



Date: May 5, 2017

TO: MEMBERS, INVESTMENT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 3c – Consent Calendar: Annual Review and Approval of Investment Committee Charter
II. NAME AND PROGRAM:	Judith Sapper, Legal and Hilda Padua, Board Liaison
III. ACTIVITY:	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

Part of the Board process and agenda setting is to review the Committee Charters regularly for potential changes and review recommendations of the Governance Committee to be presented and approved at the May Governance Committee and Board Open meetings.

VI. ANALYSIS:

The staff reviewed the Committee Charters last year in accordance with the Governance Charter and best practices.

In 2016, the Audit, Governance, and Investment Committee Charters were revised 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 Board approved the revised Investment Committee Charter at the November 16, 2016 meeting.

The staff has reviewed the Investment Committee Charter for this year and has no changes to recommend.

VII. RECOMMENDATION:

To approve the Investment Committee Charter as presented.

VIII. APPENDIX: Copy of Investment Committee Charter



STATE COMPENSATION INSURANCE FUND INVESTMENT COMMITTEE CHARTER

Adopted July 14, 2011
1st Amended: Adopted May 22, 2014
2nd Amended: Adopted July 27, 2016
3rd Amended: Adopted November 18, 2016

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 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 advisors).

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

All Committee members must possess an understanding of the detailed responsibilities of the 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.

BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND

ADOPTION of AMENDED INVESTMENT COMMITTEE CHARTER

Certification by the Assistant Corporate Secretary

I, Hilda B. Padua, Assistant Corporate Secretary for the State Compensation Insurance Fund Board of Directors, hereby certify that the foregoing is a true and correct copy of the 3rd Amended Investment Committee Charter of the State Compensation Insurance Fund as adopted by the Board of Directors at their meeting held November 18, 2016.



Hilda B. Padua, Assistant Corporate Secretary



Date