



333 Bush Street  
 San Francisco, CA 94104  
 (415) 263-5400  
 www.statefundca.com

Date: May 13, 2016

**TO: MEMBERS, GOVERNANCE COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 3f – Consent Calendar: Annual Review of Committee Charters
<b>II. NAME AND PROGRAM:</b>	Judith Sapper, Legal and Hilda Padua, Board Liaison
<b>III. ACTIVITY:</b>	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<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 and agenda setting is to review the Committee Charters regularly for potential changes and make recommendations to the Governance Committee to be presented and approved at the May Governance Committee Open meeting.

**VI. ANALYSIS:**

The staff reviewed the Committee Charters last year in accordance with the Governance Charter and best practices. The Audit Committee Charter was updated in 2012 by comparing it to the recent Blue Ribbon Committee on Audit Committee material. No updates to that material were made in 2013-2015 and no industry changes were recommended for corresponding changes to the Audit Committee Charter. Some clerical corrections were made to the Audit Committee Charter in 2015 to reflect the intent of prior updates.

Several substantive changes were made to the Investment Committee Charter in 2014 and to the Governance Committee Charter in 2013 and 2014.

This year the staff recommends a change to each of the charters for consistency with each other and conformance with the provisions of State Fund’s By-Laws on appointment of Committee members to specify that Committee member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually and that the Committee Chairs shall serve until resignation, removal or a successor has been appointed.

The summaries of proposed changes to the Audit Committee, Governance Committee and Investment Committee Charters are attached.

**VII. RECOMMENDATION:**

To approve and recommend the Board adopt the proposed amendments to the Audit Committee Charter, Governance Committee Charter, and Investment Committee Charter as presented.

**VIII. APPENDIX:** Copy of Audit Committee Charter, Governance Committee Charter, Investment Committee Charter and summaries of proposed changes



**DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

**Annual Review of Audit Committee Charter**  
 Judith Sapper, Legal and Hilda Padua, Board Liaison

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

- 1<sup>st</sup> Amended by Audit Committee August 15, 2012  
 Adopted by the Board August 16, 2012
- 2<sup>nd</sup> Amended by Audit Committee May 20, 2015  
 Adopted by the Board May 21, 2015
- [Proposed 3<sup>rd</sup> Amended for review and to be approved:]  
 Governance Committee: May 26, 2016  
 Audit Committee: May 25, 2016  
 Board of Directors: May 26, 2016

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

<b><u>Section</u></b>	<b><u>Summary of Proposed Changes</u></b>
<b><u>Under Organization</u></b>	The revision conforms to State Fund’s By-Laws to state that Audit Committee member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually and that the Audit Committee Chair shall serve until resignation, removal or a successor has been appointed.



## **DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

### **STATE COMPENSATION INSURANCE FUND AUDIT COMMITTEE CHARTER**

1<sup>st</sup> Amended by Audit Committee August 15, 2012

Adopted by the Board August 16, 2012

2<sup>nd</sup> Amended by Audit Committee May 20, 2015

Adopted by the Board May 21, 2015

[Proposed 3<sup>rd</sup> Amended for review and to be approved:]

Governance Committee: May 26, 2016

Audit Committee: May 25, 2016

Board of Directors: May 26, 2016

#### **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. **Member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified 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 Section 11770(b)(1) as may be amended. **The Chair of the Audit Committee shall serve until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-Laws.** 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.
  - h. 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.
  - i. 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 on a regular basis, 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.





**DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

**Annual Review of Governance Committee Charter**  
 Judith Sapper, Legal and Hilda Padua, Board Liaison

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

Adopted May 17, 2011  
 1<sup>st</sup> Amended: Adopted August 16, 2012  
 2<sup>nd</sup> Amended: Adopted May 16, 2013  
 3<sup>rd</sup> Amended: Adopted May 22, 2014  
 [Proposed 4<sup>th</sup> Amended for review and to be approved:]  
 Governance Committee: May 26, 2016  
 Board of Directors: May 26, 2016

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

<b><u>Provision</u></b>	<b><u>Summary of Proposed Changes</u></b>
<b><u>Under Organization</u></b>	The revision conforms to State Fund’s By-Laws to state that Governance Committee member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually and that the Chair of the Governance Committee shall serve until resignation, removal or a successor has been appointed.



## DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE

### STATE COMPENSATION INSURANCE FUND GOVERNANCE COMMITTEE CHARTER

Adopted May 17, 2011

1<sup>st</sup> Amended: Adopted August 16, 2012

2<sup>nd</sup> Amended: Adopted May 16, 2013

3<sup>rd</sup> Amended: Adopted May 22, 2014

[Proposed 4<sup>th</sup> Amended for review and to be approved:]

Governance Committee: May 26, 2016

Board of Directors: May 26, 2016

#### 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 at least 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 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 succession planning for State Fund's top executive positions and ensure that State Fund has effective contingency plans in place to address planned and unplanned vacancies in those positions.
- e. Oversee the material projects recommended by State Fund's management which relate to State Fund's governance.
- f. 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.
- g. 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.
- c. 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.



**DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

**Annual Review of Investment Committee Charter**  
 Judith Sapper, Legal and Hilda Padua, Board Liaison

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

Adopted July 14, 2011  
 1st Amended: Adopted May 22, 2014  
 [Proposed 2<sup>nd</sup> Amended for review and to be approved:]  
 Governance Committee: May 26, 2016  
 Investment Committee: May 26, 2016  
 Board of Directors: May 26, 2016

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

<b><u>Provision</u></b>	<b><u>Summary of Proposed Changes</u></b>
<b><u>Under Organization</u></b>	The revision conforms to State Fund’s By-Laws to state that Investment Committee member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually and that the Chair of the Investment Committee shall serve until resignation, removal or a successor has been appointed.



## **DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

### **STATE COMPENSATION INSURANCE FUND INVESTMENT COMMITTEE CHARTER**

Adopted July 14, 2011

1st Amended: Adopted May 22, 2014

[Proposed 2<sup>nd</sup> Amended for review and to be approved:]

Governance Committee: May 26, 2016

Investment Committee: May 26, 2016

Board of Directors: May 26, 2016

#### **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 Fund's 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 Section 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

State Compensation Insurance Fund

Governance Committee – May 26, 2016

Open Agenda Item 3f – Consent Calendar: Annual Review of Committee Charters

(Copy of Revised Investment Charter)



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. **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 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 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.
- d. Oversee and evaluate the enterprise risks associated with State Fund's investments.

#### 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.

### 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 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, By-Laws, or the Board.