



Agenda Item 8

October 15, 2014

ITEM NAME: Revisions to the Board Governance Policy and Chief Executive Officer Delegation

PROGRAM: Governance

ITEM TYPE: Action

RECOMMENDATION

Approve revisions to the Board Governance Policy and the Board's delegation to the Chief Executive Officer to reflect the Board's decision that the Chief Investment Officer will report to the Chief Executive Officer rather than to the Board.

The Board will have only one direct report, the Chief Executive Officer.

EXECUTIVE SUMMARY

At its September 2014 meeting, the CalPERS Board approved a revision to the executive management reporting structure. Under the revised reporting structure, the Chief Investment Officer reports to the Chief Executive Officer; the Board and the Chief Executive Officer share responsibility for hiring, evaluating, and if necessary, firing the Chief Investment Officer; and the Chief Investment Officer will have periodic meetings with the Board without other staff present. This agenda item recommends revisions to the Board's Governance Policy and the Board's delegation to the Chief Executive Officer to reflect this new reporting structure.

STRATEGIC PLAN

This item supports CalPERS' Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization.

BACKGROUND

The CalPERS Board Governance Study issued by Funston Advisory Services LLC in September 2011 recommended reducing the number of executives who report directly to the Board. In response to this recommendation, the Board reduced its direct reports from four to two: the Chief Executive Officer and the Chief Investment Officer.

At its September 2014 meeting, the Board approved a further revision to the executive management reporting structure. Under the revision, the Chief Investment Officer reports to the Chief Executive Officer; the Board and the Chief Executive Officer share responsibility for hiring, evaluating, and if necessary, firing the Chief

Investment Officer; and the Chief Investment Officer will have periodic meetings with the Board without other staff present.

ANALYSIS

This agenda item recommends revisions to the Board Governance Policy and the Board's delegation to the Chief Executive Officer to reflect the change in reporting structure that was recently approved by the Board.

Staff recommends revisions to Section IX of the Board Governance Policy, "Delegations to Executives and Board Reporting Relationships," to reflect the following:

- The Board will have a single direct report, the Chief Executive Officer;
- The Board and the Chief Executive Officer share responsibility for hiring, evaluating and, if necessary, terminating the Chief Investment Officer; and
- The Chief Investment Officer will meet periodically with the Board in closed session without other staff present.

The proposed revisions to the Board Governance Policy are set forth in underline/strikeout format in Attachment 1.

Staff also recommends revisions to the Board's delegation to the Chief Executive Officer to:

- Reflect that the Board and the Chief Executive Officer share responsibility for hiring, evaluating and terminating the Chief Investment Officer;
- Reflect that the Board and the Chief Executive Officer share responsibility for setting the compensation structure and approving the annual incentive plan for the Chief Investment Officer; and
- Delete (because it is no longer necessary) the section of the delegation requiring the Chief Executive Officer to delegate certain authority to the Chief Investment Officer.

The proposed revisions to the Board Governance Policy are set forth in underline/strikeout format in Attachment 2.

BUDGET AND FISCAL IMPACTS

Not applicable.

BENEFITS/RISKS

The benefit of this recommendation is that the Board Governance Policy and the Board's delegation to the Chief Executive Officer will reflect the Board's decision at its September 2014 meeting and will clarify the role of CalPERS executive management.

The risk of not adopting this recommendation is that the Board Governance Policy and the Board's delegation to the Chief Executive Officer will not reflect the Board's decision at its September 2014 meeting and the roles of the CalPERS executive management will not be clearly set forth in policy and delegation.

ATTACHMENTS

Attachment 1 – Proposed Revisions to Board Governance Policy

Attachment 2 – Proposed Revisions to Board Delegation to the Chief Executive Officer

MATTHEW G. JACOBS
General Counsel

ANNE STAUSBOLL
Chief Executive Officer