

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

NOVEMBER 17, 2011

The Governance Committee met on November 17, 2011 at 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 10:00 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; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

AGENDA ITEM 2: APPROVAL OF SEPTEMBER 14, 2011 OPEN MEETING MINUTES

MOTION: Ms. Chalupa

Second: Senator Machado

To approve the minutes of the September 14, 2011 Open Meeting of the Governance Committee 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 3: BOARD MEMBER EDUCATION AND TRAVEL REIMBURSEMENT POLICY

Vera De Martini, Assistant Corporate Secretary, presented proposed revisions to the Board Member Education and Travel Expense Reimbursement Policy clarifying that the cap on authorized training is based on a calendar year, may be exceeded with prior approval of the Board of Directors, and does not apply to training provided by either the National Association of Corporate Directors (“NACD”) or State Fund. Other clarifying changes include that the Board authorizes approved training and a list of authorized training opportunities will be given to Board members every six months; attendance by more than a majority of Board or Committee members at educational or social events where State Fund business is not discussed does not constitute a Bagley-Keene (“Open Meeting”) Act violation; and the Travel Expense Reimbursement Policy may be amended by the Board from time to time. There was a further recommendation to

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Open Agenda Item 2 - Approval of November 17, 2011 Open Meeting Minutes**

amend Exhibit A to recognize a Board member's discretion regarding reasonable expenses for food and beverages while on State Fund business and delete the reference to alcoholic beverages.

MOTION: Mr. Curtain Second: Ms. Chalupa

To recommend the Board of Directors approve the amended and revised Board Member Education and Travel Expense Reimbursement Policy, with the additional amendment as presented and is attached hereto and incorporated herein by reference.

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: UPDATE ON DIRECTORS TRAINING

Andreas Acker, SVP of Human Resources, reviewed Insurance Code Section 11770(e), the statute mandating Board of Director subject matter training and requiring that it be provided by persons or entities not affiliated with State Fund, although training by State Fund on topics required to be completed by all State Fund employees, such as preventing sexual harassment in the workplace, annual fraud prevention and ethics training is permitted. Mr. Acker requested members to forward information on completed training so that State Fund will be have a complete and accurate record of Board training. He also noted that Learning and Development is collaborating with the National Association of Corporate Directors ("NACD") to develop customized training for members to be offered at the March 29-30, 2012 meeting. It was recommended that management work with a few Board members on the training agenda and logistics. Mr. Mulryan and Senator Machado, who recently attended an NACD conference found it very valuable regarding issues facing all Board members particularly in the area of enterprise risk management.

AGENDA ITEM 5: GOVERNANCE UPDATE

Barbara Simmons, Program Manager of Governance, Compliance and Privacy provided an overview of the May 2011 re-launch of the Privacy Office whose goal is to protect State Fund's own and others' private and confidential information. The Privacy Office is charged with identifying, evaluating, reporting, and mitigating privacy issues and is aligned with the goal of strong corporate governance and its framework

In November 2011 the Chief Information Technology Officer issued a message to all State Fund personnel regarding controls (i.e. filters to capture email leakage) to eliminate email transmission of proprietary or confidential information outside of State Fund. The Privacy Office developed an Information Disclosure Notice that will be sent annually to policyholders and inserted into all new business packages. State Fund joined the Copyright Clearinghouse to both help State Fund register its own copyright for its insurance policy template, the Code of Conduct and safety materials, among others, and in order to get permission to use materials belonging to other members

In December 2011 the Privacy Office will release its intellectual property policies and procedures and in Q1 2012 the office will provide training on privacy and copyright issues.

There was a discussion about monitoring online postings, blogs or other social media discussions either about or emanating from State Fund which is handled by the Communications department with a focus on web searches bringing information to State Fund. Ms. Simmons also reported that revisions of Corporate Policies, in order to reduce the portfolio and make the policies more understandable, remain on track.

AGENDA ITEM 6: OVERVIEW OF DILIGENT BOARDBOOKS

Shaun Coyne, Chief Information Technology Officer, introduced Diligent Boardbooks, the cloud based, secure, SAS 70 auditable, solution being considered to improve State Fund's efficiency and ease in producing, transmitting and accessing Board of Director materials. Michael Thompson, a Diligent Boardbooks representative, presented an overview of the easy to use "looks like a book and works like a book" system which can be viewed securely on most mobile devices with key word search capabilities, document archive resources, easy navigation, bookmarking and annotation tools, and has user security and data encryption. There was discussion regarding staffing, production efficiencies and cost saving to be realized if Diligent Boardbooks is implemented. Ms. Newman noted that State Fund's goal is to go live using the tool for production of the February 16-17, 2012 meetings, with user training prior to that date. Contract negotiations are ongoing but the estimated cost is expected to be less than \$50,000 implementation fee based on licensing seats and initial training to include all directors, executives, legal counsel and administrative staff supporting the Board,. There will be a smaller annual fee for software maintenance, diagnostics and support.

AGENDA ITEM 7: APPROVAL OF 2012 BOARD SCHEDULE AND LOCATION

Ms. Padua reviewed the proposed Board & Committee Meeting Schedule and Location for 2012, noting the reduction in the number of meetings from six (6) to four (4) quarterly meetings, with two (2) meetings scheduled for training and strategic planning in March and October respectively. The 2012 proposed dates are February 16-17; March 29-30, May 17-18; August 16-17; October 3-5; and November 15-16.

MOTION: Ms. Chalupa

Second: Senator Machado

To recommend the Board of Directors approve the Board & Committee Meeting Schedule and Location for 2012 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 8: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Ms. Padua reported that there were no reported upcoming speeches or articles.

AGENDA ITEM 9: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 12-16.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 12-16, of which there was none.

AGENDA ITEM 10: PUBLIC COMMENT

Mr. Mulryan requested further public comment of which there was none. The Governance Committee immediately convened into Closed Session at 10:40 a.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:00 p.m. following the conclusion of the Closed Session 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 Chief Executive Officer Tom E. Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; and Assistant Corporate Secretary Hilda B. Padua.

Mr. Mulryan reported that the Governance Committee wanted to take action on a matter in the Open Meeting regarding Chief Operating Officer Tom Clark's 2011 performance and associated performance compensation. Based on his performance, Mr. Mulryan asked for a motion to recommend to the Board of Directors approval of Mr. Clark's performance compensation.

MOTION: Senator Machado

Second: Ms. Chalupa

In recognition of Tom Clark, Chief Operating Officer's performance in 2011, the Governance Committee recommend to the Board implementing the 2nd Year performance pay structure with the base annual salary of \$180,000, a recruitment and retention differential decrease to \$27,000 (15% of base) effective December 1, 2011 and annual incentive performance award target to remain at 15% of the base salary up to \$27,000, and further; the 2012 annual incentive performance award shall be subject to approval by the Board and based on the Chief Operating Officer's achievement of specifically defined metrics and performance goals.

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

YES: 5

NO: 0

Motion carried

**AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 16, 2012
AGENDA**

Mr. Mulryan requested suggestions for agenda items for the February 16, 2012 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 February 16, 2012 at 10:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 12:10 p.m.

Respectfully submitted,

Vera C. De Martini,
Asst. Corporate Secretary