

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

February 20 and 21, 2014

The Board of Directors of the State Compensation Insurance Fund met on February 20 and 21, 2014 at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA 94103.

February 20, 2014

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on February 20, 2014 at 2:05 p.m.

Mr. Mulryan requested Ms. Padua to call roll. The following were present: Lawrence E. Mulryan, Chair; Robin Baker; Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Sen. Michael J. Machado (Ret.); Jack Neureuter; Steven L. Rank; Thomas E. Rankin; Scott Reid; William M. Zachry and Christine Baker (non-voting member).

There was a quorum.

Also present: Interim President and CEO Carol R. Newman; Interim Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Randall Keen with Manatt, Phelps & Phillips, LLP.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Mulryan called attention to and requested confirmation that the Board members read State Fund's Antitrust Admonition, which is included in each Board member's meeting materials.

AGENDA ITEM 3: CONSENT CALENDAR

- 3a. Approval of January 17, 2014 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Recognition of Outgoing Board Member Francis E. Quinlan**
- 3d. 2014 Committee Assignments**
- 3e. Governance and Compliance**
- 3f. Approval of Retirement Resolutions**
- 3g. Approval of Investment Policy Statement and Guidelines**

Mr. Mulryan asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Rankin

Second: Mr. Kropke

To approve the Consent Calendar as presented.

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

YES: 11

NO: 0

Motion carried.

AGENDA ITEM 4: PERSONNEL MATTERS

Senior Vice President of Human Resources and Organizational Development Andreas Acker presented an update on personnel matters.

a. Workforce Update

State Fund permanent staffing levels continue to decline with just over 4,326 employees at the end of the year. The overall separation rate for State Fund rose from 6.9% to 8.1% due to a high number of expected retirements. Retirements continue to be the leading reason for separations, followed by transfers to other State agencies and resignations. Mr. Acker noted that non-permanent clerks were hired for the Claims Processing Center and in the Closed File Facility ending the year with 146 non-permanent employees. Seasonal Clerks will only be hired on rotating six month assignments and those numbers are beginning to drop.

Mr. Acker discussed the contributions of Workforce Solutions to the organization, particularly to Claims and the Customer Service Center, in the past year. Workforce Solutions allows employees to work on projects in a variety of topics as well as try something new. Within Workforce Solutions 43 employees were promoted and 9 transferred to other State agencies.

b. Employee Leave Balance and Usage

There was a 14% decline from the 2012 total number of hours over the 640 hour cap with the ending of the PLP 2012. This trend should continue through the end of the year, with both the number of employees and the numbers of hours ending below where State Fund stood at the end of 2012.

Mr. Acker discussed the benefits of allowing employees to cash out their accrued leave now as it would allow for better management of growth in leave categories and is more cost effective to do so in the present time. The goal is to have all employees that are over the 640 hour cap use all leave accruing in 2013, plus 10% of their accrued time over the 640 hours cap. Ethics and Labor Relations will continue to monitor and implement leave usage plans.

c. Veteran Hiring

State Fund continues to reach out to the veteran community to infuse additional leadership skills. To date, 7 veterans have started with State Fund, 3 into senior leadership and 4 into mid-level leadership roles. One additional offer is outstanding. Recruitment of new veterans is otherwise slowing and will only be done to fill a specific vacancy.

AGENDA ITEM 5: FINANCIAL UPDATE – YEAR END 2013

Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio reported strong year-end financial results for 2013.

Mr. Guastamachio highlighted that net income totaled \$279 million, which was \$3 million more than budget. Estimated annual premiums were 15 percent more than budget and 27 percent higher than in 2012. State Fund wrote 132,000 policies with net premiums earned of

\$1,094 million. The strong growth in premiums was due to the introduction of Tiered pricing in March 2013 combined with a hardening market. In addition, policyholder surplus grew by six percent to more than \$6.3 billion last year.

State Fund's loss and loss adjustment expense (LAE) ratio of 102% was 5 points higher than budgeted in 2012, reflecting greater focus on claims resources and strengthening of State Fund's LAE reserves. The underwriting expense ratio was 25.5% which was 11 points lower than budget and 15 points lower than in 2012, attributed to maintaining disciplined expense controls, improved operating efficiencies in underwriting systems and strong growth in premiums. State Fund's combined ratio of 127.5% was 6 points lower than budget and 10 points lower than the prior year.

AGENDA ITEM 6: LEGISLATIVE UPDATE

Sr. Vice President of Communications, Government Affairs and Marketing Jennifer Vargen noted that it was a quiet year in 2013 for worker's compensation issues. SB 626, a bill that had the potential to undo parts of the reform from 2012, was carried over from 2013 but is now a dead bill as it failed the January 17, 2014 deadline to pass from committee.

AGENDA ITEM 7: SB 863 – WCIRB PERSPECTIVE

Executive Vice President and Chief Operating Officer of the Workers' Compensation Insurance Rating Bureau (WCIRB) Dave Bellusci presented to the Board on the impacts of SB 863. Mr. Bellusci explained the SB 863 reforms and reforms of 2002-2004 were created to help control escalating California workers' compensation costs. The WCIRB estimated prior reforms savings statewide of \$14 Billion annually from evidence based utilization standards, employer control of medical within networks, limits on physical therapy and chiropractic visits, a 2-yr cap on temporary disability and apportionment of permanent disability benefits. The impacts of the reforms have eroded since 2005, with significantly rising costs and increasing premiums.

In summarizing the early data from SB 863 that the WCIRB has analyzed thus far, Mr. Bellusci concluded that it appears some aspects of the reforms are emerging as expected while others are less successful and may be a cause for concern. For example, there has been a large reduction in liens in the past year, but California also saw a spike in claims frequency in 2013.

Mr. Bellusci closed his presentation by explaining that while some early results from SB 863 are encouraging, it is still too early to determine the full impact SB 863 will have on California workers' compensation cost drivers.

AGENDA ITEM 8: INTERIM PRESIDENT'S REPORT

Acting President and CEO Carol Newman recapped the significant progress that was made in 2013; in particular, the success State Fund had in delivering fair pricing to California's workers' compensation market with tiered rating. In addition to launching tiered rating, Ms. Newman explained, State Fund also helped make doing business with State Fund easier for brokers with the introduction of PriceNow. The new online price indicator for brokers has provided increased access to State Fund's prices. These initiatives were delivered at a time when California employers needed fair prices as the workers' compensation market began to harden. As a result, State Fund's premium grew by 27 percent.

Ms. Newman noted that the primary focus in 2014 is to build a high performing organization in order to achieve State Fund's vision of being recognized as the industry leader and best

value in California. Ms. Newman also noted that 2014 marks State Fund's centennial and creates an amazing opportunity for employees to reconnect and reengage with State Fund's purpose and vision. Ms. Newman discussed the leadership challenges State Fund faces—due to a high number of managers being eligible for retirement—and efforts to prepare and develop staff for future opportunities.

Ms. Newman finished her report by noting that pricing and quote access initiatives will continue to expand, mainly through technology upgrades, so that State Fund can continue to deliver increased value to stakeholders. Afterwards, a video produced last year by State Fund about leadership was shown to the Board.

AGENDA ITEM 9: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

9a: GOVERNANCE COMMITTEE

9ai: RECOMMENDATION ON BOARD CONTINUING EDUCATION FOR APRIL 3-4, 2014

Mr. Mulryan called Learning and Development Program Manager Andrea Bailey to provide the options for the Board Continuing Education for April 3-4, 2014. Ms. Bailey reviewed the training requirements for the Board Governance Fellowship Credential continuing education opportunities with the National Association of Corporate Directors (NACD). In order to maintain the NACD Governance Fellowship, Board members need 4 hours of continuing education units. The following courses are the options offered during the Board Continuing Education in April 2014: "Today's Technology: Increased Risk for Boards and Leaders", "Role of the Board and Management in Risk Oversight", and "Onboarding a new CEO". Ms. Bailey noted that Board Members are able to choose specialized courses on an individual basis through NACD.

The Board decided on two courses "Today's Technology: Increased Risk for Boards and Leaders" and "Role of the Board and Management in Risk Oversight".

9b: AUDIT COMMITTEE

9bi. UPDATE ON COMPLETED CLOSED AUDITS

Ms. Chalupa reported on the following activities:

Completed Closed Audits - There were two completed closed audits. All the findings were correctible and there were no major findings in any of the two audits and no significant risks to State Fund.

Whistleblower Hotline – All reports made through the Ethics Hotline are investigated.

Mr. Acker introduced Patrick Gage, Program Manager of the Ethics & Labor Relations. During 4Q 2013 there were 60 reports from all sources (Ethics Hotline - 23; Management referral – 4; Privacy – 33)

Cyber Risk – Willis Senior Vice President of National Resource E&O and E-risk Chris Keegan provided Willis' outlook on managing cyber risks for financial institutions and other organizations. Mr. Keegan discussed legal and regulatory changes, risk exposure, and loss trends in the new privacy environment. Mr. Keegan also reported that the number of breaches has increased significantly from 83,870 in 2012 to 383,000 in 2013.

Mr. Mulryan requested public comment of which there was none.

9c: INVESTMENT COMMITTEE

9ci: BOND TRANSACTIONS AND COMPLIANCE REPORTS

Investment Chair Senator Machado (Ret) noted the Committee heard a report from Wellington Management on the Economic and Investment Outlook. State Fund had a strong year in the equity market. Overall, the equities continue to be attractively valued and dividend paying stocks represent an opportunity for investors in a slow growth economy.

The investment transactions and compliance reports for the period of October 1, 2013 to December 31, 2013 were approved by the Investment Committee pursuant to its delegated authority, which includes the purchase of 38 bonds totaling \$361.6 million and sale of 7 bonds for \$82 million. In the equity portfolio \$278.6 million were purchased and \$22.8 million were sold for rebalancing. The total net gain from the entire portfolio was \$27.5 million as of December 31, 2013. The aggregate book value of all the investments was \$18.4 billion. There were two bonds no longer in compliance with State Fund's Investment Policy.

AGENDA ITEM 10: CHAIRMAN'S REPORT

Mr. Mulryan confirmed that a nationwide search for a permanent president and CEO has begun and the Board has engaged a professional recruitment firm, Spencer Stuart, for assistance. Mr. Mulryan expressed confidence in the current leadership of Acting President and CEO Carol Newman, and stressed the importance in performing a thorough and complete search for a new president.

Mr. Mulryan also noted that the Board is very pleased with the progress State Fund has made in its business transformation over the past five years and is focused on finding a leader who will stay the course, has the ability to oversee a large-scale transformation and build a culture that can sustain State Fund's long-term vision.

Mr. Mulryan also announced an initiative scheduled to roll out later this year that will create a new Improvement Management Office (IMO) by the end of the first quarter. The office is designed to provide governance and structure to State Fund projects and ensure that those projects closely align to strategic goals and direction. The IMO will also provide oversight to continuous process improvement initiatives in all programs. More information about this new program will be sent to employees this week.

AGENDA ITEM 11: BOARD MEMBER REPORTS

Mr. Mulryan requested any Board Member reports of which there were none.

AGENDA ITEM 12: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 15-24.

Mr. Mulryan requested public comment on the appropriateness of closed session for items 15-24, of which there was none.

AGENDA ITEM 13: PUBLIC COMMENT

Mr. Mulryan requested further public comment.

SEIU Vice President for Bargaining Margarita Maldonado expressed concerns about outsourcing.

Ms. Maldonado opined that use of consultants overrides a desire to recruit the talent within the state of California needed to support State Fund's IT infrastructure. She cited salary structure and lack of monetary compensation as the biggest roadblocks to attracting the talent within state service. She expressed the hope that the Board would be able to work with the SEIU to foster the talent within State Fund and to establish fair compensation for employees in IT.

In response to the issues raised, Board Chair Larry Mulryan noted that the Board is very concerned about the welfare of all of State Fund employees and improving upon the relationship of management and all parts of the organization.

State Fund IT employee John Harrison expressed appreciation for an IT Apprenticeship Program that has been created and the opportunity to gain expertise from the outside consultants. He voiced his concern, however, that there is not sufficient knowledge transfer and consultants take lead positions on projects, depriving State Fund employees of the opportunity to do the work.

Board members welcomed the public comments and showed a desire to give consideration to continue to hear reports on these and other issues.

ADJOURNMENT

There being no further business, Mr. Mulryan adjourned the meeting at 3:45 p.m. to immediately reconvene in Closed Session.

February 21, 2014

The Board of Directors of State Compensation Insurance Fund continued their Open Session on February 21, 2014 at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA 94103.

AGENDA ITEM 25: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 11:20 a.m. following the conclusion of the Closed Session and the following Members were present: Lawrence E. Mulryan, Chair; Robin Baker; Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Sen. Michael J. Machado (Ret.); Jack Neureuter; Steven L. Rank; Thomas E. Rankin; Scott Reid; William M. Zachry; and Christine Baker (non-voting member).

There was a quorum.

Also present: Interim President and CEO Carol R. Newman; Interim Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Randall Keen with Manatt, Phelps & Phillips, LLP.

Mr. Mulryan called out item 16, "Governance Considerations Related to the Strategic Plan: Human Resources Strategic Planning" from the Closed session, related to the employment matters and State Fund's strategic plan. Mr. Mulryan noted that the Legislature authorized the Board to appoint a Chief Actuarial Officer. State Fund's Interim President and the Chief Risk Officer have recommended that the Board appoint Ms. Kate Smith, who is currently an actuary

at the Workers' Compensation Insurance Rating Bureau. Mr. Mulryan also noted that he has met Kate and was impressed with her qualifications.

Mr. Mulryan requested a motion to appoint Kate Smith as Chief Actuarial Officer effective March 17, 2014.

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To appoint Mary Kathryn Smith as Chief Actuarial Officer effective March 17, 2014 as presented on Resolution No. 2015 as attached hereto.

YES: 11

NO: 0

Motion carried.

AGENDA ITEM 26: PROPOSALS AND SUGGESTIONS FOR MAY 15-16, 2014 AGENDA

Mr. Mulryan requested additional items for the May 15-16, 2014 Board meeting of which there were none.

Mr. Mulryan requested public comment, of which there was none, and he noted that the next Board meeting is scheduled for May 15, 2014 at the State Fund Corporate Office, San Francisco, California unless noticed for a new date and time.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary

Resolution No. 2015

RESOLUTION of the BOARD of DIRECTORS of STATE COMPENSATION INSURANCE FUND APPOINTING the CHIEF ACTUARIAL OFFICER

WHEREAS, the State Compensation Insurance Fund requires the services of a Chief Actuarial Officer; and

WHEREAS, effective January 1, 2014, Insurance Code section 11785(a) authorizes the Board of Directors of State Compensation Insurance Fund to appoint and set the salary for certain additional exempt officer positions including a Chief Actuarial Officer; and

WHEREAS, the Board of Directors of the State Compensation Insurance Fund has delegated to the President of the State Compensation Insurance Fund, subject to conditions that the Board of Directors 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 the State Compensation Insurance Fund.

NOW, THEREFORE,

IT IS RESOLVED, that the Board of Directors hereby appoints Mary Kathryn Smith as Chief Actuarial Officer, effective as of March 17, 2014, at a base annual salary of \$220,000 and a potential at-risk compensation differential of up to 15% of annual salary, subject to approval by the Board, and based on the Chief Actuarial Officer's achievement of specifically defined metrics and performance goals; and

IT IS FURTHER RESOLVED, that the President of State Fund is hereby granted the authority to enter into an employment agreement with the Chief Actuarial Officer and any amendments that may be necessary from time to time except that any change in compensation must be presented to the Board of Directors for approval; and

IT IS FURTHER RESOLVED, that the Board of Directors hereby ratifies and approves all actions taken by the President of the State Compensation Insurance Fund as were necessary to appoint the Chief Actuarial Officer of the State Compensation Insurance Fund.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 21st day of February, 2014 by the following vote:

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

April 3-4, 2014

The Board of Directors of the State Compensation Insurance Fund met on April 3 and 4, 2014, at Hilton Gaslamp Quarter, San Diego, California.

April 3, 2014

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on April 3, 2014 at 1:05 p.m. and the following were present: Sheryl A. Chalupa, Chair; Robin Baker; Daniel M. Curtin (joined at item 2) Marvin Kropke; Sen. Michael J. Machado (Ret.); Lawrence Mulryan; Jack Neureuter; Thomas E. Rankin; Scott K. Reid; and William M. Zachry.

Absent by prior arrangement: Steve Rank and Christine Baker.

There was a quorum.

Also present: Acting President and CEO Carol Newman; Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Chief Risk Officer Ken Van Laar; Chief Information Officer Marjorie Hutchings; Chief of Internal Affairs Dante Robinson; Sr. Vice President and Chief Administrative Officer Andreas Acker; Board Liaison and Interim Corporate Secretary Hilda Padua; and Randall Keen of Manatt, Phelps & Phillips, LLP.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Chalupa called attention to and requested confirmation that the Board members read State Fund's Antitrust Admonition, which is included in each Board member's meeting materials.

AGENDA ITEM 3: INTRODUCTIONS: SETTING EXPECTATIONS

Setting the Table: The Board of Directors, Authority and Obligations

Ms. Chalupa introduced Mr. Randall Keen of Manatt, Phelps and Philips. Mr. Keen regularly advises private sector and government clients on California's Political Reform Act, conflicts of interest, ethics, lobbying, California's open meeting laws (the Brown Act and the Bagley-Keene Act), the Public Records Act, and corporate governance matters. Mr. Keen presented a session on "Setting the Table: The Board of Directors, Authority and Obligations". This session covered State Fund's unique, quasi-private status; Board appointments; and the Board's authority, duties and obligations.

Introductions: Setting Expectations

Ms. Chalupa introduced National Association of Corporate Directors (NACD) presenters who will be facilitating the Board of Directors Continuing Education. Mr. John Hotta is a private investor, board director and retired technology executive. Mr Hotta's professional experience includes over 20 years in technology with key leadership roles at Microsoft and Accenture. He advises public and private company boards on technology including cyber security, privacy, big data, and social media.

Mr. Mike Tankersley is currently Senior Counsel with the Dallas office of Bracewell & Giuliani LLP. Mr. Tankersley advises the boards and management of public and private companies, financial institutions and not-for-profit organizations regarding corporate governance, securities disclosure, crisis response and special committee matters, including fraud investigations, conflict of interest transactions and response to derivative suits. He was the first Inspector General of the Export-Import Bank of the United States. He is the co-author of the NACD Director's Handbook titled "Board Leadership for the Company in Crisis – A Boardroom Perspective."

Mr. Dennis McCuiston is a long-time member of the NACD and holds the Governance Fellow designation. Mr. McCuiston owns a financial consulting firm, is a former bank CEO and has served on over a dozen private, public and not-for-profit boards. He has served on the faculties of several graduate schools of management for financial related firms. He has authored three books on the financial services industry. He regularly facilitates all types of panel discussions and board and corporate planning retreats. Finally, as the host of an award-winning television program on PBS he has interviewed and facilitated thousands of important dialogues about political, economic, business and social issues of the day.

Mr. McCuiston asked for and noted the Board members' expectations for the Board Education.

Mr. Tankersley presented a session titled *Fiduciary Duties of Corporate Boards*. This session covered the Board's fiduciary duties of loyalty, care, candor and confidentiality, with a particular emphasis on conflicts of interest and California statutory provisions applicable to actions of the Board. Examples were provided of situations in which a director might be at risk of breaching his or her duties or losing statutory protections.

AGENDA ITEMS 4 & 7: THE ROLE OF STATE FUND'S BOARD AND MANAGEMENT IN RISK OVERSIGHT

Mr. Hotta, Mr. McCuiston, and Mr. Tankersley presented a session titled *The Role of the Board and Management/Board Dynamics*, noting the "tone at the top", and what makes a "Highly Effective Board". There was a discussion on purpose and culture, advice and debate and an emphasis on respect. The role of the chair was described as being a "conductor". This presentation covered the essential roles of the Board, Board dynamics, the relationship of Board to management, and the responsibilities of individual directors. Finally, the Board's oversight responsibilities as well as how the current environment impacts directors and management responsibilities were addressed and discussed.

Mr. Hotta, Mr. McCuiston, and Mr. Tankersley presented a session titled *Creating & Sustaining Board Value: Corporate Strategy and Risk Oversight*, addressing what directors must understand in order to engage in strategic issues, provide risk oversight, and enhance decision-making. The session then examined the Board's role in corporate strategy: how

and when to engage, the planning process, and monitoring the company's strategy. Part of the discussion centered on getting a consensus as to growth vs. profit, defining a strategic issue, and handling the strategy differently in each committee. Finally, the group discussed the Board's responsibilities for risk oversight as an element of corporate strategy. This section was carried over into the morning of the second day of training.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7, 9 AND 10

There was no public present. Ms. Chalupa requested public comment on the appropriateness of closed session for items 7, 9 and 10 of which there was none.

AGENDA ITEM 6: PUBLIC COMMENT

Ms. Chalupa requested for any public comment of which there was none.

Ms. Chalupa adjourned the meeting at 11:05 a.m. to immediately reconvene in Closed Session.

AGENDA ITEM 11: CALL TO ORDER AND ROLL CALL

The Board reconvened into open session. The following members were present: Sheryl A. Chalupa, Chair; Robin Baker; Daniel M. Curtin Marvin Kropke; Sen. Michael J. Machado (Ret.); Lawrence Mulryan; Jack Neureuter; Thomas E. Rankin; and Scott K. Reid.

AGENDA ITEM 12: SUMMARY OF DIRECTOR EDUCATION

This item was held.

There being no further business, Ms. Chalupa adjourned the meeting.

Respectfully submitted,

Hilda Padua
Board Liaison and Interim Corporate Secretary