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Date: February 9, 2018

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 3d – Consent Calendar: Approval of Investment and Risk Committee Charter
II. NAME AND PROGRAM:	Margie Lariviere, General Counsel and Corporate Secretary
III. ACTIVITY:	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

Part of the Board process is to review the Board Committee Charters regularly for potential changes and make recommendations to the Governance Committee and Board for approval.

In recognition of evolving risk issues, expansion of the Investment Committee into an Investment and Risk Committee with oversight of State Fund’s investment strategy, enterprise risk management, and cybersecurity is recommended.

VI. ANALYSIS:

The Insurance Code requires State Fund to maintain, at a minimum, an Audit Committee, Investment Committee, and Governance Committee. In 2016, the Board revised the Audit and Governance Committee Charters to clarify that oversight of enterprise risk management would be handled at the Board level. The Board also added an Ad Hoc Safety and Loss Prevention Committee.

The increasing risk from external factors, especially cybersecurity, has put additional focus on risk oversight. The National Association of Corporate Directors (NACD) notes that board risk committees are becoming a best practice in good governance especially when tied to an organization’s strategic objectives. Expanding the Investment Committee into an Investment and Risk Committee will assist the Board in fulfilling its risk oversight responsibilities by identifying, evaluating and mitigating strategic, operational, and external environment risks including a focus on cybersecurity risks, protection and mitigation.

Rather than creating another new committee, an Investment and Risk Committee will maintain the current committee structure, assignments, and scheduling.

The proposed new Investment and Risk Committee charter and summary of proposed changes from the Investment Committee Charter are attached.

VII. RECOMMENDATION:

To approve and recommend the Board adopt the proposed Investment and Risk Committee Charter as presented.

VIII. APPENDIX: Copy of proposed Investment and Risk Committee Charter and summary of proposed changes from Investment Committee Charter



**Summary of Proposed Changes to
State Compensation Insurance Fund
Investment Committee Charter**

Adopted July 14, 2011

1st Amended: Adopted May 22, 2014

2nd Amended: Adopted July 27, 2016

3rd Amended: Adopted November 18, 2016

[Proposed Investment and Risk Committee Charter for review and to be approved:]

Investment and Risk Committee: February 21, 2018

Governance Committee: February 22, 2018

Board of Directors: February 22, 2018

The following summarizes the proposed revisions to the Third Amended State Compensation Insurance Fund (“State Fund”) Investment Committee Charter, to be adopted by State Fund’s Board of Directors as the Investment and Risk Committee Charter. Section and paragraph references are to the provisions in the Third Amended Investment Committee Charter.

<u>Provision</u>	<u>Summary of Proposed Changes</u>
<u>Under Purpose</u>	The revisions arise from the proposed expansion to an Investment and Risk Committee (“the Committee”) and reflect that the Committee will help the Board fulfill its oversight of State Fund’s investment strategy, enterprise risk management, and cyber risk management and cyber security strategies. Detailed description of financial oversight is condensed and/or moved to the Duties and Responsibilities section.
<u>Under Organization</u>	Adds reference to the Chief Information Security Officer.
<u>Under Meetings</u>	Adds reference to attendance by the Chief Risk Officer and Chief Information Security Officer.
<u>Under Duties and Responsibilities</u>	Divides this section by responsibilities for State Fund’s financial and investment affairs; enterprise risk management; and cybersecurity including development of a cybersecurity plan and information protection management strategy.
<u>Under Powers</u>	Authorizes the Committee to obtain advice and assistance from cybersecurity and data privacy advisors in addition to other consultants deemed necessary to carry out its duties.



STATE COMPENSATION INSURANCE FUND INVESTMENT COMMITTEE CHARTER

Adopted July 14, 2011

1st Amended: Adopted May 22, 2014

2nd Amended: Adopted July 27, 2016

3rd Amended: Adopted November 18, 2016

[Proposed Investment and Risk Committee Charter for review and to be approved:]

Investment and Risk Committee: February 21, 2018

Governance Committee: February 22, 2018

Board of Directors: February 22, 2018

Purpose

The Investment and Risk Committee (“Committee”) helps execute the Board’s oversight pertaining to State Compensation Insurance Fund (“State Fund”) investment strategy, enterprise risk management, and cyber security.

The Committee’s responsibilities include:

1. Overseeing State Fund’s capital, investments and financial resources.
2. Evaluation of the integrity and effectiveness of State Fund’s enterprise risk management procedures, including the enterprise risk management framework, key risk policies and critical risk tolerances adopted by State Fund.
3. Oversight of State Fund’s cyber risk management strategy.

In discharging its oversight role, the 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 advisors).

The Committee shall review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.

Organization

The 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. Member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually. The Committee shall include a Chair of the Committee who shall serve for two years or

until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-Laws. The Board Chair may nominate a Vice-Chair who shall serve until appointment as Investment Committee Chair or until resignation, removal, or a successor has been appointed pursuant to the provisions of State Fund's By-Laws.

All Committee members must possess an understanding of the detailed responsibilities of the Committee and of State Fund's business, operating, financial, and investment environment. The Committee members shall maintain an effective working relationship with the Board, Chief Investment Officer, Financial Officer, Chief Information Security Officer, State Fund's management, the outside Investment Managers, and relevant 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 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 Committee's request. State Fund's Chief Investment Officer, Chief Financial Officer, Chief Risk Officer, and Chief Information Security Officer shall be present or available by phone during all regularly scheduled Committee meetings. The outside Investment Managers shall be present at 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 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

With respect to the Committee's responsibilities relating to the financial and investment affairs of State Fund, the 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 and verify accounts at any depository financial institution having custody of State Fund money and accounts held by or established with the State Treasurer in compliance with the Insurance Code as amended from time to time.
- d. 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.
- e. Oversee and evaluate the enterprise risks associated with State Fund's investments, including emerging risks, and 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.

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, taking into account State Fund's strategic and risk management goals.
- d. Work with State Fund's Chief Risk Officer and Committee to review and recommend 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.

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 and risk management 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 Committee's performance, which evaluation should among other things, compare the Committee's performance with the requirements of this Charter.

In carrying out its oversight responsibilities, the 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 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 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 Committee, and shall provide the Committee with periodic reporting on the status of their activities and results.
 - b. The accuracy of the financial and other information provided to the 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.
- A. With respect to the Committee's responsibilities relating to enterprise risk management, the Committee shall:

1. Review State Fund's major risk exposures, including financial, operational, privacy, security, business continuity, cyber, legal and regulatory risks.
 2. Evaluate State Fund's methodology for establishing overall risk, 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.
 3. Review and consider risks that may affect State Fund's viability and the steps taken by management to manage these risks within acceptable tolerances.
 4. Monitor State Fund's risk management performance and obtain reasonable assurance from management that its risk management policies are effective and are being adhered to based on industry best practices.
 5. Review the effectiveness of State Fund's management of fraud risk.
 6. Review with management on an annual basis State Fund's Own Risk Self Assessment ("ORSA") Report.
 7. Regularly report to the Board the substance of enterprise risk management reviews and discussions and recommend to the Board such actions as the Committee deems appropriate.
- B. The Committee's responsibilities related to cyber security include overseeing State Fund's development of a cybersecurity plan and information protection management strategy, to include:
1. Work with State Fund's Chief Information Security Officer ("CISO") to carry out oversight of cyber security responsibilities.
 2. Monitor and evaluate the quality and effectiveness of State Fund's technology security, capabilities for disaster recovery, data protection, cyber threat detection and cyber incident response.
 3. Receive periodic reports and coordinate with the CISO and management on the metrics used to measure, monitor, and manage cyber risks posed to State Fund.
 4. Review reports from ERM and Legal regarding the implications of cyber risks posed to State Fund, including from potential data breaches.
 5. Maintain awareness of cyber regulatory issues and State Fund's adherence to regulations.
 6. Monitor regulatory disclosure and reporting activities.
 7. Review reports by the CISO regarding the status of plans for the security of State Fund's data stored on internal resources and with third party vendors.
 8. Ensure that State Fund has adequate cyber insurance coverage aligned with industry best practice.

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 obtain advice and assistance from cybersecurity and data privacy advisors and consultants as it deems necessary to carry out its duties.
7. To form and delegate certain authority to subcommittees.
8. 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.
9. To execute other powers as may be necessary and appropriate in order to fulfill the Committee's responsibility under this Charter.
10. To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.