

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

SEPTEMBER 14, 2011

The Governance Committee met on September 14, 2011 at the Napa Valley Marriott Hotel & Spa, 3425 Solano Avenue, Napa Valley, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 2:00 p.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 Executive Operations Manager Hilda B. Padua.

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

MOTION: Ms. Chalupa

Second: Mr. Mulryan

To approve the minutes of the July 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: UPDATE ON DIRECTORS TRAINING

Ms. Valerie Lampson, Learning and Development Manager, reported on the advantages of the National Association of Corporate Directors (NACD) membership. NACD is a nationally recognized organization, dedicated to serving the corporate governance needs of directors of public, private, and non-profit organizations and to achieving improved corporate performance through better board practices. Membership in NACD will give Board members access to a variety of governance best practice tools, continuing education opportunities and online research resources addressing a broad spectrum of leadership and governance issues. Mr. Mulryan, Senator Machado and Mr. Quinlan currently have individual memberships. Ms. Lampson recommended expanded board membership as it will provide enhanced training opportunities for all Board members, greater research and resource capability and also grant membership benefits to non-director key staff including State Fund's President, Chief Financial Officer, General Counsel and Executive Operations Manager at the cost of \$8,900 annually,

which represents an enhanced per capita service value at a reduced per capita cost than individual memberships. The Committee members concurred in the recommendation.

MOTION: Senator Machado Second: Ms. Chalupa

To approve the purchase of membership in the National Association of Corporate Directors (NACD) for all the members of the Board of Directors of State Compensation Insurance Fund which includes NACD membership for the President and CEO; Chief Financial Officer; General Counsel and Corporate Secretary; Board Liaison.

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 COMPLIANCE UPDATE

Ms. Simmons provided an update on Governance Compliance and the rollout of State Fund's new Code of Conduct computer based training at 100% compliance. State Fund's Compliance program, modeled after U.S. Federal Guidelines, promotes honest and ethical conduct; prevents and detects illegal conduct; and is intended to weave governance compliance into the fabric of State Fund. The elements of the Compliance framework, including oversight, accountability and resources; written standards, policies and procedures; training, communication and awareness; monitoring, evaluation and reporting; enforcement, discipline and incentives; care in delegating authority; and risk assessment, response, continuous improvement and auditing, are all aligned with supportive governance initiatives imbedded in State Fund's operations.

AGENDA ITEM 5: AMENDMENT TO STATE FUND BYLAWS

The Board requested a review of the By-Laws to accommodate more flexibility in the required meetings. Ms. De Martini reported on the proposed revised By-Laws reflecting the recommended change in the number of Board and Committee meetings from six regular meetings to at least four quarterly meetings, which will align meetings with the production of quarterly financial reports. In addition, the proposed By-Laws include clarifying revisions to streamline and refine the By-Laws to more closely reflect the enabling statutes; clarity on Acting Chair in the Chair's absence; simplifying committee structure and membership, including a provision for resignation and removal of committee members; designating State Fund's officers and governance regarding those officers. There was a request to further revise the provision regarding removal of officers to clarify the distinction between the Board's and the President's removal authority.

MOTION: Ms. Chalupa Second: Senator Machado

To recommend the Board of Directors adopt the Second Amended and Restated By-Laws as further revised.

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: PERFORMANCE BASED RETENTION TOOL

Mr. Mulryan reported that contract negotiations with the vendor selected to advise on the design and implementation of a performance based incentive plan retention tool for the CEA Exempt Positions to replace the current annual bonus program were concluded, and that State Fund was moving forward with the initiative.

AGENDA ITEM 7: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Mr. Mulryan asked Board members to identify any upcoming speeches and articles. Ms. Padua reported that Mr. William Zachry, who was unable to attend the meeting, had advised that he was scheduled to give presentations on Functional Restoration as the keynote speaker at the National Federation of Retailers in October; at the National Disability Conference in Las Vegas; and the International Association of Industrial Accident Boards and Commissions (IAIABC), where he would also participate as a panelist regarding emerging issues.

AGENDA ITEM 8: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 11-12.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 11-12, 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 2:40 p.m.

AGENDA ITEM 13: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 3:30 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.

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 Executive Operations Manager Hilda B. Padua.

There was a quorum.

AGENDA ITEM 14: PLANNING FOR 2012 BOARD SCHEDULE AND LOCATION

Ms. Newman presented the proposed 2012 Board Schedule and Location reflecting the Committee's recommended reduction in Board and Committee meetings from six regular meetings every other month (January, March, May, July, September and November) to at least four quarterly meetings (February, May, August and November), and including two special meeting placeholders (in March or April and in September or October) to permit flexibility for Strategic Planning meetings or other Board business, as required. Discussion ensued regarding the importance and benefit of real time reporting of financial results as permitted by quarterly meetings and the ability of the Board to expand the meeting schedule as work needs dictated, or to target additional meetings

for Board training or strategic planning. Ms. Chalupa recommended that meeting placeholders be specified for the March/April meeting for Board governance training customized for State Fund, perhaps using the National Association of Corporate Directors (NACD) as a training resource, and targeting the September/October meeting for strategic planning.

AGENDA ITEM 15: PROPOSALS AND SUGGESTION FOR NOVEMBER 17, 2011 AGENDA

Mr. Mulryan requested proposals and suggestions for the November 2011 agenda. It was suggested that at the next meeting the Governance Committee and Board 2012 Agendas, with recommended revisions, be submitted for approval.

Mr. Mulryan also requested public comment of which there was none, and he noted that the next Governance Committee meeting is scheduled for November 17, 2011 at 8:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 3:40 p.m.

Respectfully submitted,

Vera C. De Martini,
Asst. Corporate Secretary