

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
BOARD GOVERNANCE COMMITTEE

ROOM 1140
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

THURSDAY, SEPTEMBER 17, 2015

11:00 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Bill Slaton, Chairperson
Mr. Richard Costigan, Vice Chairperson
Mr. Michael Bilbrey
Mr. Rob Feckner
Ms. Dana Hollinger
Mr. Henry Jones
Mr. Ron Lind

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Grant Boyken
Mr. Richard Gillihan, represented by Ms. Katie Hagen
Ms. Priya Mathur
Ms. Theresa Taylor
Ms. Betty Yee, also represented by Mr. Alan Lofaso

STAFF:

Ms. Anne Stausboll, Chief Executive Officer
Mr. Douglas Hoffner, Deputy Executive Officer
Ms. Donna Lum, Deputy Executive Officer
Mr. Doug McKeever, Deputy Executive Officer
Mr. Brad Pacheco, Interim Deputy Executive Officer
Ms. Cheryl Eason, Chief Financial Officer
Mr. Ted Eliopoulos, Chief Investment Officer

A P P E A R A N C E S C O N T I N U E D

STAFF:

Mr. Matt Jacobs, General Counsel

Mr. Alan Milligan, Chief Actuary

Ms. Barbara Cody, Committee Secretary

Ms. Kim Tarabetz

ALSO PRESENT:

Mr. Eric Douglas, Leading Resources, Inc.

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P R O C E E D I N G S

1
2 CHAIRPERSON SLATON: Good afternoon. I'll call
3 to order the Governance Committee of September 17th.
4 Please call the role.

5 COMMITTEE SECRETARY CODY: Bill Slaton?

6 CHAIRPERSON SLATON: Here.

7 COMMITTEE SECRETARY CODY: Richard Costigan?

8 VICE CHAIRPERSON COSTIGAN: Here.

9 COMMITTEE SECRETARY CODY: Michael Bilbrey?

10 Rob Feckner

11 COMMITTEE MEMBER FECKNER: Good morning.

12 COMMITTEE SECRETARY CODY: Dana Hollinger?

13 COMMITTEE MEMBER HOLLINGER: Here.

14 COMMITTEE SECRETARY CODY: Henry Jones?

15 COMMITTEE MEMBER JONES: Here.

16 COMMITTEE SECRETARY CODY: Ron Lind?

17 COMMITTEE MEMBER LIND: Here.

18 CHAIRPERSON SLATON: Okay. Next, Matt Jacobs,
19 Executive Report.

20 GENERAL COUNSEL JACOBS: My executive report is
21 very short. I think it's been all captured in the agenda,
22 so I will leave it at that.

23 CHAIRPERSON SLATON: All right. All right.
24 Thank you very much.

25 Next, we have the action consent, approval of the

1 June 16th minutes. Do I hear a motion?

2 COMMITTEE MEMBER JONES: Move it.

3 COMMITTEE MEMBER LIND: Move to approve.

4 CHAIRPERSON SLATON: Moved from Jones, second
5 from Lind.

6 All those in favor say aye?

7 (Ayes.)

8 CHAIRPERSON SLATON: Opposed?

9 Motion carries.

10 The information consent is the calendar. I'm
11 pulling that item, because we're going to about that when
12 we have the facilitated discussion in just a few moments.

13 So next, we'll move to Item 5. From the -- I
14 just have a couple of comments. From the powers delegated
15 to this Committee that are in our current policy, number
16 one, is conduct and oversee periodic Board self-assessment
17 of effectiveness, policies governing Board conduct, and
18 utilization of Board resources, time, and processes. So
19 this is the work that we will continue today.

20 Our facilitating consultant, Eric Douglas, has
21 been busy over the summer talking with each of you on this
22 topic. I want to thank the staff and Board members for
23 sharing your thoughts with our consultant. You'll hear
24 the result of this today, and we will continue to take up
25 important topics to improve our governance of CalPERS.

1 Again, we're meeting in this room to facilitate a robust
2 conversation. And we have the executive team seated with
3 us, so we can share thoughts and ideas.

4 And by the way I want to -- I'd hoped the room
5 would be organized the way it was last time with this --
6 these tables down at the other end, so it would be facing
7 the audience. So I apologize, but there was a prior
8 meeting, so we had to leave it set up like this.

9 If in the agenda, by the way, if we get to travel
10 policy today, that will be a discussion only among Board
11 members. So I just want to add that little parenthetical
12 note. With that, I turn it over to Eric Douglas.

13 MR. DOUGLAS: Thank you, Bill. Good morning,
14 everybody. It's nice to be back. It seems like it's been
15 forever since we've been together, at least I've been with
16 you. So I'm happy to be back with you.

17 (Thereupon an overhead presentation was
18 presented as follows.)

19 MR. DOUGLAS: Today, these are the four items
20 that I'm hoping we can cover today. First, just, as Bill
21 alluded to, I did have the opportunity to talk to each of
22 the Board members, and each member of the executive team.
23 And I want to share with you the findings from those
24 interviews.

25 If you recall at our last meeting, that was kind

1 of the major to do item. And I was to come back with
2 findings, as well as a proposed sort of action plan or
3 workplan. And so that will be the second thing we'll
4 discuss today.

5 And then, depending upon time, I want to dig into
6 one or two governance policies. I think you had a chance
7 to preview what those might be, unity of control and the
8 travel policy.

9 But let me now just kind of go into quickly the
10 ground rules. These are ground rules that we have had in
11 place before. I just wanted to sort of remind you of this
12 idea that silence means consent. Occasionally, I'll be
13 asking you for whether we have consent on an item. And my
14 hope is that if we say silence means consent, that that
15 means that it's on you to speak up and say, no, I don't
16 agree with what you're saying or how you're summarizing
17 the issue.

18 Parking lot issues from last time. So if you
19 remember, one of the agreements we had is that we'll make
20 sure there is a ongoing list of issues you want to talk
21 about. So these were the things from last -- actually two
22 meetings ago to -- and so these stay here. I think that
23 clarifying the process of selecting consultants and to
24 whom they report, I think we kind of checked the box on
25 that one, if I'm correct.

1 CHIEF EXECUTIVE OFFICER STAUSBOLL: I think so.
2 The consensus that we think was reached last time is
3 reflected in the minutes.

4 MR. DOUGLAS: Okay. So -- and then streamlining
5 meetings is the last thing here on this parking lot
6 issues.

7 Grant.

8 ACTING BOARD MEMBER BOYKEN: Is this an
9 appropriate time to add parking lot issues?

10 MR. DOUGLAS: If I could, let me go through my
11 findings, Grant, and make sure that perhaps what you have
12 to say is going to be reflected in those findings. And
13 then I'm going to open it up for dialogue at that point.
14 I think that would be a good chance.

15 So consultant findings.

16 --o0o--

17 MR. DOUGLAS: So I did have the chance to talk to
18 everybody. The questions that were asked were from a
19 governance perspective. Again, what's working well, what
20 could be working more effectively, and then what specific
21 products. If you recall, there's been quite a call for
22 kind of what exactly are we trying to get done in this
23 Committee. And so I was trying to really zero in on,
24 well, what are the products -- the work items from this
25 committee.

1 So those were the questions I was asking. Before
2 I get into the key themes about what to improve, let me
3 just say that from a positive standpoint, from a positive
4 perspective, many people said that the Board is well
5 engaged; for the most part Board relationships are
6 collegial, and respectful; that the Board believes the CEO
7 and the executive team to be working effectively. There
8 were positive findings that I do not reflect in these
9 themes just because I wanted to make sure that really
10 today's work focused on the themes of governance
11 improvement. So -- and here are those findings.

12 --o0o--

13 MR. DOUGLAS: Rough in order of, if you will, the
14 numbers of times that I heard people mention them, they
15 are listed here. So the first one is this idea of
16 discussing how the Board acts collectively in directing
17 the organization. So in the world of governance, this is
18 sometimes referred to as the unity of command or the unity
19 of control policy or principle.

20 This is something that's on our agenda to talk
21 about later on today. But this is the notion that people
22 are confused in what way we give direction to the staff,
23 and how do we work together as a Board to give direction
24 to staff. So this is a theme that I heard multiple times
25 from Board members. I also heard from executive team

1 members the theme of it sometimes feels like we're working
2 for 13 bosses. We're not sure exactly how to take
3 direction, because we're not always clear exactly what it
4 is that the Board is expecting of us.

5 So the next thing I heard in terms of frequency
6 was this notion of the travel policy and understanding
7 kind of both how are travel policy decisions made, is that
8 process well understood, is there a way for us to change
9 how those decisions are made, and is there a budget that
10 we should have more visibility around with regard to the
11 travel policy?

12 The third theme was to define the job of Board
13 members and the job of the Board. Here, I think the major
14 kind of points people were making were that we -- we don't
15 really know what our job is as a Board. We're not sure
16 that we all are in agreement around that. Sometimes
17 there's a difference between what we're doing as a Board
18 and what we're doing as Board members, and we're not sure
19 that we fully understand that distinction.

20 And so this got reflected in numerous ways by
21 both the Board members as well as the executive team,
22 again, wanting to have clarity around how do we, as a
23 executive team, understand how to distinguish between
24 taking direction from the Board versus hearing comments
25 and suggestions from Board members.

1 The fourth item, the fourth thing I heard, the
2 fourth theme I heard was around the role of the President,
3 trying to understand and clarify the role of the
4 President. What exactly is his or her job in the Board?
5 This is not a direct -- this is not about the current
6 President. This was about the role of the President.
7 This is how I was trying to ask the question is, is the
8 role of the President, you know, described in the way you
9 would want to describe it?

10 So I think that came in parallel with also some
11 discussion about the role of committee chairs, making sure
12 that committee chairs understand what their job is in
13 terms of gathering the consensus of their committees and
14 then giving clear instruction to staff as to the decision
15 of committees.

16 So the 5th one was to clarify acceptable Board
17 member behavior and the enforcement process around that,
18 to try to be more clear on kind of what exactly are we
19 setting as the set of expectations for Board members, and
20 then how -- again, how -- how do we, as a board, try to
21 police that?

22 The 6th theme was to evaluate the frequency
23 duration of meetings. Many people said that we are facing
24 kind of an information overload. We'd love to be able to
25 have more strategic conversations in our meetings.

1 Perhaps, it's important for us to look at having fewer
2 meetings in the calendar year, and perhaps meetings of
3 slightly less duration. So again, this is an issue that
4 came up multiple times, both from Board members, as well
5 as from the executive team.

6 Evaluating the advantages and disadvantages of
7 having committees of the whole. Many people, I think,
8 look at the way in which the existing committee structure
9 works, and want to just go back and look at the way in
10 which the Investment Committee versus the other committees
11 functions, and just make sure that there is a clear
12 understanding of the rationale behind the decision to have
13 a committee of the whole versus not having a committee of
14 the whole.

15 And then lastly, an overall sort of desire to
16 look at all the Board's policies and kind of tick through
17 them one by one, and understand are those still the
18 policies that we want to have in place or is there some
19 desire to change those policies?

20 And with that, I would say some understanding of
21 kind of what's the process -- the ongoing regular process
22 for us to review and look at our Board policies? If, in
23 fact, our Board policies are the way in which we give
24 direction to staff, then shouldn't we be doing a more
25 regular job of looking at them and figuring out if that's

1 what, in fact, we want to be saying.

2 So those are the eight key themes that I've
3 identified from the sort of frequency of response I got in
4 my interviews with both Board members and executive team
5 members.

6 --o0o--

7 MR. DOUGLAS: A few other topics that were also
8 mentioned less frequently: To review and look at the
9 process for deciding how Board members are appointed to
10 represent CalPERS on outside boards; and, then also to
11 review and look at the process for new Board member
12 orientation and to understand how we might make that a
13 more effective process.

14 --o0o--

15 MR. DOUGLAS: So you asked also for kind of
16 specific products. And so my recommendation would be that
17 we try to tackle these issues. That each of these is
18 important governance issues, and that we could try to do
19 them basically roughly in the order that they're outlined
20 in these key themes. We could dive into one issue in each
21 meeting and carry forward the work from previous meetings
22 and try to formulate and develop and refine and ultimately
23 adopt new policy language for the Board. And that as we
24 finalize the refinements of policies, adopt them, and
25 forward them to the Board for final approval.

1 In your agenda packets, and I think there's also
2 perhaps a handout, but in your agenda packets is a
3 proposed workplan that spells this out.

4 So let me just look at this real quickly with
5 you.

6 Thank you, Kim.

7 And so does everybody have access to or see this
8 in your Board handouts.

9 CHIEF EXECUTIVE OFFICER STAUSBOLL: Page 7 of 32.

10 MR. DOUGLAS: Page 7 of 32. Thank you.

11 So as you'll see, this workplan has been
12 developed using those key issues to -- again, you can see
13 September, October, November all the way through April of
14 next year, ticking through each of these issues on a
15 monthly basis to try to reach resolution on what the Board
16 wants to do.

17 So I think part of today's discussion should be
18 about do you like this proposed approach? Do you want to
19 adopt this workplan and move forward with a monthly
20 calendar of meetings to try to tackle these governance
21 issues?

22 So let me pause there and just -- these are the
23 questions I would ask you to comment on. Are these -- are
24 you hearing yourself in the findings that I provided, are
25 these the topics that want to work on? If not, what did I

1 miss or skip? And importantly, are you supportive of this
2 workplan? Is this a workplan that you want to adopt and
3 go forward with?

4 And so I would invite first Board members to
5 comment on this and invite a show of hands just to see who
6 wants to kick it off.

7 Henry.

8 COMMITTEE MEMBER JONES: Yeah. Looking at the
9 calendar, and every month all the way through the
10 following April, I would like to see this consolidated in
11 fewer meetings to get to the same point, and to suggest a
12 way perhaps to do that, because you've got two off-sites
13 and every month it seems like it's repeating some of the
14 same stuff. And so, to me, this could be pared down
15 significantly, in terms of how often we meet.

16 MR. DOUGLAS: So if I can just respond to that
17 sort of the fact that you see the same thing in successive
18 months. You know, it's my experience that we'll take a
19 whack at an initial draft policy. It will need to go back
20 for some refinement and then come forward again the second
21 time for further refinement and finalization.

22 And so this -- this is just trying to reflect
23 that kind of staged nature of the way in which we will
24 have to develop these policies. I appreciate your point
25 about wanting to do this as quickly and as -- as possible,

1 but it's just -- my experience is that we're going to have
2 to have at least a couple of whacks at these policies in
3 order to be able to go forward.

4 Other thoughts or reflections on what Henry had
5 to say?

6 Priya.

7 BOARD MEMBER MATHUR: Well, one thought is that
8 it seems to me that this unity of control issue that we're
9 discussing today and Board member behavior are somewhat
10 intricate -- are some what linked, and so having them
11 separated out on the calendar, to me, doesn't make logical
12 sense. I think -- I think they should be taken up
13 together.

14 MR. DOUGLAS: Okay. Good feedback.

15 Other thoughts?

16 Yeah, Grant.

17 ACTING BOARD MEMBER BOYKEN: And I don't know if
18 others will agree, but in terms of reviewing all policies
19 and procedures, I think at least when I initially heard
20 about this effort we were doing, I thought we would take
21 up -- identify some issues that are important to us,
22 tackle those and then rewrite the language in the policy
23 that relate to those specific issues. So I guess, you
24 know, if we're looking at paring down, I can see not
25 necessarily taking a look at the entire policy.

1 MR. DOUGLAS: Um-hmm. Other thoughts, Board
2 members?

3 Yes, Katie.

4 ACTING BOARD MEMBER HAGEN: I was just curious on
5 December, what update on education program attendance
6 refers to?

7 MR. DOUGLAS: Update on attendance -- on
8 education attendance -- program attendance, I think that's
9 a question to Anne.

10 CHAIRPERSON SLATON: Yeah, Anne can.

11 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah. Sure.
12 This is something that Bill Slaton and I had talked about.
13 There's a new statute in effect that mandates a certain
14 amount of Board education every two years. And so the
15 thought was that at the end of the first year, we'd update
16 the Board on how that was going, how many hours people had
17 accumulated, and how the Board wanted to move forward with
18 it.

19 ACTING BOARD MEMBER HAGEN: Okay. Thank you.
20 It's not a subject that we're diving into for this
21 discussion then?

22 CHIEF EXECUTIVE OFFICER STAUSBOLL: It's a
23 separate topic. It's like a compliance report really.

24 ACTING BOARD MEMBER HAGEN: Thank you.

25 CHAIRPERSON SLATON: Ron.

1 COMMITTEE MEMBER LIND: In support of what Henry
2 brought up, I think some of these topics are going to go
3 much more quickly than, you know, the big ones like the
4 one we have today, and Board member behavior, and all of
5 that. So I would think maybe we could be flexible on this
6 calendar as we go forward and maybe sort of reassess where
7 we are in December, and then determine if we have to meet
8 every month for the next four months.

9 CHAIRPERSON SLATON: Mike, I see your hand up.

10 COMMITTEE MEMBER BILBREY: Yeah, I agree with
11 Ron. I mean, I think the way it was set up is the way
12 this process works and lends itself depending on how much
13 the discussion is and how in-depth the discussion goes, it
14 may push off some of the topics to the next month. If it
15 goes shorter, then obviously we'll deal with more issues
16 in a timely manner. So I think it's probably, you know,
17 at least something -- a framework to start with. And then
18 as we go, flexibility, of course, is always key.

19 MR. DOUGLAS: Um-hmm. Good. So yeah, Alan.

20 ACTING BOARD MEMBER LOFASO: A two-part question
21 about -- a little bit about the parking lot, but mainly
22 the issue about culture of trust. Sort of how does that
23 get into the workplan, but -- or is really the answer, and
24 it's partly related to this, sort of, strategic focus, is
25 that just an overriding issue that's supposed to feed into

1 all of these subcomponents here, or I -- maybe I'm
2 answering my own question.

3 MR. DOUGLAS: Well, maybe you are. If you want
4 me to take a crack at trying to answer it, I'm happy to.

5 ACTING BOARD MEMBER LOFASO: Please.

6 MR. DOUGLAS: So from my perspective having done
7 lots of governance projects for lots of public agencies,
8 the thing that's not in place at PERS that is in place in
9 many other public agencies is a clear set of written
10 expectations from the Board to management about what they
11 want to see. What you the Board want to see.

12 And so what's left to have happen is the staff is
13 continually having to struggle to figure out how do we
14 respond to the verbal requests, the thinking that we hear
15 in committee, the questions we get. And so it's that lack
16 of written down, clear expectations in the form of policy
17 from the Board that gives rise to that.

18 So having gone through many arks of building
19 trust within public agencies and specifically elected
20 boards, I just have seen this many, many times. And so
21 while we say we have policies here at PERS, what we lack
22 are some critical policies around specifically laying out
23 the expectations to the staff and the Board about what
24 results are we trying to achieve? How often are we going
25 to report those results? What metrics are we going to use

1 to report those results?

2 And so I think underlying all this is just a --
3 the opportunity to provide a deeper, richer level of
4 written communication from the Board to the staff about
5 expectations.

6 ACTING BOARD MEMBER LOFASO: So culture of trust
7 is a high level goal, not -- it's not really on the
8 parking lot. It's really hanging over the whole thing.

9 MR. DOUGLAS: To me, trust is the absolute
10 linchpin of all this. So, in that sense, that's the goal.

11 ACTING BOARD MEMBER LOFASO: I just wanted to
12 clarify that.

13 Thank you.

14 MR. DOUGLAS: Dana.

15 COMMITTEE MEMBER HOLLINGER: Yeah. I'd like to
16 support Grant and Henry's comments that I guess what I'd
17 like to -- and just to take up a few issues, let's
18 collectively agree on what those are, and then we can
19 reevaluate.

20 And so committing to this monthly schedule to me
21 seems at least initially daunting, in light of everything
22 else. So that's what I'd like to see happen.

23 MR. DOUGLAS: And Dana, while you're speaking, is
24 there a set of -- do you agree with the priority of issues
25 to tackle here or is there a different priority of issues

1 that you would want to suggest?

2 COMMITTEE MEMBER HOLLINGER: Okay. So is --

3 MR. DOUGLAS: And the priority is basically kind
4 of as you look down the month-to-month, right, the Board
5 acting as a collective body, travel policy, job of Board
6 and Board members, et cetera. That would be roughly the
7 sequence that's proposed in this workplan for us to tackle
8 these policies.

9 COMMITTEE MEMBER HOLLINGER: Yeah. I think it's
10 just -- you know, I guess, you know, kind of the lawyer in
11 me thinking of closing argument to a jury. You know, just
12 focus initially on 3 things. And so maybe let's do that,
13 and -- yeah, Board acting as collective -- that sounds
14 fine to -- I don't have a problem with that. That would
15 be fine.

16 And just -- and I'm not sure that it will take
17 that long or -- I'm just -- you know, I think we have to
18 see how this plays out and then reevaluate it.

19 CHAIRPERSON SLATON: Yeah, I hear a theme of
20 flexibility and kind of starting down this road and seeing
21 how it goes.

22 Priya, did I see something, a head nod around
23 that or was that just a. --

24 BOARD MEMBER MATHUR: Yeah, I agree with that
25 generally. I made my earlier comment about the order of

1 the issues. I think personally I'd like us to address the
2 most pressing issues first, and then decide where we go
3 from there. So that's -- so the order doesn't make sense
4 to me, right now, the way it's structured.

5 MR. DOUGLAS: Right. So other Board members that
6 have not spoken and have views on this?

7 CHAIRPERSON SLATON: I would just -- and we tried
8 to make this kind of an aspirational calendar, and that's
9 why pulled it from the consent and wanted to talk about it
10 to get everybody's feelings about it.

11 But Priya, I would ask you, when you -- your view
12 of the most pressing. So I'd like to understand your
13 priority that you would see, if you'd share that with us.

14 BOARD MEMBER MATHUR: Sure. Happy to do that. I
15 do think this unity of control issue is a central issue.
16 I think board member behavior is a central issue that's
17 clearly facing us right now.

18 I know this issue around chair and rotation I
19 think is a reasonable issue for us to take up. So I guess
20 those are three of the issues I would maybe address first.
21 Some of the others seem just to me just seem less -- just
22 to me see less -- less important, not unimportant, but
23 just less important. Maybe the role of the duties --
24 maybe the sort of rotation is incorporated into the role
25 and duties of the Board President and Committee chairs,

1 but -- yeah.

2 MR. DOUGLAS: Richard.

3 VICE CHAIRPERSON COSTIGAN: So just a little
4 response. I know how much time Bill and Eric have been
5 spending on this. And kind of when you look at the
6 calendar, while I do think it's a little long, it's a
7 different issue, because everybody knows I have ADD and
8 want to move very quickly.

9 (Laughter.)

10 VICE CHAIRPERSON COSTIGAN: But here is the way I
11 look at this is it builds on it. I think we're starting
12 with very broad issues with -- when you look at the
13 collective body of the Board, until we decide what we do
14 collectively, it's hard to make a determination as to what
15 the President and Vice President should do, and then what
16 the Committee Chair should do, and what our travel policy,
17 and what our Board behavior is.

18 So I agree, Priya, my issue is I thought this
19 actually from a thematic standpoint rolled top down.
20 Although I'd like to see it a little bit shorter. And the
21 only thing I do see missing in the calendar, and I
22 apologize for missing the last meeting is action items.
23 Is it the goal, for example, at the November Board meeting
24 we will vote on the role of the President. I mean,
25 assuming we make any type of change, but do each of these

1 come with an action item or when do the action items take
2 place?

3 MR. DOUGLAS: So my reaction to that Richard is
4 they would come at the -- assuming that we've reached
5 consensus or at least the agreement that that policy wants
6 to be submitted to a vote, we move it to an action item.
7 That could be at -- after one meeting. It could be after
8 a couple of meetings. It will kind of remain to be seen.
9 But I would certainly imagine these policies being
10 forwarded as you've completed them for action,
11 particularly because I think, as you point out rightly,
12 they kind of build upon each other. Particularly, I think
13 that the unity of control policy and the job of the Board
14 and the job of individual Board members and the Board
15 member behavior policy all build upon one another.

16 The one policy here that I think we're taking up
17 earlier, just because it had a lot of heat around it in
18 terms of reaction, was the travel policy. It frankly
19 isn't a foundational policy, but it's on the list because
20 a lot of people talked about it, and so people wanted to
21 bring it up.

22 So I'm hearing people say generally let's go
23 forward with monthly meetings for at least until December,
24 and use that experiment to test whether we like this
25 process, and whether we think we're making headway. And

1 if we feel like we're making headway, we can come back in
2 December and say, yes, go forward with some more of this
3 or let's stop and do something better with our lives.

4 So does that generally sum up in terms of your
5 thinking about the approach that we're planning, not the
6 actual topics. I want to get to that next, but the actual
7 sort of approach is to be flexible, to go at least through
8 December, and then, at that point, we'll take a breather
9 and see how we're doing or does somebody else have a
10 different point of view? Bill, do you have a different
11 point of view?

12 CHAIRPERSON SLATON: No, I'd be fine with that.
13 You know, I think that the difficulty is the amount of
14 time you have to spend to dig in an issue that where
15 there's varying opinions and go to the heart of how we
16 govern ourselves. These are not necessarily easy
17 conversations to have. It's easy at the 10,000 foot
18 level, but once you get down to the detail, it's tougher.

19 But, you know, if we're not ready to say we're
20 going to do this every month for the next year, okay, then
21 we're not. So let's proceed as far as we can get, but I
22 do like the idea of stating at the foundational level of
23 how we operate as a Board versus as individual Board
24 members. And that covers behavior, it covers unity of
25 control. And I just think we ought to just start doing

1 this, and then we'll see how the Board feels about it, if
2 we're making sufficient progress.

3 But at the end of the day, we've got to end up
4 with policies that clarify how we operate, so that we can
5 be efficient and the staff can be efficient. I think
6 that's ultimately where we're trying to go.

7 --o0o--

8 MR. DOUGLAS: So as to the topics themselves, my
9 hope is that today we'll have enough time to go through
10 unity of control and the travel policy, that we'll be able
11 to come back next time and also look at the job of the
12 Board and of individual Board members as well as the
13 guidelines for Board member behavior. And that that would
14 be a block of work we could get down between now and the
15 October meeting, or at least dig into that work. We may
16 not get quite to action items at this point -- at that
17 point, but we will have covered some meaty, substantive
18 policy issues. Does that make sense to people?

19 Again, I'm going to kind of invoke that silence
20 means consent rule, which is that if you don't speak up
21 now, I'm going to assume that we're pretty good with what
22 Eric just said in terms of the block of policies that
23 we'll tackle first. Alrighty then.

24 So we're on to the unity of control policy.

25 --o0o--

1 MR. DOUGLAS: So I think in your packets should
2 be a handout. And perhaps somebody could help me identify
3 where in the packet that is. That handout is a sample of
4 a unity of -- it's a definition of unity of control.

5 COMMITTEE MEMBER JONES: Item 5, Attachment 5,
6 page 1 of 3.

7 MR. DOUGLAS: Got it. Thank you.

8 So is everybody with us so far. Are we good to
9 go here now? Anybody?

10 Okay. So unity of control, I know this concept
11 and this idea has been talked about in previous of our
12 governance meetings, it really comes out of a management
13 concept that could either be called unity of command or
14 unity of control. So the basic idea of unity of control
15 is that only decisions of the Board acting as a body are
16 binding on the CEO. That's the fundamental thing we're
17 talking about.

18 No individual Board member can direct the CEO,
19 unless specifically authorized by the Board to do so. So
20 that's when you get to the role of the President, because
21 the President, at least in your current policies, is
22 authorized to do -- has specific interactions with the
23 CEO. But unless it's specifically authorized by the
24 board, no individual Board member can direct the staff.

25 It doesn't mean you can't ask questions. Yes,

1 you can ask questions. It doesn't mean you can't seek
2 more information. Yes, you can seek more information, but
3 you can't direct. So that's the heart of the unity of
4 control definition. And unity of control often also
5 clarifies kind of what's the appropriate communication
6 then that a Board member can have with staff, all staff,
7 not just the CEO or executive team members, contractors,
8 the media, other outside parties. So that -- those can be
9 included in a unity of control policy.

10 And then below here is an example of a unity of
11 control policy taken from an existing State agency. So
12 I'm just going to read this out loud, and ask you to kind
13 of just appreciate and tick through as you -- as I do kind
14 of what are concepts here that we want to make sure are
15 embedded in our policy.

16 So only decisions of the Board acting as a body
17 are binding on the President and Chief Executive Officer,
18 specifically, in or out of a Board meeting, and that
19 obviously would include Committee meetings as well.

20 CHAIRPERSON SLATON: Eric, sorry. You've got a
21 question.

22 MR. DOUGLAS: Yes. Henry, I'm sorry.

23 COMMITTEE MEMBER JONES: Yeah. That issue, the
24 direction the Board acting as a body is we have delegated
25 to the President of this body to act on our behalf. So

1 isn't that also binding then when the President directs
2 say the CEO, he's acting on behalf of this Board, because
3 we've --

4 MR. DOUGLAS: Correct. You specifically
5 authorized him to do that.

6 COMMITTEE MEMBER JONES: Yeah, exactly. So I
7 just want to make sure that I'm not misinterpreting.

8 MR. DOUGLAS: You're right. You're absolutely
9 right. So, in many cases, the Chair of the Board or the
10 President of the Board -- this is true in corporate
11 settings. It's true in State agency settings -- is
12 delegated authority to direct the CEO by the Board.

13 But again, I'm asking you to kind of take a fresh
14 look at this and just ask yourself are these the
15 principles you want to have embedded in your policies,
16 because if you do, then great. That policy is fine. I
17 just want to make sure as you check through these, all of
18 these principles are principles that you feel are covered.

19 So A says decisions or instructions of individual
20 directors, officers or committees are not binding on the
21 CEO except in instances when the Board has specifically
22 authorized such exercise of authority.

23 In the case of individual directors or committees
24 requesting information or assistance without Board
25 authorization, the CEO must refuse such requests that

1 require, in his or her opinion, a material amount of staff
2 time or funds or are disruptive. Directors shall have
3 full and open access to senior management in order to ask
4 questions and receive all information necessary to
5 perform their duties. However, the Board, as a body, and
6 individual directors will not give direction to persons
7 who report directly or indirectly to the CEO. And Board
8 members shall refrain from conducting performance
9 evaluations for any employee or staff, other than the CEO.

10 So again, this is an example of another agency's
11 policy. The question to you now is, and I'd like to do
12 this in small groups, is to look at the language that's
13 been excerpted from your current governance policy. It's
14 on the bottom of this page, and then I think it flows over
15 to -- right, page 2 and a little bit of page 3.

16 Working with Anne and with Matt we tried to make
17 sure that we pulled out kind of what we thought was the
18 relevant language from the existing policy that pertained,
19 in some way, to this unity of control issue.

20 So you can see on the screen on the questions I'd
21 like you to address in small groups. Again, I want to do
22 small groups kind of like we have done before.

23 So Grant and Alan, and Katie and Doug, and Ron
24 and Cheryl, and Michael and Ted, and Henry and Bill, and
25 Richard and Rob, and Anne and Dana, Priya and Matt.

1 Donna, maybe you can join the Priya and Matt group.

2 Oh, I'm sorry. No, that works fine. Doug and
3 Donna, you could work together although -- you could work
4 together and Alan and Brad can work together.

5 Actually, let's do this. Let's have you guys be
6 a threesome here. We'll have you be a threesome over
7 there.

8 In front of you is yellow paper. I'd like you to
9 write down on the yellow paper your thoughts and reactions
10 to these questions. So what important principles are
11 embedded in the Sample unity of control policy that you'd
12 like to see included in the Board's policy?

13 So that's the first question. It's really a
14 blend of the first two bullet points. Which of the
15 important principles embedded in the sample unity of
16 control policy would you like to make sure are included in
17 the Board's policy?

18 I'd also like to have you look at the Board's
19 current language and ask you what issues do you see with
20 this policy? Are there missing pieces? Are there
21 internal inconsistencies? What would you leave, what you
22 add, or what would you take out?

23 Then, please again, write down your responses and
24 be prepared to share them with us. If you could write
25 legibly, my other intention here is I'd like to collect

1 these pieces of paper after we're done with this exercise,
2 just so that when I do my notes on this, I can see what
3 you've written down. So if you could write legibly --
4 even put your names on them if you'd like. Although your
5 names are not so important to me as just understanding
6 kind of what's the -- what are the points you're making,
7 okay?

8 I'm going to give you about five, 10 minutes to
9 do this exercise in pairs, or in your trios, and then I'm
10 going to ask you to report back to us what you thought,
11 okay?

12 Any questions about the exercise?

13 All right. Have fun.

14 CHIEF EXECUTIVE OFFICER STAUSBOLL: How long?

15 MR. DOUGLAS: I said five or 10 minutes. So
16 let's say I'm going to check with you in 5 and I'm going
17 to -- I imagine this will go 10 to maybe even 15 minutes.

18 (Off record: 11:35 AM)

19 (Thereupon a discussion occurred off the record.)

20 (On record: 11:51 AM)

21 MR. DOUGLAS: Okay. So I'm going to ask that we
22 come back to the full group and begin to go group by group
23 and just -- I think the first question is looking at kind
24 of what are the principles you saw in that sample policy
25 that you'd like to make sure we get embedded into -- make

1 sure are embedded in the CalPERS Board policy.

2 And let me just start kind of going around like
3 this. So on that question alone, what spokesperson would
4 you like to appoint.

5 ACTING DEPUTY EXECUTIVE OFFICER PACHECO: Sure.
6 I can start for our group, and my colleagues can chime in.

7 So I think what we liked about the sample policy
8 it was very concise and short, in contrast to the policy
9 that you shared from our current policy, which is somewhat
10 detailed. I think Alan used the term micro-focused --
11 micro-focused language, and often it seems to be written
12 in a reactive nature to a very specific instance. So you
13 can kind of play it out in your mind what actually
14 happened and then what we inserted to respond to that.

15 We liked that Section B of the sample policy
16 seemed to empower the CEO to be really that funnel, that
17 clearing house of information. I think those are the main
18 things that we liked. I mean, we have some other things.
19 I think the one thing that we did see that is in your
20 definition of unity of control is the media is mentioned.
21 And that's not referenced anywhere either in the sample or
22 the current policy.

23 MR. DOUGLAS: Right. Okay. Great. Thank you.

24 So next group, who is your chief spokesperson?

25 GENERAL COUNSEL JACOBS: I as far as the

1 principles that should be included in the Board's policy,
2 I think those are pretty straightforward. I think the
3 Board's speaks with one voice. The -- we have an issue
4 about what that means in the context of specific committee
5 chairs and the President when there is a request for
6 information or something of that ilk.

7 MR. DOUGLAS: Can you elaborate just a little bit
8 on what you mean by that, Matt?

9 BOARD MEMBER MATHUR: Well, we have a practice
10 currently where in a Committee meeting, the Chair can give
11 direction to the staff that is not -- so we would need to
12 clarify whether that -- that's a practice we want to
13 continue, or whether it requires a motion of that
14 committee and then to go to the Board as a motion for
15 final -- for approval, because not all of the Committees
16 are committees of the whole. So I think that's just one
17 nuance to that issue.

18 And then also in between committee meetings or
19 Board meetings, there are often requests of the Chair or
20 of the staff for information. And so how does that get
21 managed in the interim when the Board is not convened to
22 take -- make decisions on -- and particularly on those
23 what be much smaller issues.

24 MR. DOUGLAS: Okay. So further elaboration on
25 the principles that you think need to be embedded into the

1 board's policy?

2 GENERAL COUNSEL JACOBS: There's -- we thought
3 that one possible missing item from the --

4 MR. DOUGLAS: Not missing at this point. I'm
5 just asking you, looking at the sample policy -- well the
6 sample policy --

7 GENERAL COUNSEL JACOBS: What are the key
8 principles?

9 MR. DOUGLAS: What are the key principles you'd
10 want to see embedded? So, for example, A, is basically
11 repeating the preamble that decisions only of the Board
12 Acting as a body are binding on staff. B is saying that
13 the CEO must refuse such requests that he or she believes
14 are overly burdensome, disruptive. Directors have full
15 and open access to ask questions.

16 BOARD MEMBER MATHUR: We did think that C was a
17 little confusing and perhaps contradictory, particularly
18 given that this -- that between B and C there's some
19 contradiction or maybe a need for some clarity, because if
20 any director can have access to any information that they
21 ask for, it contradicts that the CEO must refuse requests
22 that require too much time. So there needs to be a little
23 clarity around that, we thought.

24 MR. DOUGLAS: Yep. As you can see, this Board
25 was not perfectly clear in its direction either. This is

1 a tough one. It's a tough balancing act to find. So,
2 Dana or Anne, what did you see in terms of principles
3 you'd want to the make sure were embedded.

4 COMMITTEE MEMBER HOLLINGER: I guess we can kind
5 of talk collectively. We actually liked our current
6 language better. And so on A that we act collectively as
7 a body, and B, Anne and I thought provides the CEO the
8 discretion to respond when appropriate to the requests of
9 individual Board members. This way the CEO -- because
10 sometimes I don't know that she would like -- you know,
11 it's not burdensome.

12 And on C, we wrote prohibits the Board as a
13 whole, as well as individual directors, from giving
14 directions to the CEO or being involved in operations and
15 management. We just -- so that's what we did.

16 And we either wanted to take out or clarify -- I
17 think actually we wanted it clarified regarding the Board
18 President acting as a liaison for communication with CEO.
19 We felt it needed to be -- and we also felt that just
20 generally there were inconsistencies regarding Board
21 members and getting information requests.

22 MR. DOUGLAS: Okay.

23 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah. I
24 think the only thing I'd add is we thought it's good to
25 include in the policy who the Board of directors have

1 access to on staff, while not necessarily agreeing with
2 the language as written in the sample.

3 MR. DOUGLAS: And so would you want to limit --
4 would you want to propose some kind of a limit on kind of
5 which staff the Board of directors would have access to in
6 a policy?

7 CHIEF EXECUTIVE OFFICER STAUSBOLL: I think it
8 needs to be clear to whom they have access, yes.

9 MR. DOUGLAS: Okay.

10 BOARD MEMBER MATHUR: Who they can reach out to.

11 COMMITTEE MEMBER HOLLINGER: Right.

12 CHIEF EXECUTIVE OFFICER STAUSBOLL: And I think
13 it is clear in our existing policy.

14 MR. DOUGLAS: You would interpret the existing
15 policy as saying that they can reach out to whom?

16 CHIEF EXECUTIVE OFFICER STAUSBOLL: The executive
17 staff.

18 MR. DOUGLAS: Richard and Rob, what about you?
19 What principles did you think needed to be embedded in
20 this policy?

21 VICE CHAIRPERSON COSTIGAN: Well, just a couple
22 issues that we had, actually were along the lines that
23 have already been raised. One is we had some issues just
24 with -- well, unity of control, the short paragraph
25 overall is better because it's more defined. Our current

1 language really is a compilation of a couple things,
2 including Board member behavior and some other issues that
3 I think will factor it's way out as this system goes. But
4 when you look at B2 right now -- or B, I think you create
5 the potential conflict, because it's really discretionary
6 to the CEO whether or not to be responsive or not.

7 So why is that? I mean, just from -- I mean,
8 that just -- our current policy seems to work just both on
9 the access and being responsive, because the B -- the
10 Board delegates to the Committee and then the Committee
11 moves forward. This seems to remove all of that in the
12 CEO and their authority, because you say, well, I'm just
13 not going to do it. And I just think it has the potential
14 to set up conflict.

15 And then when you look at, directors will never
16 give direction to persons who report directly or
17 indirectly to the CEO. I understand, in our case, our CEO
18 is only exempt, but that -- I mean, that would mean that I
19 couldn't tell our General Counsel, on behalf of -- you
20 know to do something if we think the CEO is doing
21 something wrong, or say I think you should look into that.
22 I think the language is a little strong. I would be
23 curious as to what State agency uses this or whether this
24 comes from --

25 (Laughter.)

1 VICE CHAIRPERSON COSTIGAN: It goes almost and
2 puts way too much power back into the CEO. And I do think
3 that's one of the things that we've tried to work over
4 through the years is just a little bit of diffusing the
5 authority of the CEO, given what had happened when the CEO
6 had power before.

7 Rob, anything else? Did I capture it?

8 COMMITTEE MEMBER FECKNER: Yeah, I think Richard
9 captured it pretty well. I also think that B it sets the
10 CEO up for problems. If there's no nobility to work with
11 the, whoever the elected President is, to give them cover,
12 I think it could be looked at picking and choosing who
13 your favorite Board member is. That's who got the favor
14 of getting the answers, et cetera. I think it just
15 creates more problems than it fixes.

16 MR. DOUGLAS: Okay.

17 BOARD MEMBER MATHUR: Eric, can I just make a
18 quick comment about that?

19 MR. DOUGLAS: Sure.

20 BOARD MEMBER MATHUR: Because that is actually
21 the policy at BART. That if -- that any -- it's actually
22 much more specific if any request from a Board member is
23 going to take more than an hour or two hours of work,
24 staff time, then the general manager must refuse it.

25 And it's just a way of managing the workload,

1 because any director can ask at any time for lots of
2 information that could take quite a bit of time. And so
3 it's a balancing act, but I just -- I just wanted to share
4 that.

5 MR. DOUGLAS: Anne.

6 CHIEF EXECUTIVE OFFICER STAUSBOLL: I think it's
7 a good thing to talk about. I think it's the must
8 refusing or -- you know, language that just doesn't fit.
9 I mean, in reality, if I got a request that I thought was
10 disruptive or used too much resources and wasn't
11 appropriate, I'd go to the Committee Chair, or I'd go to
12 the Board President and we'd try to figure out what's
13 happening, why is this Board member asking for it, should
14 we bring the request to the Committee, how should we deal
15 with it? So it just seems like too much of a mandate like
16 the request must be denied.

17 MR. DOUGLAS: Well, I certainly see the Board say
18 instead of must refuse, may refuse. So you give the
19 discretion to the CEO to do this, but it's clear that the
20 discretion lies with the CEO to refuse, if he or she
21 chooses to do so based on the point that Priya just made,
22 that it's a material amount of staff time to take it on.
23 So that might be one fix here that would still retain the
24 concept, but enable you to be more clear why you were
25 saying no. I need a Board vote in order to go forward

1 with that analysis or that piece of work. Because in no
2 case are you saying that the Board can't request work.
3 It's the Board member acting individually that we're
4 talking about in this case.

5 CHIEF EXECUTIVE OFFICER STAUSBOLL: Maybe I
6 should just say the group this really doesn't -- I get --
7 we get a lot of requests, but I can't even think of one --
8 you know, it's not really an issue that they're taking a
9 lot of funds or...

10 MR. DOUGLAS: Okay. So Bill and Henry, how about
11 you?

12 CHAIRPERSON SLATON: So we looked at each one,
13 saw the conflict between the redundancy of B and C.
14 The -- we think that A and C and D are important, but the
15 language doesn't fit right now, so -- but the concepts are
16 important. In our case, the gatekeeper for information, I
17 think, is either the Board, the Board President, or
18 Committee chairs, so -- which is a little bit broader than
19 what's reflected here. And, you know, having a gatekeeper
20 is important to protect the CEO of the organization,
21 because even though we don't have -- maybe don't have a
22 request problem today, it doesn't mean it doesn't -- it
23 wouldn't exist in the future and you're trying to write
24 policies that we know will go on for a period of time.

25 The other one we talked about was the -- on D,

1 conducting performance valuations, and wrestled with the
2 issue of if you see something, should you say something,
3 you know, and yet wanting to, you know, not invade the
4 CEO's purview to evaluate employees. But you also don't
5 want to sit there silent if you -- you should say
6 something, right, that's what she said. So this policy
7 doesn't really allow for that.

8 MR. DOUGLAS: And interestingly I think this
9 policy deliberately walked away from saying cannot get --
10 shall refrain from providing performance -- or performance
11 appraisals -- from appraising performance is the way it
12 originally said.

13 So the idea here was that performance evaluations
14 is a formal act that this policy prescribes. But the idea
15 of saying good job, Ted, good job, somebody else, that's
16 fine. That's not out of keeping with this policy at least
17 the way it was interpreted at this agency.

18 So I -- but I hear you saying that the principles
19 of A, B, and D -- A, C, and D should somehow be
20 incorporated in the PERS policy, but not necessarily the
21 language that's used here. It needs to be more clear.
22 And also, that it needs to be more, specifically what's
23 the gatekeeping relationship that the President has, that
24 the Committee chairs have.

25 CHAIRPERSON SLATON: Right.

1 COMMITTEE MEMBER JONES: Yeah, and expand a
2 little bit on the evaluation, we were referring to
3 providing input to the CEO for evaluation. So that's the
4 message that we should send. Rather than you can't say
5 anything, of course you can, because we see stuff that she
6 may not see. So we should refer it to her, because many
7 times we're with staff and CEO is not around.

8 MR. DOUGLAS: Yeah. So Michael and Ted.

9 COMMITTEE MEMBER BILBREY: So first, we
10 weren't -- we're wondering where the definition came from
11 at the very top? Is that just a definition you --

12 MR. DOUGLAS: Well, it's just -- it's a
13 definition that, frankly, I wrote. I did a little
14 research before writing it, based on both -- a number of
15 different governance projects I've facilitated, as well as
16 going to the web and seeing what unity of control popped
17 up. And so this was a combo.

18 COMMITTEE MEMBER BILBREY: We liked the
19 definition. And we like in particular the line about the
20 unity of control policies often clarify appropriate and
21 inappropriate communication by Board members to staff,
22 contractors, and outside parties, such as the media.
23 Really thought somehow that should be incorporated more
24 into our policy.

25 On to the examples. We definitely liked A. We

1 thought there was some important concepts in there that
2 are important to how we operate here that could be done.

3 On B, we thought there was more of a -- we needed
4 a more clear written formal process about how this
5 information assistance requests works. It's kind of
6 missing from ours, we think. It isn't necessarily clear.
7 I'm not sure newer Board members even clearly understand.
8 So we should have the definition sort of somehow put into
9 the -- C we thought was a bit too broad. Maybe it's just
10 the term senior management. We weren't sure exactly what
11 that meant. And if we were to do that, we'd need to be a
12 little more specific to what we're doing.

13 On D, we just feel it needs to stick to the
14 formal evaluation process. We have a process, we feel,
15 through the performance, compensation, talent management
16 committee, and to go through that process of, you know,
17 evaluation, and not through outside entities, sources, et
18 cetera. And I think that's all on the existing.

19 MR. DOUGLAS: Good. So Ron and Cheryl, just in
20 terms of principles that you see that you wanted assure
21 our embedded.

22 COMMITTEE MEMBER LIND: Well, we liked the --
23 sort of the preamble sentence at the very top. It makes
24 it very clear. And we thought maybe there's a way to
25 incorporate that into the kind of preamble sentence of our

1 existing policy.

2 You know, A -- and then we identified that there
3 are two issues really being dealt with here, one is
4 direction, the other is information requesting. And, you
5 know, the other groups have kind of articulated those
6 issues. And we -- you know we have this Committee
7 process, and we can maybe talk about that a little more
8 when we get into the next, you know, sort of step here.

9 We also thought that D was probably not
10 necessary, because as Michael said, we have a very robust
11 evaluation system, and it works, and we don't think it's
12 an issue.

13 MR. DOUGLAS: Okay. Good.

14 Katie and Doug.

15 ACTING BOARD MEMBER HAGEN: I think pretty much
16 our entire conversation has been hit on up to this point.
17 I guess the only thing that we might want to add is that
18 we, too, thought that our existing policy seems to focus
19 on -- particularly when we're talking about undue
20 influence, it seems to focus in exclusively on investment
21 transactions and contracts. And again, we thought that
22 would be reflective of the time period perhaps that the
23 language was crafted.

24 One of the things I also thought was sort of
25 misplaced on the example was Item D. I think that's more

1 appropriate for the CEO and CIO's delegation document. So
2 I wasn't sure it needed to go in the unity of control.

3 And then the only thing I wanted to mention too
4 is in regards to communications with staff, I think the
5 organization that I represent might be a little unique,
6 but perhaps the State Controller's office and the
7 Treasurer, we, as a matter of our operational duties, our
8 day jobs, involve sometimes giving direction to CalPERS
9 staff, not as Board members, but in our other roles. And
10 so I would just want to make sure that the language allows
11 for that to continue.

12 CHAIRPERSON SLATON: Good point.

13 MR. DOUGLAS: Good clarification.
14 Grant.

15 ACTING BOARD MEMBER BOYKEN: Well, as Katie said,
16 it's hard to go last, because much has been said. But we
17 took it as what are the principles? We had some issues
18 with the language in the sample policy. And we liked a
19 lot of the language in the existing policy better. But we
20 took out some of the broad principles that we liked. One
21 voice. Only decisions of the Board are binding. Board
22 members shall have access to the executive staff. And we
23 like in the CalPERS version that access is to be
24 coordinated by the CEO.

25 And then some mechanism for regulating or

1 limiting the amount of work that individual Board members
2 can generate with their requests. Delegation of authority
3 to the CEO. So control of the organization via the CEO.
4 And then just because Katie brought it up, not only are
5 there sometimes issues, reasons that the Treasurer or
6 Treasurer's staff, in their role, have to work with
7 CalPERS, the Treasurer, Controller, and some others who
8 are on the Board in an ex officio capacity, will be
9 contacted to speak on CalPERS issues, but not as CalPERS
10 Board members as -- as, you know, as Treasurer, as
11 Controller. So something we need to keep in mind.

12 MR. DOUGLAS: Right. So just to sum up real
13 quickly, the principles I hear you all agreeing on are
14 this preamble principle that, yes, in fact, yes, all
15 decisions of the -- only decisions of the Board are
16 binding on the CEO.

17 And you -- in general, I hear people saying that
18 there needs to be kind of more clarity around what do we
19 mean in Principle B about how exactly the discretion is
20 given to the CEO as to how to handle such requests? And
21 that within in D where we talk about kind of the open
22 access to senior management, that there needs to be
23 something more there about this gatekeeper role and how
24 the different -- how the President of the -- and the
25 Committee Chairs interact with senior management, and

1 exactly what we mean by senior management who's in that
2 pool?

3 And lastly, I think this point that you just
4 made, Katie and Grant, about kind of what are -- you know,
5 in your role outside as control agencies kind of while you
6 hold this duplicate seat, you know, how does that
7 interplay with these principles?

8 I want to go now to the questions that are in --
9 perhaps a little bit more subtle, which are kind of what
10 do you see as the missing pieces, the internal
11 inconsistencies, what would you leave or take out. And
12 let me just kind of go the other way and just -- I'll let
13 you take any of those questions you like. So Grant and
14 Alan, were there things you saw as inconsistent or things
15 you would like to leave or take out of the existing
16 policy? Now, we're just looking at the existing policy.

17 ACTING BOARD MEMBER BOYKEN: So we actually liked
18 our policy the way it's written, and think that a lot of
19 the important principles are embedded in the current
20 policies. If you look in the sample at Section B, which
21 seems to contradict C a little bit, one says, you know,
22 CEO must refuse -- you know, request from a Committee that
23 would take too much work. And then C says open access.

24 I think on the part of our policy that talks
25 about committees, I think, reflects the fact that the

1 Board delegates to committees a certain role and access to
2 requesting information.

3 And then we also liked the way that our current
4 policy words the fact that Board members have access to
5 exec staff, but that should be coordinated through the
6 CEO.

7 MR. DOUGLAS: Did you see any inconsistencies in
8 the current policy?

9 CHIEF ACTUARY MILLIGAN: Not really, no.

10 MR. DOUGLAS: And nothing you would take out of
11 the current policy?

12 CHIEF ACTUARY MILLIGAN: I think that the -- some
13 of the -- some of the wording about the Committees might
14 be more appropriate in a different Board policy, as
15 opposed to a unity of command policy, but it's probably
16 still needed.

17 MR. DOUGLAS: Okay. So Katie and Doug, to the
18 question of kind of this more nuanced look at your own
19 existing policy, what would you -- what were your
20 conclusions there?

21 ACTING BOARD MEMBER HAGEN: Well, I think, as
22 someone mentioned it earlier, I do think that, you know,
23 we have page numbers indicated here, which sounds -- it's
24 all over the place, so perhaps consolidating into one
25 section called unity of control would be much clearer.

1 But overall, I think the principles that are
2 outlined in your example are consistent. I mean, we talk
3 about them. I think per all the earlier conversation, we
4 need to refine the language there.

5 MR. DOUGLAS: Um-hmm. No inconsistencies that
6 you identified or places you would take language out or --

7 ACTING BOARD MEMBER HAGEN: (Shakes head.)

8 MR. DOUGLAS: Okay. Ron and Cheryl.

9 COMMITTEE MEMBER LIND: I guess the only
10 inconsistency we found is that, as far as influence, the
11 words "undue" and "improper" are used in different parts
12 of the policy. And we've just got to clarify it as maybe
13 the same thing or if it does, maybe we should be
14 consistent in what term that we use.

15 MR. DOUGLAS: The words "undue" and "improper".

16 COMMITTEE MEMBER LIND: Right, just something
17 that we identified. We think the existing policy works,
18 that, you know, given that the Chair's guidance over, you
19 know, information requests. Although, you know, we sort
20 of thought that, well, maybe if the Chair isn't sure that
21 there needs to be a conversation with the staff member
22 that the information is requested from as to whether or
23 not that would be too much of a burden, and was asked on
24 how to deal with that.

25 And then I think the other main thing we

1 identified, and I guess maybe this comes elsewhere or
2 later, is that all right what happens if people aren't
3 living up to this part of the policy, what do we do about
4 it?

5 And then finally, we talked about the fact that
6 so not only do Board members have a role here, but so do
7 staff members. If they, you know, believe that something
8 isn't happening properly or inappropriate information
9 requests are being made, they need to know what avenue to
10 take to deal with it.

11 MR. DOUGLAS: Right Good point.

12 Michael and Ted.

13 COMMITTEE MEMBER BILBREY: So first and foremost,
14 we feel the existing policy needs to be enforced more
15 aggressively. I think that we have a policy and we're --
16 we kind of know it's there, and certain things happen that
17 are sometimes are even against the policy, but we're a bit
18 apathetic about how we enforce it. And so some
19 consequences or -- and/or teeth need to be put to kind of,
20 you know, enforce it more. Why do you have a policy if
21 you don't enforce it more?

22 This issue about information, you know, analysis
23 report that talks about a Committee chair. You know,
24 especially during meetings where these things come up --
25 and it clearly states here about determining whether

1 requests should be granted, when you're in the middle of a
2 meeting and the Committee members suddenly throw things
3 out there, you've got about a minute to figure out how is
4 this going to impact the staff, how much time is it going
5 to add? You don't have enough time to really clearly
6 know, I feel, as a Chair to determine how that's going to
7 impact the staff. But yet, you're right there in the
8 middle of an session, you're in the middle of everything
9 going on. And so you say, okay, let's do this, even
10 though may be it isn't something we should be looking into
11 at all.

12 We should probably have a processes where we can
13 maybe have Board members collect. And then what happens
14 when your Committee turns in from a Committee to a
15 Committee of the Whole? And you have those who are not on
16 the Committee there also, which is a good process, but
17 then they start asking for information as well, and you
18 sort of get into this little mix of some difficulties,
19 especially if you're a chair, in my opinion.

20 Also, part of the thing talked about, you know,
21 the Board member corresponds using logo or letterhead.
22 Well, what if you don't use the logo or letterhead, but
23 you're using your title in your -- in a letter of some
24 sort. You're still sort of implying that, you know,
25 CalPERS. So we need to think about how that is addressed

1 as well.

2 We'll leave a few things for everyone else.

3 MR. DOUGLAS: Well, I've watched one Committee
4 Chair historically do a very good job doing what you
5 talked about, which is that she will note, as a Committee
6 is going through making individual Committee members or
7 making requests for information, just note them on a piece
8 of paper.

9 And at the end of the Committee meeting that
10 she'll summarize that I've heard a request for this, a
11 request for this, request for this, request for this. And
12 then turns to the CEO and says are we okay with these
13 questions or do you want to -- are any of these going to
14 be burdensome. So there's an actual kind of deliberate
15 process involved in that kind of enumeration of requests.

16 So, Bill, you've lot your partner, but --

17 CHAIRPERSON SLATON: Yeah, but that's all right
18 you know. Henry had to catch a plane or do something.
19 It's okay. So on this information thing, I think -- and I
20 agree with Mr. Bilbrey's comment about, you know, not
21 enforcing. And I think that's something we have to do and
22 take ownership of.

23 On the issue of the information, you know, if we
24 directed staff to say you have to confirm with the
25 Committee Chair, because staff are making notes all the

1 time. We're not -- some of us are making notes, some are
2 not. A Committee Chair has got a lot to kind of focus on
3 to make sure everybody is participating in the meeting,
4 getting a chance. So if we put the burden on staff that
5 you've got to come back to the Committee Chair before you
6 execute, then it gives the ability for the Chair to do the
7 job that talks about may delegate.

8 Coming back to page 20 -- actually, page 20,
9 which is the bottom of page 1 of the current policies.
10 That one gets -- the focus we were talking about is
11 clarity of wording, so that we all agree that words mean
12 the same thing.

13 The words at the en of that paragraph, "...in
14 consultation with the Board President". Well, what does
15 that actually mean? So I think that there's work to be
16 done on clarity of wording of what do we actually mean.

17 The same thing with the next paragraph, "The
18 Board President will act as the liaison for
19 communication". That's subject to an awful lot of
20 interpretation. What does that actually -- what do those
21 words mean, and what exactly are we delegating to the
22 President? So I think there's an area for work.

23 On the next page, page 6, the top paragraph, the
24 reference is to page 6. And here I think some someone
25 else raised the issue before that, you know, maybe we just

1 need a period out -- after course of conduct, because what
2 we're talking about is we don't want Board members
3 directing staff to an action or a decision or a course of
4 conduct on really anything. We want information, but the
5 CEO directs the employees, not us. So maybe we would
6 consider putting a period after that, so it would apply
7 broadly rather than specifically to contracts and
8 investments.

9 And then page -- I'll be quiet for now. I'll
10 come back to that.

11 MR. DOUGLAS: Okay. Thank you for those
12 thoughts. Rob, anything from you and Richard?

13 COMMITTEE MEMBER FECKNER: I'll let Richard
14 answer.

15 (Laughter.)

16 COMMITTEE MEMBER FECKNER: The only thing that I
17 don't see, either in the sample or our current language,
18 would be when you're talking with either -- about either
19 the President or Committee Chair, we need to add in, "In
20 consultation with the Vice President or the Vice Chair".
21 It always just designates the one position. I think they
22 both need to be involved in those discussions.

23 MR. DOUGLAS: Um-hmm. Good.

24 CHAIRPERSON SLATON: That's a good point. Good
25 catch.

1 MR. DOUGLAS: Anne and Dana. So here we're
2 looking for kind of things that you look at --

3 CHIEF EXECUTIVE OFFICER STAUSBOLL: I'm sorry. I
4 lost track of the question.

5 MR. DOUGLAS: -- in the existing -- in the
6 current policy, right? In the current policy, were there
7 any inconsistencies you saw, anything you would change,
8 take out, you know, add in?

9 CHIEF EXECUTIVE OFFICER STAUSBOLL: Okay. So I
10 agree -- a couple of people have said and I agree, we need
11 to clarify this language around the Board President acts
12 as liaison for communications between Board and CEO,
13 because obviously I'm communicating with Board members all
14 the time, and so we should sort out what that means.

15 On the issue around communicating with the
16 executives, which I think the language is clear -- pretty
17 clear. But as a cultural matter, that's not being
18 followed, so people mentioned that as well, what are the
19 teeth there? I mean, there's a lot of communication
20 between Board members and all levels of staff.

21 That takes a lot of time for me and the other
22 executives to try to catch up on and coordinate. And it's
23 really tough to tell lower level staff don't talk to a
24 Board member. So it's -- I think we seek agreement with
25 the Board members on the practice.

1 Bill, I think is kind of what Bill was saying,
2 but I really like the idea, and my executive team has
3 discussed it as well, this idea that at the end of the
4 Board meetings and Committee meetings, we'd have -- even
5 perhaps it's a formal agenda item, so we make sure we do
6 it, but that the Committee Chair says what are the
7 follow-up items. The staff can report out where they
8 thought they heard Committee or Board consensus. And then
9 if something was missed, it can be taken up.

10 But I don't know if we need to draft that into a
11 policy. Maybe it's something we could just agree on today
12 that we'd institute that. And if the Board likes it, I
13 think we the staff are ready. So it might solve a lot
14 issues by doing that.

15 MR. DOUGLAS: Well, I'm all for trying to agree
16 to change things right away. I'm also a big fan of kind
17 of trying to codify these practices, so future Board
18 members also know this is kind of how you want things to
19 go.

20 Did you have a comment on this, Grant?

21 ACTING BOARD MEMBER BOYKEN: I did. Another
22 Board that I work with has, right before public comment,
23 there's request for information from every meeting. We
24 wouldn't need to codify that in a policy. That could just
25 be the way that we draft agendas.

1 MR. DOUGLAS: Um-hmm.

2 Okay. So how about this team of 3? Now, we're
3 looking for kind of your more nuanced parsing of the
4 existing language.

5 BOARD MEMBER MATHUR: So we thought that there
6 was a big piece missing around media and dealing with the
7 media, and speech in general, that perhaps we should
8 consider having a disclaimer that any time any of the
9 Board members are out speaking, that -- you know, just
10 similar to how the Fed and the SEC handle it, that there's
11 always a disclaimer I'm speaking on -- as my own person,
12 not on behalf of the organization. And that that should
13 be required in all speech.

14 We also talked about prohibiting -- that
15 prohibiting the circumventing of this sort of control
16 around this information flow between staff and the Board,
17 where if -- were President, that the Committee -- the
18 Board as a whole, the Committee Chair, the Committee as a
19 whole says this is the kind of information we're going to
20 get. We're not going to get this additional -- even
21 though it's been requested by one Board member, we've
22 decided not to get it, that there not be anyway to
23 circumvent that. That you're not allowed to do a PRA
24 request or ask for it from a lower staff member or
25 whatever methods might be employed. So have that be, you

1 know, a strong statement around that.

2 I think those were some of the keys. Did I miss
3 anything do you think?

4 MR. DOUGLAS: Good. Thank you, Priya.

5 So last group, sort of nuances of --

6 ACTING DEPUTY EXECUTIVE OFFICER PACHECO: So I
7 think a lot has already been said. What we were thinking
8 about, to Katie's point, tighten up the language where we
9 can in the current policy. Make sure it's organized
10 efficiently. We said this at the beginning, and it's been
11 already said, that including something around here
12 regarding communications with the media. Did I miss
13 anything else, Doug?

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Middle of the
15 second page, "The Board strongly supports an environment
16 where CalPERS staff may engage in impartial, robust,
17 objective, ethical decision making". Some comment was
18 that's sort of a one-way. So why isn't there more of
19 broad statement about more maybe sort of the culture of
20 the organization. It's Board and staff, not just you guys
21 engaging in ethical decision making, blah, blah, blah.
22 It's -- so that was a comment that we thought could be
23 more inclusive.

24 MR. DOUGLAS: Good point. Good thought.

25 So -- well, Kim has been taking, I know,

1 excellent notes on all of these comments. And so I would
2 ask whether it would be the pleasure of the Committee
3 Chair that we -- some group go back, take this input, and
4 come forward at the next Committee meeting with a
5 redrafting of this, so that you can have something to
6 respond to and look at that incorporates this feedback
7 today? Does that make sense as a next step?

8 CHAIRPERSON SLATON: What do you think? Do I
9 see -- I see some nodding of heads. Okay.

10 MR. DOUGLAS: Any objections to that as an action
11 step?

12 So hearing no and seeing no negative reactions to
13 that, let's assume that the action step then is to try to
14 do that. Bring back a -- for the -- to the October
15 Governance Committee a new draft of this policy in some
16 form.

17 Bill, did you want to comment any further on --

18 CHAIRPERSON SLATON: No, we would just try to
19 have that --

20 MR. DOUGLAS: Pardon me?

21 CHAIRPERSON SLATON: We'd try to have that ahead
22 of time so everyone gets a chance to read it.

23 MR. DOUGLAS: Correct.

24 CHAIRPERSON SLATON: Kind of a straw proposal on
25 the synthesis of what we've heard today.

1 MR. DOUGLAS: So I'm noting that time is 11:30,
2 but also -- Or 12:30, I should say.

3 (Laughter.)

4 MR. DOUGLAS: I'm still on Mountain Time.

5 DEPUTY EXECUTIVE OFFICER McKEEVER: Eric, I hope
6 this isn't out of order, but I would like to go back to
7 Ms. Stausboll's earlier question about whether or not we
8 can make the agenda change outside of the policy
9 discussion.

10 MR. DOUGLAS: Uh-huh.

11 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, I think
12 we could. You know we have templates that we use -- oh,
13 sorry, may I?

14 CHAIRPERSON SLATON: Yes.

15 CHIEF EXECUTIVE OFFICER STAUSBOLL: We have
16 templates that we use, and we could just incorporate that
17 right into the template and start right away, if that's
18 the pleasure of the Board?

19 MR. DOUGLAS: This would begin following kind of
20 Grant's suggestion about having just a period on the
21 agenda --

22 CHIEF EXECUTIVE OFFICER STAUSBOLL: Standing
23 item.

24 MR. DOUGLAS: -- specifically for information
25 requests.

1 MR. DOUGLAS: Correct.

2 Okay. Any other action steps that people --

3 CHAIRPERSON SLATON: Yes, Anne.

4 CHIEF EXECUTIVE OFFICER STAUSBOLL: Well, I just
5 always like to the say who's doing the action. So I think
6 we can volunteer the legal staff to come -- to work on the
7 draft. And if we want to have a group, we'll put it
8 together, but we'll lead that.

9 CHAIRPERSON SLATON: Okay. Good.

10 All right. Any other comments from Board members
11 or staff, Committee members?

12 All right. Eric, thank you very much. And we'll
13 see you next month.

14 Meeting is adjourned.

15 (Thereupon California Public Employees'
16 Retirement System, Board Governance Committee
17 meeting adjourned at 12:30 PM)

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C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Board Governance Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of September, 2015.

JAMES F. PETERS, CSR
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