

**STATE COMPENSATION INSURANCE FUND  
GOVERNANCE COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**May 8, 2013**

The Governance Committee met on May 8, 2013 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

**AGENDA ITEM 1: ROLL CALL**

The meeting was called to order at 9:00 a.m. and the following Members were present: Lawrence E. Mulryan (Chair); Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); and Thomas E. Rankin.

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 Governance Committee members read State Fund's Antitrust Admonition, which is included in each Committee member's meeting materials.

**AGENDA ITEM 3: CONSENT CALENDAR**

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: 5

NO: 0

Motion carried.

**AGENDA ITEM 4: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES**

Mr. Mulryan called on Ms. Padua to report on Board member upcoming speeches or articles.

Ms. Padua noted that the report is included in the Committee meeting materials and requested if there were any questions of which there were none.

## **AGENDA ITEM 5: GOVERNANCE AND COMPLIANCE UPDATE**

Program Manager of Governance, Compliance and Privacy Barbara Simmons reported that State Fund's compliance rate is 100% for the 2013 Annual Filing of Statements of Economic Interests by designated filers. The final statutory submission to the Fair Political Practices Commission was completed for the Board members, CEO, CFO and CIO.

The Code of Conduct Compliance Bulletin presenting ethics and privacy reporting topics and outcomes for individual reports from all sources was first published in March 2013 as part of *Human Resources Connections*, which is distributed electronically to all employees. There were 95 reports received from all sources of which 65% related to suspected privacy or security breaches; and 21% related to Human Resources (HR) matters.

State Fund has been more active in compliance and privacy awareness including participating in the National Data Privacy Day. *Steps to Protecting Data*, and an employee job aid outlining every employees *Responsibilities for Privacy Protection* was posted on Worksite in conjunction with the Data Privacy Day announcements. For the second year, State Fund participated in National Compliance and Ethics week, May 5-11, 2013, which coincides with publication of the 2013 Code of Conduct.

## **AGENDA ITEM 6: ANNUAL REVIEW OF STATE FUND BY-LAWS AND COMMITTEE CHARTERS**

Mr. Mulryan called on Carol Newman to present the recommended changes. There is one recommended revision to the State Fund By-Laws under Section 15 that ensures the by-laws follow the Board practice of not transacting business if there is not a quorum of voting members present.

The recommended revisions to the Governance charter include the following: 1) non-substantive and formatting changes; 2) deletes reference to Enterprise Portfolio Management office ("EPMO"); 3) deletes reference to Chief Operating Officer; and 4) deletes reference to "annual" self-evaluation and changes to "regular basis".

The Governance Committee under its Charter has the duty and responsibility to recommend the membership of the various committees of the Board. The Board of Directors appoints the members of the committees. It is recommended by Board Chair Mulryan to expand the membership of the Audit Committee to 5 regular members and the Investment Committee to 4 regular members and appoint Ms. Robin Baker to the Audit Committee and Mr. Marvin Kropke to the Investment Committee.

MOTION: Mr. Rankin

SECOND: Mr. Curtin

To approve the recommend changes to the State Fund By-Laws and Governance Charter as presented and attached hereto and incorporated herein by reference and to recommend to the Board of Directors for approval on Thursday, May 16, 2013 during the Open Board session.

In addition, to recommend to the Board of Directors of State Compensation Insurance Fund that the membership of the Audit Committee be increased from three (3) regular members and an alternate member to five (5) regular members pursuant to its Charter; and 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, the membership of the Investment Committee be increased from three (3) regular members and an alternate member to four (4) regular members; and alternate member 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: 5                      NO: 0                      Motion carried.

**AGENDA ITEM 7: REVIEW OF BOARD DELEGATED AUTHORITY AND APPROVAL LEVELS**

Mr. Mulryan noted that as part of the annual review, the staff has reviewed the State Fund Corporate Guidelines related to the Delegated Authority and Approval Levels and recommends the Delegated Authority reflect not only the delegation to the President of State Fund but also reflect the delegation to the various Board committees.

MOTION: Mr. Machado                      SECOND: Mr. Curtin

To approve the Board Delegated Authority and Approval Levels as presented and attached hereto and incorporated herein by reference and to recommend to the Board of Directors for approval on Friday, May 17, 2013 during Open Board session.

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

YES: 5                      NO: 0                      Motion carried.

**AGENDA ITEM 8: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 11-15.**

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 11-15, of which there was none.

**AGENDA ITEM 9: PUBLIC COMMENT**

Mr. Mulryan requested further public comment of which there was none. The Governance Committee immediately convened into Closed Session at 9:10 a.m.

**AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 12:30 pm and the following Members were present: Mr. Mulryan (Chair); Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.), and Thomas E. Rankin.

There was a quorum.

Also present: President and Chief Executive Officer Tom 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 17: COMMITTEE MEMBER PRESENTATIONS**

Mr. Mulryan asked if there were any Committee Member presentations, of which there were none.

**AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR MAY 16, 2013 AGENDA**

Mr. Mulryan requested suggestions for agenda items for the August 13, 2013 Governance Committee meeting other than the standing agenda items, of which there were none.

Mr. Mulryan also requested public comment of which there was none, and he noted that the next Governance Committee meeting is scheduled for August 13, 2013 at the Marriott Marquis, San Diego, California unless noticed for a new date and time.

**ADJOURNMENT**

There being no further business before the Governance Committee, the meeting adjourned at 12:35 p.m.

Respectfully submitted,

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Hilda B. Padua,  
Board Liaison and Asst. Corporate Secretary



**STATE COMPENSATION INSURANCE FUND**  
**OF THE**  
**STATE OF CALIFORNIA**

**THIRD AMENDED AND RESTATED BY-LAWS**

[3<sup>rd</sup> 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 Indemnitee within twenty (20) days following delivery of a written request therefor by Indemnitee to State Fund.

(g) Notice of Claim. Indemnitee 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 Indemnitee 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 Indemnitee). In addition, Indemnitee shall give State Fund such information and cooperation as it may reasonably require and as shall be within Indemnitee'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 Indemnitee. 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, Indemnitee 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), Indemnitee 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 Indemnitee has not met the standards of conduct which make it permissible under applicable law for State Fund to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on State Fund, and Indemnitee 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 Indemnitee's right to indemnification, the question of Indemnitee'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 Indemnitee, State Fund shall be entitled to assume the defense of such proceeding with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of counsel by State Fund, State Fund will not be liable to Indemnitee under this Section 30 for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, unless (i) the employment of counsel by Indemnitee has been previously authorized by State Fund, (ii) Indemnitee 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 Indemnitee 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.



## **Resolution No. 1081**

**Approved:  
Governance Committee: May 8, 2013**

BOARD OF DIRECTORS  
STATE COMPENSATION INSURANCE FUND

### RESOLUTION OF DELEGATED AUTHORITY

WHEREAS, the Board of Directors desires to reaffirm its authorization and direction to the President of State Compensation Insurance Fund ("State Fund") to take or to cause to be taken all such actions necessary or desirable in connection with the administration, management, and conduct of the business and affairs of State Fund;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors hereby affirms its delegation to the President of State Fund, subject to conditions that the Board may from time to time prescribe, the powers, functions, and duties conferred by law on the Board of Directors in connection with the administration, management, and conduct of the business and affairs of State Fund. The President may exercise those powers and functions and perform those duties with the same force and effect as the Board of Directors. The President shall continue to regularly advise the Board of Directors on the business and affairs of State Fund, including but not limited to the following topics:

- Key operational matters
- Financial status and issues
- Legal issues affecting State Fund, the Board of Directors or officers
- Legislative issues specific to or affecting State Fund
- Marketing plan
- Information Technology strategic plans
- Human resources issues
- Internal audits

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the advice of the Board of Directors, and present to the Board of Directors for its ratification of actions taken pursuant to the Board of Directors' delegated authority on the following topics:

- Appointment of the chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer, and general counsel, and the setting of their salaries
- Investment decisions
- Major corporate policy initiatives

Resolution No. 1081  
Resolution of Delegated Authority

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the Board of Directors shall make all final decisions on the following topics, unless otherwise specifically delegated by the Board of Directors:

- Selection and appointment of the President/Chief Executive Officer\*
- Approval of the strategic plan
- Selection of State Fund's public accountants\*\*
- Approval of the annual budget
- Adoption and amendment of investment and cash management policies (currently delegated to the Investment Committee)
- Dividend declarations\*
- Acquisition and sale of real estate, and major lease transactions
- Selection of an external auditor (currently delegated to the Audit Committee)
- Approval of audit engagement fees (currently delegated to the Audit Committee)
- Approval of the annual audit plan, major changes to the plan, and the annual update of the biennial audit plan (currently delegated to the Audit Committee)
- Adoption of, and approval of changes to, State Fund's by-laws, Conflict of Interest Code,\*\*\* Enterprise Risk Management Plan, Code of Ethics, Code of Conduct, charters of the committees of the Board of Directors, and/or other compliance policies and guidelines required by law\*\* (currently delegated to the Governance Committee)
- Adoption of rate decisions
- Selection of appointed actuary\*\*
- Selection of investment advisors (currently delegated to the Investment Committee)
- Procurement contracts with a total aggregate value in excess of \$25,000,000; (currently delegated to the Governance Committee) contracts with a lesser value may still require the advice and consent of the Board of Directors pursuant to any of the other topics listed herein
- Banking management

\* Required by laws specific to State Fund

\*\* Required by laws applicable to insurance companies generally in California

\*\*\* Required by laws applicable to state agencies in California

I, Carol R. Newman, Corporate Secretary for State Compensation Insurance Fund Board of Directors, hereby certify that the foregoing resolution was adopted by the Board of Directors at their regular meeting held May 16, 2013.

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Carol R. Newman  
Corporate Secretary

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Date

State Compensation Insurance Fund  
Governance Committee – August 13, 2013  
Open Agenda Item 3a – Approval of May 8, 2013 Open Minutes  
(Copy of the Delegated Authority)