

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 Equity and Alternative 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 Equity and Alternative Investments is a senior leadership level position that oversees investment policies, research, implementation, risk analysis/monitoring, and performance reporting of the Equity and Alternative Investments portfolio to meet State Fund's investment income and return 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 \$1B Equity and Alternative Investments 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 Senior Vice President has full management responsibility over the Equity and Alternative Investments division and in developing investment strategies, policies, guidelines and procedures for managing State Fund's \$1B equity and alternative investments 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 (SVP) of Equity and Alternative Investments will assist in the management of State Fund's strategic and technical asset allocation, investment risk management, and portfolio construction for State Fund's portfolio with an emphasis on equity and alternative investments in accordance to the Investment Guidelines. The SVP will plan, supervise, and evaluate the work of subordinate staff, manage the day-to-day implementation of all equity and alternative investment program functions, and act as lead on large and/or complex projects or assignments.

1. Direct the day-to-day implementation of investment strategies and policies within State Fund's portfolio with an emphasis on equity and alternative investments to ensure investments earn the appropriate rate of return at strategically targeted risk levels. Research, develop, and recommend improvements to the overall portfolio construction framework. Stay apprised of new developments in the global capital markets and economic environment. Conduct accurate and timely implementation of multi-asset class or asset allocation investment decisions directed by the CIO. Lead teams for evaluating separate accounts with external investment managers and performing analyses to determine the appropriate sector allocations. Oversee the monitoring of equity and alternative investments, including the performance of existing investments, attribution analysis, credit analysis and specific industry and geographic exposures.
2. Consult on a full range of advanced investment research, analysis, assessment, development or enhancement, and implementation of investment strategies for all equities and alternative investments. Organize and oversee the analysis and construction of complex portfolios to achieve value-added exposures by utilizing various in-house or external models and tools. Work closely with internal and external partners in order to meet investment initiatives, deliverables, and milestones.
3. Manage the program's budget planning process and ensure accurate position control is maintained. Supervise the work-flow and processes in place that ensure that the program's organization and staffing are used to achieve program goals. Foster and ensure a work environment free of discrimination and harassment, according to State Fund's guidelines. Ensure that recruitment and selection are handled in a fair and impartial manner and promotes equal opportunity in hiring, according to State civil service and State Fund procedures and guidelines. Ensure that Duty Statements are regularly reviewed and are current and accurate. Promote State Fund's Strategic Goal of improving organizational performance. Oversee the development and execution of action plans to increase workforce engagement and implement/ manage Talent Management strategies. Ensure that labor relations issues are managed appropriately. Maintain personnel and workplace safety. Maintain the physical and financial assets of State Fund.
4. Maintain appropriate contacts with asset managers and professional peers in the investment and broker/dealer communities as a source of valuable investment information. Make significant contributions to team decisions regarding aggregate allocation decisions in the overall portfolio by being aware and informed of the market conditions and trends.

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 (SVP) of Equity and Alternative Investments provides policy, research, monitoring, compliance, oversight of operations, and implementation of the investment strategies for the Equity and Alternative Investments Portfolio, consisting of stocks, preferred stocks, real estate investment trusts, infrastructure, private credit, and private equity investments (about 6% of the portfolio or \$1Billion). The SVP will need to work closely with six external investment managers to plan and implement investment strategies, support trade settlement operations, and ensure appropriate processes, monitoring controls, systems, and risk management are in place to enable investment performance and assure effective operations; will use various investment platforms and outside research consultants to evaluate new investment strategies within private markets in order to optimize State Fund's investment returns. The income generated from such investments supports State Fund in meeting its statutory obligations in paying 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 investment return and 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 (CDI) and the 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. 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). 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, we would like to establish a new CEA position for the Senior Vice President role to lead the Equity and Alternative Investments 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 (SVP) of Equity and Alternative Investments 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 Investment Office on adding a new investment strategy within State Fund's Equity and Alternative Investments portfolio to maximize current income, investment return, 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. Equity and alternative investments help diversify the bonds portfolio and they can serve as an effective tool to help State Fund offset inflation over the longer-term (e.g. inflation of medical costs can be a significant component of workers comp expenses).

The SVP will develop and implement new Environmental, Social, and Governance (ESG) investment policies directly related to equity and alternative investments that is aimed at delivering competitive, and sometimes even superior, financial performance compared to traditional investments. ESG investments in alternative assets have been growing rapidly in the past decade. It is critical that this position effectively set investment strategies and identify the ESG metrics that can complement State Fund's existing ESG/green bond portfolio. This position will be responsible for setting ESG investment policy within equity and alternative investments 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 its direct 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 (SVP) of Equity and Alternative Investments will have sole responsibility to make decisions around setting investment policies, guidelines, and requirements for equity and alternative investments 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 must approve all sales that generate a loss greater than 2% of cost. The SVP also needs to review all non-compliance rules and verify if a waiver to hold the investments should be provided. Any investment transactions that violate our investment policy and procedures must be rejected in a timely manner. In addition, all alternative investments (e.g. capital calls to fund privately placed bonds and limited partnership purchases) are manually reviewed, approved, and wired/funded by the investment team. The SVP is responsible for developing 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 review and implementation of the strategic asset allocation studies, peer studies, and other risk studies to ensure all necessary risk management processes are implemented and monitored.

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

The Senior Vice President (SVP) of Equity and Alternative Investments 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 \$1B Equity and Alternative Investments portfolio. This SVP will be the highest level Equity and Alternative Investments 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. They have full authority and accountability for the Equity and Alternative Investments staff and future state of the Equity and Alternative Investments portfolio. The SVP 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.