

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

A. GENERAL INFORMATION

1. Date

2025-07-30

2. Department

State Compensation Insurance Fund

3. Organizational Placement (Division/Branch/Office Name)

Treasury & Investments/ Investment Program

4. CEA Position Title

Senior Vice President of Fixed Income Investments

5. Summary of proposed position description and how it relates to the program's mission or purpose.
(2-3 sentences)

State Fund's mission to be California's workers' compensation insurance carrier of choice. The Senior Vice President of Fixed Income is a senior leadership level position that oversees investment policies, research, implementation, risk analysis/monitoring, and performance reporting to meet State Fund's investment income target to meet our obligations to policyholders and injured workers. In addition, the manager will have full management responsibility developing policies/procedures for managing State Fund's \$19B core fixed income portfolio and ensure the department can carry out their mission: to be California's carrier of choice.

6. Reports to: (Class Title/Level)

Chief Investment Officer

7. Relationship with Department Director (*Select one*)

- ☐ Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- ☒ Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(*Explain*):

The SVP has full management responsibility over the core Fixed Income Investments division of the Investment Program and in developing investment strategies, policies, guidelines and procedures for managing State Fund's \$19B core fixed income portfolio. This includes providing leadership, setting strategy, and performance evaluation, selection of outside investment managers and consultants (which total approx. \$5M in expenses each year).

8. Organizational Level (*Select one*)

- ☐ 1st ☐ 2nd ☒ 3rd ☐ 4th ☐ 5th (mega departments only - 17,001+ allocated positions)

B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

The Senior Vice President of Fixed Income Investments (SVP) will be a member of the Senior Leadership Team and will develop and implement strategic investment strategies for the \$19Billion core Fixed Income Portfolio as well as analyzing, monitoring, and reporting investment risks and performance to the Board of Directors.

The \$19Billion core Fixed Income portfolio comprises treasury bonds, agency bonds, municipal bonds, mortgaged-backed securities, and corporate bonds as well as hybrid securities like preferred stocks. The SVP is responsible for overseeing daily trade settlement, reconciliation, risk monitoring, compliance/reporting; regularly works with outside investment managers to monitor financial markets, analyze and research trends to identify opportunities and potential changes that may impact the portfolio, review portfolio activities including credit upgrades and downgrades, review and approve when to buy or sell investments, review stress scenarios, and formulate risk management strategies. In this capacity, they provide sound financial expertise like generating investment ideas, implementing investment strategy, managing risks and make appropriate recommendations and makes clear and concise presentations to the Chief Investment Officer, Executive and/or the Board of Directors. The SVP also represents State Fund on the most sensitive and complex issues related to the investments and must maintain direct contact and provide oversight of Investments operations; and, works closely with the outside investment managers, custodians, investment accounting software provider, key internal stakeholders such as Financial Reporting and Financial Planning and Analysis staff to accurately report investment transactions and analyze actual investment performance results against planned. This senior leader will proactively identify new opportunities for process and system improvements and collaborate with each key stakeholder to identify and address areas of needed improvement in the development of program objectives, measurements and budgets that align with State Fund's strategic objectives and the corporate mission, values, policies, and procedures that will improve investment performance.

Responsibilities include:

Program Strategy and Portfolio Oversight:

- 1) Direct the day-to-day implementation of investment strategies and policies within State Fund's core fixed income to ensure investments earn the appropriate rate of return at strategically targeted risk levels.
- 2) Research, develop, and recommend strategic changes and improvements to the overall portfolio construction framework. Stay apprised of new developments in the global capital markets and economic environment.
- 3) Conduct accurate and timely implementation of multi-asset class or asset allocation investment decisions directed by the CIO.
- 4) Lead teams for evaluating separate accounts with investment managers of core fixed income investments and performing analyses to determine the appropriate sector allocations.
- 5) Oversee the monitoring of investments, including the performance of existing investments, attribution analysis, credit analysis and specific industry and geographic exposures. Ensure comprehensive analytical support for the Core Fixed Income Portfolios, in the form of accurate and timely monthly/quarterly/annual reports, compliance review, investment budget, ESG monitoring, Board of Directors' Agenda Items and other ad-hoc analyses.
- 6) Present the more complex analyses/reports at the Board of Directors meetings. Manage the external investment managers and maintain effective relationships with the custodian, State Treasurer's Office, and the investment accounting software provider. Manage outside investment managers and completion of activities based on contract agreement, approved timeline/budget. Report portfolio activity and performance to Treasury & Investment Committee. Prepare and compare the external investment managers' annual performance against benchmark.

Investment Operations, Accounting and Compliance:

- 1) Manage the Clearwater data to ensure State Fund receives accurate data in a timely manner. Ensure all non-compliance issues are investigated, documented, and resolved in a timely manner. Ensure that issues related to the Clearwater Analytics Investment Accounting software are resolved timely and accurately. Provide back-up coverage when the CIO is absent.
- 2) Oversee the trade settlement process to ensure timely and accurate support to the long-term investment function.
- 3) Complete portfolio compliance review using Clearwater Analytics. Monitor Investment Portfolios for compliance with Investment Policy Statement and Guidelines, Model Audit Rules, and NAIC instructions. Manage and plan for staff who handle highly complex investment accounting reporting, investment compliance review, and risk analytics in order to ensure due diligence in monitoring portfolio activities.
- 4) Direct and oversee data analysis and forecast of investment income and prepare budget report using Clearwater and Bloomberg Cash Flow tools.

Investment Research:

- 1) Direct a full range of advanced investment research, analysis, assessment, development or enhancement, and implementation of investment strategies for core fixed income assets.

B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- ☒ Program is directly related to department's primary mission and is critical to achieving the department's goals.
- ☐ Program is indirectly related to department's primary mission.
- ☐ Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description: The Senior Vice President of Fixed Income Investments (SVP) provides research, monitoring, compliance, oversight of operations, and implementation of the investment strategies for the core Fixed Income Portfolio. Generating adequate investment return/income is critical to the success of any insurance company. Insurers normally invest the premium received, less the expenses to run the business, in bonds and stocks. The income generated from such investments helps State Fund pay for workers compensation benefits, medical payments, and other underwriting expenses. State Fund will not be able to fulfill its mission and purpose without a strong investment portfolio.

The SVP is critical to State Fund's mission to provide adequate cash flow to meet its financial obligations to injured workers, vendors, and employees and remain financially sound to provide fairly priced workers' compensation insurance, help make California workplaces safe, and restore injured workers.

B. SUMMARY OF REQUEST (continued)

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

The passage of Senate Bill 1513 in 2016 expanded State Fund's investment authority to diversify its investments by investing in equities, asset-backed securities, and establishing a line of credit with the Federal Home Loan Bank of San Francisco. In 2018, State Fund received approval by CalPERS to use its Investment Officer classifications, to better support the job functions in the Investment Department. Since then, State Fund continued to work with the California Department of Insurance and the State Legislature to broaden its investment authority to be aligned with other insurers.

In 2020, State Fund incorporated Environmental, Social, and Governmental (ESG) in its Investment Objectives. They outlined Goals to guide its consideration of ESG-related matters in the investment process, including adding more Green Bonds and impact investments eligible for California Department of Insurance's COIN designation in the portfolio. As of 12/31/2022, portfolio held \$893M in Green Bonds and \$402M in COIN-designated impact investments. Over the years, State Fund gradually expanded the equity from dividend-oriented to growth strategy to improve yield and risk profile of the portfolio. This brought a total of three equity strategies in the equity portfolio.

In October 2021, AB 1511 was approved by the Governor of California. AB 1511 extends the investment authorization that the board of directors of the State Compensation Insurance Fund has to invest. State Fund may also make discretionary investments in properties and securities and invest in money market mutual funds until that same date. This new asset class will help improve yield and increase portfolio stability. Also, the change is a step towards enabling State Fund to invest in a similar manner to private insurance carriers.

As a result of these new objectives and portfolios, the staff have to deal with increased volume of trades and reports, more complex security research and analysis, and gain deeper understanding of the new asset classes, portfolio performance, and risk analytics. They also have to monitor more securities for policy compliance, maintain up to date information on market conditions, as well as learn new NAIC reporting requirements. Currently, State Fund's investment portfolio consists of approximately \$19Billion fixed income securities, \$900Million equity securities, and \$140Million discretionary/private market investments.

In our effort to find a classification that could effectively manage the goals and business objectives outlined above, State Fund identified the Associate Portfolio Manager classification as the best classification for this scope of policy influence and management. We reached out to CalPERS with our request but were denied. Pursuant to HC 20098 and 22212.5, the compensation set for this classification is set by CalSTRS/ CalPERS respectively (footnote 55) and it would not be appropriate for our agency to use a classification whose salary range is set by another department, in accordance with their salary compensation data and business functions.

Therefore, State Fund would like to establish a new CEA position for the Senior Vice President role to lead the Fixed Income division.

C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

The Senior Vice President of Fixed Income Investments (SVP) will research, develop, and recommend strategic changes and improvements to the overall portfolio construction framework, including updating the Investment Policy Statement Resolution and Investment Guidelines and Procedures. It is critical that this position recommend investment strategies with risk-adjusted returns that are most appropriate to State Fund and ensure the proper risk management/compliance is in place.

Several examples of setting policies that would have an identifiable impact:

The SVP will advise the Chief on adding a new investment strategy within State Fund's core fixed income portfolio to maximize current income and exceed investment benchmark over the long-term while preserving State Fund's principal and surplus. This position is responsible for setting investment strategies and policies that reflect the best opportunities in current market conditions. The return/income target and benchmark (used for performance comparison) are specified in advance and the investment results must be measured and reported.

The SVP will develop and implement new Environmental, Social, and Governance (ESG) investment policy that is aimed at delivering competitive, and sometimes even superior, financial performance compared to traditional investments. It is critical that this position effectively set investment strategies and identify the ESG values most important to State Fund's portfolio. This position will be responsible for setting ESG investment policy to manage risks and adapt to market changes, that potentially improve State Fund's long-term portfolio stability and align with the larger investment goals and strategies.

The SVP will develop and implement policies that address operational processes which direct its staff to investigate, document, and resolve all non-compliance issues with the Investment Policy Statement Resolution and Investment Guidelines and Procedures that are related to his/her assigned portfolio(s). Non-compliance issues (if not identified/mitigated) may lead to material errors that result in a significant financial impact on the financial statements. Maintaining solid financial statements is crucial for demonstrating State Fund's financial strength and for passing all regulatory metrics and independent examination of financial statements to ensure California businesses have access to workers comp insurance coverage at cost.

C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

State Fund is required to invest and reinvest the moneys of State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code. The opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board of Directors in advance of each separate transaction. Therefore, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities.

The Senior Vice President of Fixed Income Investments (SVP) will have sole responsibility to make decisions around setting investment policies, guidelines, and requirements for fixed income securities in our compliance system (software and workflow) to ensure all portfolio activity is closely monitored and any exceptions are identified, investigated, and resolved in a timely manner. The SVP needs to reject investment transactions in a timely manner if compliance requirements are not met. In 2023, the Investment staff reviewed and funded over \$2.5Billion of investment trades. The SVP is responsible for adapting and updating policy as necessary to successfully adhere to statutory requirements (state and federal) and accounting requirements and for working with auditors and regulators on all investment-related audits.

As a member of the Senior Leadership Team, the SVP will also be responsible for contributing to and carrying out the strategic risk assessment for Enterprise Risk Management- Asset Management Working Group, formulating and implementing policies and procedures that will impact other program stakeholders; has broad authority and management responsibility for achieving necessary synergies between business units and stakeholders, and will be the primary business owner overseeing the Clearwater Analytics vendor relationship to ensure all necessary accounting changes are updated and implemented.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

The Senior Vice President of Fixed Income Investments (SVP) will play a critical role in developing, implementing, and interpreting new and existing policies and procedures to ensure investment goals/objectives are achieved. The SVP will consult directly with the Chief Investment Officer and other Executives in the recommendation, development, and implementation of investment policies, standards, processes, and procedures as it relates to the \$19B Fixed Income portfolio. The incumbent will be the highest level Fixed Income portfolio expert and a key advisor at State Fund to the Executive Committee, the CEO/ President and State Fund's Board of Directors. The position has a direct impact on State Fund's financial position, including investment income/expenses, gain/loss, and surplus. The SVP has full authority and accountability for the Fixed Income Investment staff and future state of the Fixed Income portfolio and will work with internal and external auditors to demonstrate all internal controls over investments are in place and working effectively. Proposed legislative changes to current and new investment authority will be prepared by the SVP in this position in conjunction with the Government Affairs program and the Chief Investment Officer to ensure long-term investment objectives can be met to support State Fund's mission.