the following logic: a) If one NRSRO rates the security, the rating will apply; b) If two NRSRO rate the security, the lower rating will apply; c) If all three NRSRO rate the security, the second lowest will apply; d) When considering the credit rating of the municipal securities, the higher of the financial guarantor or the underlying credit will be used.
2. The Investment Manager shall not purchase corporate securities rated below A3/A- by any NRSRO.
3. The Investment Manager shall not purchase municipal securities rated below A3/A- by any NRSRO.
4. There is no per issuer limit of US Treasuries, US Agencies, and general obligation bonds issued by the State of California.
5. Except for those mentioned in H.4., any other issuer may not exceed \$50 million in actual cost (excluding accrued interest) at the time of purchase.

6. Per the Insurance Code Section 1194.7, and for the purpose of the Federal Home Loan Bank Portfolio investments, there is no limitation on the purchase of municipal bonds issued by the State of California.
7. All purchases will be maturity matched to the Advances providing the funding and will have maturities less than or equal to 5 years.
8. The Investment Manager shall not purchase any Build America Bonds issued directly by the State of California.

I. Cash and Cash Equivalents Attributes

Maintain short-term funds to obtain a reasonable level of earnings by participating in the following:

1. Bonds, notes, certificates of indebtedness, or other interest bearing obligations for which the full faith and credit of the United States of America are pledged.
2. Obligations of US Government Agencies and GSEs.
3. Commercial Paper issued by a corporation organized under the laws of the United States or any State.
4. Certificates of Deposit (CDs) issued by domestically chartered banks and savings and loans. The institution's charter is acceptable if granted by a state or national regulatory body. This includes domestically chartered branches of foreign banks, commonly referred to as Yankees.
5. State Treasurer's Pooled Money Investment Fund (PMIF).
6. Interest-bearing bank accounts.

J. Cash and Cash Equivalents Exclusions and Limitations

1. Purchases of Commercial Paper must be rated A1/P1 by two NRSRO's and split rating is not allowed. Eligible Commercial Paper may not exceed 180 days' maturity, or represent more than 10 percent of the outstanding paper of an issuing corporation. No single Commercial Paper issuer may exceed 10% of the total Cash Management Holdings. Eligible Commercial Paper is further limited to issuing corporations having shareholders' equity in excess of \$10 Billion. Commercial Paper holdings are limited to a maximum of 70% of the total Cash Management Holdings.
2. The terms for any CDs should never exceed a year. CDs per issuer may not exceed \$50 million or 10% of the total Cash Management Holdings, whichever is less. CDs are further limited to issuing corporations having shareholders' equity in excess of \$10 Billion. CD holdings are limited to a maximum of 30% of the total Cash Management Holdings. CD issuers must be rated A1/P1 by two NRSRO's.
3. Balances maintained in the PMIF will be monitored regularly by the Treasury and Investments staff, and reported to the Treasury and Investments Committee on a monthly basis.

K. Insurance Code Section 11797(a) Limitation

1. The combined value of Equity Portfolio, Asset-Backed Securities (ABS), non-Agency Commercial Mortgage Backed Securities (CMBS) and Federal Home Loan Bank stock shall not exceed 20% of surplus.

L. Performance Benchmarks

The benchmarks are for individual mandates. At a minimum, the benchmark will be reviewed and reauthorized by the Board on an annual basis.

1. The benchmark for the Fixed Income portfolio is Merrill Lynch's U.S. Treasuries, 1-10 yrs Index: 10%, Merrill Lynch's U.S. Agencies, 1-10 yrs Index: 5%, Merrill Lynch's Broad U.S. Taxable Municipal Securities Index: 10%, Merrill Lynch's U.S. Corporates A-AAA Rated, 1-10 yrs Index: 20%, Merrill Lynch's U.S. Corporates A-AAA Rated Index: 20%, and Merrill Lynch's Mortgage Master Index: 35%.
2. The benchmark for the Equity portfolio is the Russell 1000 index.
3. The performance objective of the FHLB portfolio is to achieve a spread in excess of the FHLB advance rate that is greater than 40 basis points on each trade.

RESOLVED, that this Resolution No. 1082 shall replace Investment Resolution No. 1068 effective May 17, 2013.