

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

AUGUST 16, 2012

The Governance Committee met on August 16, 2012 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 8:35 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; 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: ANTITRUST ADMONITION

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

AGENDA ITEM 3: APPROVAL OF MAY 17, 2012 OPEN MEETING MINUTES

MOTION: Ms. Chalupa

Second: Mr. Machado

To approve the minutes of the May 17, 2012 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 4: GOVERNANCE AND COMPLIANCE UPDATE; CODE OF CONDUCT/SUPPORTING POLICIES

Barbara J. Simmons, Program Manager of Governance, Compliance and Privacy reviewed the Compliance Framework.

Ms. Simmons reported that State Fund's 2012 Code of Conduct was published to the organization on July 23, 2012. The Annual training and certification period concludes

August 31, 2012. The 2012 Code of Conduct and key supporting Corporate Policies are available to employees internally and to the public on State Fund's website. Effective September 3, 2012, Navex Global will be State Fund's Ethics and Privacy Hotline provider. Ms. Simmons reported that there were 133 incident reports through July 2012, of which 11% were submitted through the hotline. All reports were investigated and findings were reported to the Audit Committee.

Ms. Simmons further also reported that required notification about the California State Auditor's Whistleblower hotline was sent to employees in July. The Whistleblower hotline may be used to report suspected fraud, waste or abuse. The State Auditor's 2012 posters about the hotline and the California Whistleblower Protection Act are displayed in locations throughout State Fund where other employee notices are posted.

In the areas of Privacy Inventory, Ms. Simmons reported that an inventory of private information collected, used, and maintained by State Fund in all formats was conducted by the Privacy Office as one of its 2012 initiatives. The inventory will be conducted annually. Privacy messaging to the organization is ongoing to improve privacy awareness and private information protection.

Lastly, Ms. Simmons reported that review of corporate policy library was conducted and learned that the term "corporate" has been widely used at State Fund for at least three decades and does not detract from State Fund's status as a public enterprise fund. At the May meeting, there was a motion to change the title of State Compensation Insurance Fund's internal policies from "Corporate" to "Enterprise". After further review, the Committee recommended that the Board repeal the action taken at the May Board meeting resulting in retaining the use of term "corporate" for cross functional organizational reference, policies and guidelines.

Ms. Mulryan called for a Motion.

MOTION: Mr. Rankin

SECOND: Mr. Curtin

To recommend to the Board of Directors to repeal the action taken at the May Board meeting resulting in retaining the use of the term "corporate" for cross functional organizational reference, policies and guidelines.

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

YES: 5

NO: 0

Motion carried

AGENDA ITEM 5: REVIEW OF STATE FUND BY-LAWS AND COMMITTEE CHARTER

Mr. Mulryan called on Ms. Vera De Martini to present the Review of State Fund's By-Laws and the Governance Committee Charter.

Ms. De Martini reported that the By-Laws were last reviewed in September 2011. Ms. De Martini reported that the proposed change to the By-Laws was to delete and replace

any reference to the officer title “Chief Information Technology Officer,” referenced in the enabling statutes Insurance Code sections 11785 and 11785.5, with the preferred “Chief Information Officer” working title. There were no changes to the duties, responsibilities and authority of the officers, which remains as prescribed by the President from time to time, or the power of the Board to designate additional officers as the affairs of State Fund may so require.

The Governance Charter was last reviewed in May 2011, and Committee discussion regarding the Charter was deferred from the May 12, 2012 meeting. Recommended changes to the Governance Committee Charter included: formatting and structural alignment to enhance consistency with the Audit and Investment Committee Charters and improve readability; describing the Delegated Authority and Approval Levels to the Governance Committee as approved by the Board of Directors on May 12, 2011 to 1) oversee and assist HR operations regarding personnel compliance, performance and compensation; 2) review and approve President’s proposals for setting compensation for exempt appointments; 3) approve procurement contracts with an aggregate value in excess of \$25 million; as well as adding a concluding section entitled “Powers” broadly describing the general powers of the Governance Committee, including the power to meet separately with employees outside of the presence of management to facilitate communication in fulfilling its oversight responsibilities.

Following discussion by the members, the Committee proposed further amendments: 1) changing any reference from “Chief Information Technology Officer” to “Chief Information Officer” consistent with the amendment to the By-Laws; 2) to be consistent with the amended Audit Charter, i) adding to the enumerated “Powers” to give the Committee authority to initiate, direct and conduct investigations using outside experts of any kind at the direct cost of the State Fund and ii) adding a new paragraph stating “In discharging its oversight role, the Governance 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 advisers;” and 3) retaining the term “Corporate” for cross functional reference, policies and guidelines.

Ms. Mulryan called for a Motion.

MOTION: Mr. Curtin

SECOND: Mr. Rankin

To recommend to the Board of Directors to approve the proposed changes to the By-Laws and the Governance Charter, as further amended and attached hereto with the further amendments highlighted.

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

YES: 5

NO: 0

Motion carried

AGENDA ITEM 6: REVIEW OF BOARD DELEGATED AUTHORITY AND APPROVAL LEVELS

Mr. Mulryan called on Ms. Vera De Martini to present the Review of Board Delegated Authority and Approval Levels.

Ms. De Martini reported that the Board of Directors delegated certain authority and approvals levels to the President pursuant to Resolution Number 886 approved by the Board on November 13, 2009, and on May 12, 2011 further delegated authority and approvals levels to each of the Committees consistent with California law and their Charters and subject matter expertise in order to streamline and facilitate the Board approval process. There were no recommended changes to the existing Board Delegated Authority and Approval Levels.

AGENDA ITEM 7: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Mr. Mulryan called on Ms. Padua to report on Board member upcoming speeches or articles.

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

AGENDA ITEM 8: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 11-19.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 11-19, of which there was none.

AGENDA ITEM 9: PUBLIC COMMENT

Mr. Mulryan requested further public comment of which there was none. The Governance Committee immediately convened into Closed Session at 8:55 a.m.

AGENDA ITEM 20: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:00 noon and the following Members were present: Mr. Mulryan (Chair); Sheryl A. Chalupa; Daniel M. Curtin (joined at 12:05 pm); 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; 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 21: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 15, 2012
AGENDA

Mr. Mulryan requested suggestions for agenda items for the November 15, 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 November 15, 2012 in San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 12:10 p.m. and reconvened to Closed Session.

Respectfully submitted,

Hilda B. Padua,
Board Liaison and Asst. Corporate Secretary



Summary of Proposed Changes to
State Compensation Insurance Fund
Governance Committee Charter

(Amended August 16,, 2012)
Board of Directors (Adopted August 16, 2012)
Governance Committee (Adopted August 16, 2012)

The following summarizes the proposed revisions to the Amended State Compensation Insurance Fund (“State Fund”) Governance Committee Charter, to be adopted by State Fund’s Board of Directors as the Amended Governance Committee Charter. Section and paragraph references are to the numbered paragraphs in the Governance Committee Charter.

Paragraph Number

Summary of Proposed Changes

General Comments

Revisions to the Governance Charter include non substantive and formatting changes to align it with the presentation of the Audit and Investment Committee Charters and enhance its, as well the substantive changes outlined below to reconcile the delegation of authority by the State Compensation Insurance Board of Directors to the Governance Committee to take specific action as described in the revisions.

Throughout the document, where appropriate, the word “corporate,” which was removed pursuant to the Committee’s May 16, 2012 motion, has been reinserted as a result of the Committee’s repeal of the motion.

Under Mission/Purpose

The revision streamlines the title to “Purpose,” and simplifies the text by creating a list of the general governance policies and practices shaped, overseen and supported by the Committee.

Under Committee Duties and Responsibilities, Section 1.f. Oversight

The revision adds item 1.f., “Oversee and assist Human Resource Operations regarding personnel compliance, performance and compensation issues to support State Fund’s strategic objectives,” pursuant to the delegation of authority to the Governance Committee approved by the State Fund Board of Directors.

Under Committee Duties and Responsibilities, Section 1.g. Oversight

The revision adds item 1.g., “In discharging its oversight role, the Governance 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 advisers).”

**Under Committee Duties
and Responsibilities,
Section 2. d. Recommend**

The revision deletes item 2.d., “Recommend appropriate changes to corporate governance documents such as the State Fund By-Laws, Code of Conduct, and as requested, the Charters of the other committees,” and replaces it with a new Section 3.b. set out below.

**Under Committee Duties
and Responsibilities,
Section 3.a. Approve**

The revision adds a new section, Section 3.a., reflecting the Committee’s delegated authority to “Review and approve, with any revisions deemed appropriate by the Committee, the proposals of the President of State Fund for the appointment and setting of salaries of State Fund’s exempt appointments, including but not limited to Chief Financial Officer, Chief Operating Officer, Chief Information Officer, Chief Investment Officer, Chief Risk Officer, General Counsel.”

**Under Committee Duties
and Responsibilities,
Section 3.b. Approve**

The revision incorporates the old Section 2.d. and clarifies the types of governance documents subject to Committee review and approval. “Review and approve appropriate changes to governance documents such as By-Laws, Code of Conduct, Code of Ethics, Conflict of Interest Code, Enterprise Risk Management Plan, and other compliance policies, and as requested, the other committees’ charters.”

**Under Committee Duties
and Responsibilities,
Section 3.c. Approve**

The revision incorporates the delegation of authority to the Governance Committee to “Approve procurement contracts with an aggregate value in excess of \$25 million.”

Under Powers

The revision adds a concluding section entitled “Powers” clarifying that the Governance Committee shall have the power:

- a. To obtain advice and assistance from internal or external legal, accounting or other advisors and to have direct access to advisors without the presence of any officer of State Fund and to initiate, direct and conduct investigations using outside experts of any kind at the direct cost of the State Fund.
- b. To interview and meet with any employee of State Fund without the presence of any officer of State Fund.
- c. To form and delegate authority to subcommittees.
- d. 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.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee’s purposes and responsibilities under this Charter.
- f. To perform such other functions as assigned by State Fund’s Charter, By-Laws, or the Board.



**STATE COMPENSATION INSURANCE FUND
Corporate Governance Committee Charter
(Amended August 16, 2012)
(Adopted August 16, 2012)**

Purpose

The purpose of the Governance Committee of the Board of Directors of the State Compensation Insurance Fund (the "State Fund") is to assist the Board of Directors (the "Board") in shaping State Fund's **corporate** governance policies and practices by:

1. Overseeing that State Fund operates in a legal, ethical, and socially responsible manner;
2. Overseeing Enterprise Risk Management ("ERM") issues which may have a material impact on State Fund;
3. Advising and updating the Board on corporate governance trends and issues within the industry;
4. Recommending to the Board, a State Fund Governance Guide (the "Governance Guide") which, along with State Fund's By-Laws (the "By-Laws"), State Fund's Code of Conduct (the "Code of Conduct"), State Fund **Corporate** Policies (the "**Corporate** Policies"), the charters of the various Board committees, Insurance Code Section 11770 et seq., as amended pursuant to AB 1874, and Government Code Sections 6251 et seq. (Public Records Act) and 11120 et seq. (Bagley-Keene Open Meeting Act), provide the framework for the governance of State Fund; and
5. Monitoring and evaluating State Fund's compliance with applicable policies and guidelines.

Organization

The 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 and shall include a Chair of the Committee who shall serve until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-Laws.

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 By-Laws. The

Governance Committee will hold separate closed sessions when necessary to further the purpose of duties 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 Committee's request. The Committee will regularly report on its actions to the full Board at the scheduled meeting.

a. The Committee may, at its discretion, invite members of management and/or other Directors to attend the Committee's meetings where necessary to further the business of the Committee. Notwithstanding the foregoing, the total number of members of the Board (including Committee members) attending the Committee's meeting at any one time shall not equal or exceed a majority of the number of members of the Board.

b. Unless the Committee determines otherwise, the Committee shall hold a closed session at each regularly scheduled meeting. Closed sessions of the Committee may be held at any meeting pursuant to the provisions of Bagley-Keene and California Government Code section 11120 et seq., as may be amended. During a portion of this closed session, the President or the General Counsel, or both, will be present.

c. 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.

d. Minutes shall be prepared at each meeting and filed with the minutes of State Fund's Board.

e. The Governance Committee Chairperson or the Chairperson's designee shall give a full report of the Committee's actions at the earliest scheduled Board meeting.

Committee Duties and Responsibilities

In discharging its duties and responsibilities to shape **corporate** governance policies and practices, the Committee shall:

1. Oversight

a. Oversee that State Fund operates in a legal, ethical, and socially responsible manner and that all directors, officers, and employees support State Fund's Code of Conduct which is designed to promote (1) honest and ethical conduct; (2) full, fair, accurate, timely, and understandable disclosures in the periodic reports required to be filed by State Fund; and (3) compliance with applicable laws, rules, and regulations.

b. Oversee the orientation and continuing education of the members of the Board. In this regard, the Committee shall, from time to time, recommend educational programs for the full Board, any Committee or any individual Director as the Committee may determine is necessary or appropriate.

c. Assist in developing criteria for the assessment of the performance of the Board and management and take the lead in overseeing the evaluation of the Board and State Fund's management on no less than an annual basis.

- d. Oversee the Enterprise Portfolio Management Office's ("EPMO") material projects recommended by State Fund's management which relate to **corporate** governance.
- e. Work with State Fund's Chief Risk Officer and Risk Committee in overseeing the identification, assessment, and where appropriate, the development of mitigation plans for risks within State Fund.
- f. Oversee and assist Human Resource Operations regarding personnel compliance, performance and compensation issues to support State Fund's strategic objectives.
- g. In discharging its oversight role, the Governance 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 advisers).

2. Recommend

- a. Recommend to the Board, director nominees for appointment to the Committee or any sub-committee in compliance with the procedures outlined in State Fund's By-Laws.
- b. Recommend the establishment, charter, and membership of the various committees of the Board.
- c. Recommend **corporate** governance guidelines for State Fund.
- d. Review the qualifications of members suggested to be Chairperson and Directors of the Board, and make recommendations to the appointing authority concerning these members.
- e. Recommend changes to the charters of other State Fund Board committees.
- f. On an ad hoc basis, and upon the request of the Board, review specific operational segments of State Fund that may pose unusual, significant risks that could have a material impact on the risk profile of State Fund and make recommendations to the Board to address any such risks.

3. Approve

- a. Review, and approve, with any revisions deemed appropriate by the Committee, the proposals of the President of State Fund for the appointment and setting of salaries of State Fund's exempt appointments, including but not limited to Chief Financial Officer, Chief Operating Officer, **Chief Information Officer**, Chief Investment Officer, Chief Risk Officer, General Counsel.

b. Review and approve appropriate changes to **corporate** governance documents such as By-Laws, Code of Conduct, Code of Ethics, Conflict of Interest Code, Enterprise Risk Management Plan, and other compliance policies, and as requested, the other committees' charters.

c. Approve procurement contracts with an aggregate value in excess of \$25 million.

4. Advise

a. Advise the Board on matters related to governance as deemed appropriate by the Board.

b. Advise the Board on corporate governance trends, issues and changing business, legislative, regulatory, legal or other conditions within the industry that may affect State Fund's **corporate** governance.

c. Advise the Board with respect to Board procedures including the frequency and structure of the Board meetings.

d. Advise the Board on qualifications for leadership positions within State Fund.

e. Advise and assist the Board in its responsibilities relating to succession planning, particularly with respect to the President and Chief Operating Officer and other identified executive positions.

5. Evaluate

a. Conduct a self-evaluation, on an annual basis, of the performance of the Committee and deliver to the Board a written report setting forth the results of its evaluation which shall be discussed with the full Board and acted upon as appropriate.

b. Evaluate, at least annually, the overall performance of the Board as a whole and in consultation with all Board members, conduct an assessment of individual Board members.

c. Evaluate on an annual basis whether the committees of the Board are functioning effectively and within the guidelines as set forth in their respective charters.

d. Evaluate, at least annually, the quality, sufficiency and currency of information furnished by management to the Directors in connection with Board and committee meetings and other activities of the Directors.

Powers

The Governance Committee shall have the following powers:

a. To obtain advice and assistance from internal or external legal, accounting or other advisors and to have direct access to advisors without the presence of any officer of State Fund **and to initiate, direct and conduct investigations using outside experts of any kind at the direct cost of the State Fund.**

- b. To interview and meet with any employee of State Fund without the presence of any officer of State Fund.
- c. To form and delegate authority to subcommittees.
- d. 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.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes and responsibilities under this Charter.
- f. To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.