

Board Workstream Update: Benchmarking and Best Practices

July 17, 2019

What We'll Cover Today

- CalPERS Board Self-Evaluation Recap

Chronology of Board Self-Evaluation Process

- July 2018: Presentation to the CalPERS board on NACD's board self-evaluation process
- August/September 2018: NACD tailored its assessment surveys to CalPERS' unique board characteristics
- October/November 2018: Tailored surveys distributed and completed by all board members

Chronology of Board Self-Evaluation Process

- October/November 2018: Members engaged in one-on-one hour long discussions with NACD faculty member, Cari Dominguez
- November/December 2018: Analyses completed
- January 2019: Findings of board self-evaluation presented to the board, establishment of work streams

The Process

The board self-evaluation centered around five core competencies:

- Board Structure
- Operational Oversight
- Talent Oversight and CEO Succession
- Strategy Oversight
- Risk Management and Oversight

The Process

For each area, statements were ranked and scored on a dual scale:

- Effectiveness scale of 1-5, 1 being “poor” and 5 being “excellent,” with zero being an unweighted score to indicate “do not know”
- Importance scale of 1-5, 1 being “not important” and 5 being “very important”

The Process

The committee evaluations centered around CalPERS' committees:

- Board Governance Committee
- Finance and Administration Committee
- Investment Committee
- Pension and Health Benefits Committee
- Performance, Compensation, and Talent Management Committee
- Risk and Audit Committee

The Process

For each area, statements were ranked and scored on the following scale:

- Effectiveness of 1-5, 1 being “poor” and 5 being “excellent,” with zero being an unweighted score to indicate “do not know”

Recap of CalPERS Self-Evaluation: Strengths and Opportunities

Leading Strengths

- A remarkable degree of commitment and dedication to CalPERS' mission, and to the importance of its role in the marketplace and society
- Strong support of and belief in transparency and accountability as sound governance practices
- Expressed pride in the diversity found in the board's composition, which is viewed as a unique asset and advantage

Leading Strengths

- Recognition of stakeholder engagement as a considered strength
- Impressive desire for continuous improvement, as a board and as individuals

Identified Opportunities

NACD's work with the CalPERS board was summarized by each area of the board self-evaluation and the following components were provided for each:

- Overall summary of quantitative and qualitative findings
- Actionable next steps as identified by board members
- NACD's recommended leading practices for boardrooms

Board Structure: Qualitative Summary

The current board has been highly effective in bringing the quality of governance forward through this evaluation process. Three opportunities were identified:

- Roles and responsibilities could use clarification
- Role as board members
- Role as committee members

Board Structure: Qualitative Summary

- Role of management vis-à-vis the board
- Independence of roles – board president and committee chairs
- Committee structures, charters, and remunerated time, should be reviewed to ensure alignment with each other
- Desire for equitable compensation for all board members

Board Structure: Next Steps

Roles and responsibilities:

- Leverage a more robust and durable onboarding process
- Communication and access to management
- Establish clarity on communication and access to, and develop common understanding of relationship between, management and board processes

Board Structure: Next Steps

Committee structures and charters:

- Revisit composition of the Investment Committee
- More emphasis on the role of the Risk and Audit Committee
- Technology and Cybersecurity as a committee consideration

Board Structure: Next Steps

Board member remuneration:

- Assess current compensation practices and explore pathways for equitable compensation for all

Operational Oversight: Qualitative Summary

Three key opportunities were identified:

1. Strengthening a fiduciary duty, ethics and code of conduct culture that:
 - Facilitates candid, active, and collegial engagement
 - Protects confidentiality and builds trust
 - Emphasizes mutual respect and relationship building
2. Meeting materials
3. Frequency of meetings

Operational Oversight: Next Steps

1. Strengthening a fiduciary duty, ethics and code of conduct culture where board members:

- Ensure that concerns over breaches of confidentiality are addressed
- Create accountability mechanisms
- Have the freedom to deliberate fully, with candor

Operational Oversight: Next Steps

2. Meeting materials

- Refine materials to more fully focus on key areas for deliberation
- Ensure the information is easily accessible
- Engage with board on ways to deliver materials for enhanced preparation

3. Meeting frequency

- Reduce number of offsite meetings
- Reduce the number of board meetings with supplementary reports in between meetings

Operational Oversight: Next Steps

3. Meeting frequency

- Reduce number of offsite meetings
- Reduce the number of board meetings with supplementary reports in between meetings

Talent Oversight and CEO Succession: Qualitative Summary

- The board generally believes that CalPERS has a viable succession planning process in place
- Board members shared some concerns related to CalPERS' ability to attract talent due to logistics and competition

Strategy Oversight: Qualitative Summary

- The board generally expressed a higher level of satisfaction with CalPERS' strategy and oversight therein
- There is a desire to allocate more time to strategic discussions and deliberations
- There is an understanding that strategy development is a shared responsibility, but that the board is ultimately responsible

Strategy Oversight: Next Steps

Next Steps to Consider:

- Examine a process that may facilitate opportunities to more effectively communicate with management, both generally and in terms of strategy development more specifically
- Identify how concerns around confidentiality breaches are tied to the effectiveness of strategy oversight

Risk Management and Oversight: Qualitative Summary

- The board generally expressed a level of satisfaction, yet cautious concern with the oversight and management of risk
- Concerns were expressed related to:
 - Volatility in the marketplace
 - Disruption
 - Cyber-risk

Additional Areas for Consideration

- Finding: There is a perception that CalPERS has an opportunity to better negotiate the fee structure for consultants
- Recommendation: An overall evaluation of the way CalPERS uses consultants should be considered
- Finding: Board members believe that a code of conduct could further enable all members of the board to embody the desirable board attributes highlighted in the survey

In Summary

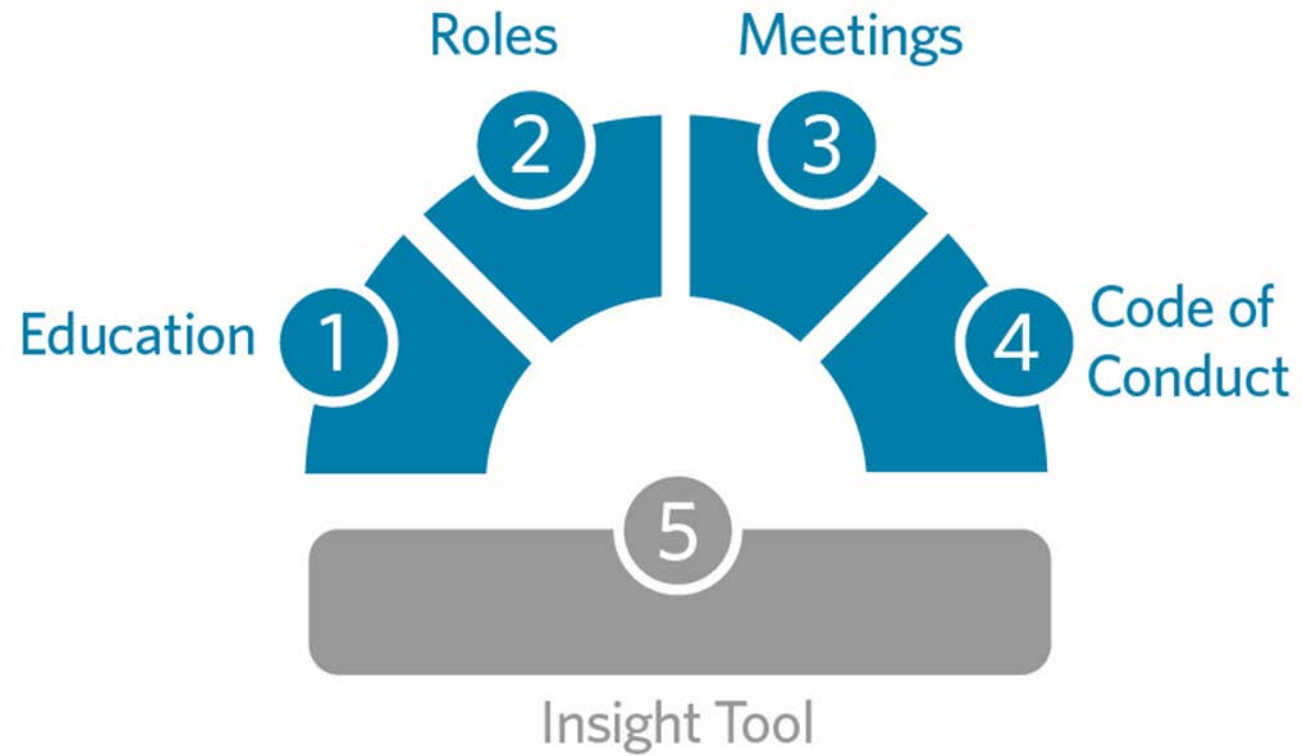
- The board was commended on the progress it had already made
- Key salient opportunities identified for further governance growth:
 - Develop a code of conduct in order to support CalPERS' board's fiduciary duty
 - Clarifying roles and responsibilities at all levels of governance (i.e. board, committees, and management)
 - Revisiting committee structures and composition

In Summary

- Key salient opportunities identified for further governance growth (cont'd):
 - Developing a compensation program that is equitable
 - Establishing a robust and durable onboarding program
 - Developing professional development in assessing skills and expertise
 - Refining meeting materials in order to prioritize important areas for discussion
 - Reviewing format and calendar for board meetings and exploring the additional use of reports and updates

Board Workstream Recommendations

Overview



Workstream 1: Board Curriculum

Recommendations:

- Develop onboarding program for Board members and their delegates
- Develop education modules by committee partnering with the following groups*:
 - Investment: Chartered Financial Analysts Institute and Council of Institutional Investors
 - Finance & Administration: Institute of Actuaries

Workstream 1: Board Curriculum

Recommendations:

- Develop education modules by committee partnering with the following groups*:
 - **Board Governance:** National Association of Corporate Directors; Funston Advisory Services LLC
 - **Pension & Health Benefits:** National Association of State Retirement Administrators; International Foundation of Employee Benefit Plans; Pacific Business Group on Health; Integrated Health Care Association; SmartCare California

**Supported by CalPERS' management*

Workstream 1: Board Curriculum

Recommendations:

- Risk & Audit: Society of Corporate Compliance and Ethics; Committee on Sponsoring Organizations; American Institute of Certified Public Accountants
- Performance, Compensation & Talent Management: The American Compensation Association

Workstream 2: Roles & Responsibilities

Recommendations:

- Legal office to review Rosenberg's Rules of Order and propose to the Board their incorporation into the Board's Governance Policy
- Consider retiring Robert's Rules of Order

Workstream 2: Roles & Responsibilities

Recommendations:

- No recommended action on remuneration at this time
- Include designations as part of agendas and agenda items:
 - Information
 - Action
 - Education
- Draft board policies and documents into plain English

Workstream 3: Meeting Materials

Recommendations:

- Annual Strategy Offsite
- Annual Stakeholder Forum
- Reduce the number of Board and Investment Committee meetings
- Establish consistent structure for all Board Committees

Workstream 4: Code of Conduct

Recommendations:

- Accept attached draft code of conduct as first reading
- Seek review of code of conduct by CalPERS' fiduciary counsel following first reading
- Place draft code of conduct on August Board of Administration agenda for second reading and possible action

Workstream 4: Code of Conduct

Recommendations:

- Upon approval, Board President coordinates annual attestation

Workstream 5: Insight Tool

Recommendations:

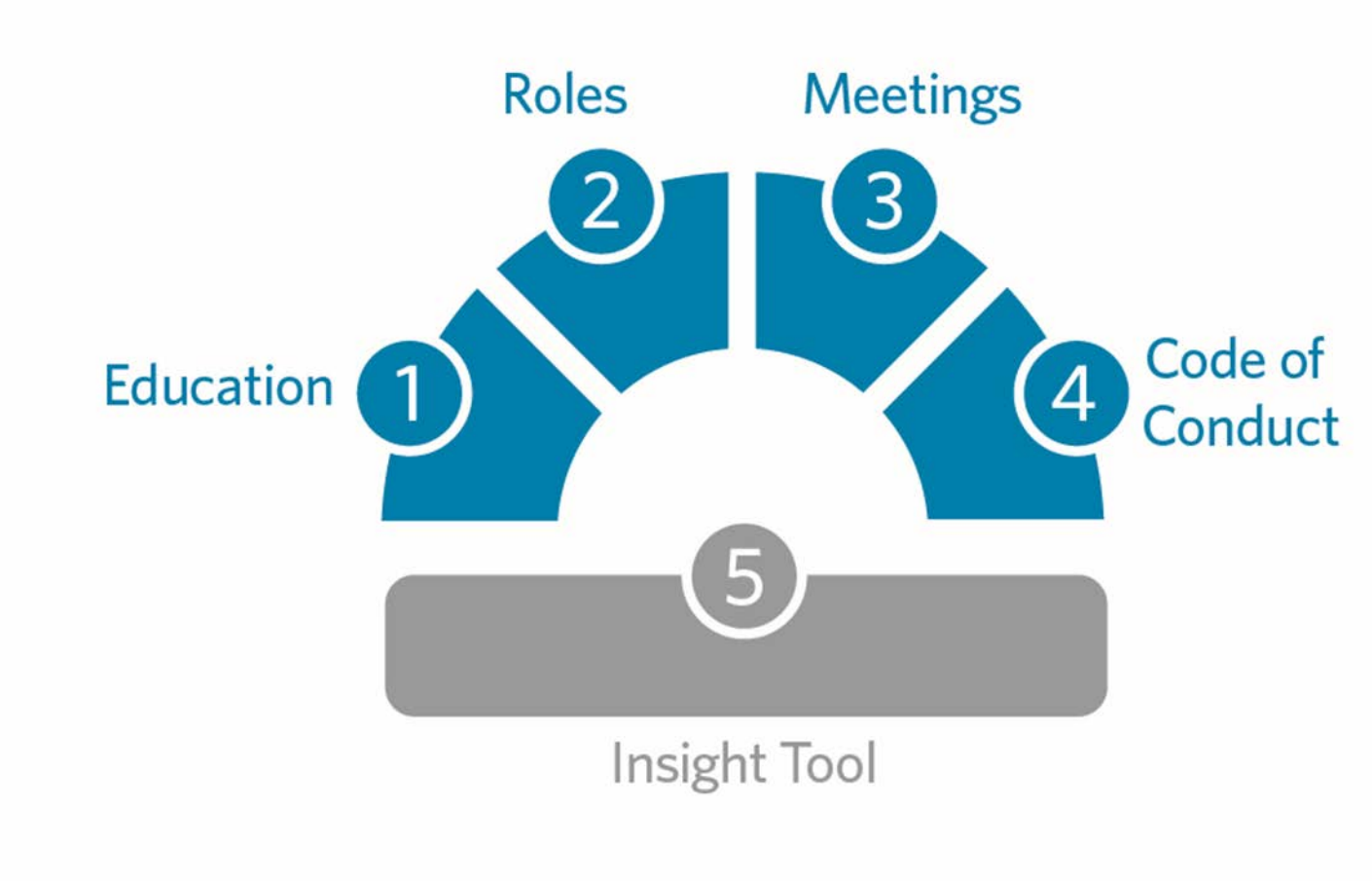
- Based on feedback, develop a new Board Dashboard of “vital signs” which incorporate real time management reporting to improve oversight:

Example:

Investment Performance – enhancing board oversight through improved

- Timeliness
- Trend Analysis
- Transparency

Questions & Discussion



Appendix NACD Resources

NACD Deliverables – Thought Leadership Resources

- Governance Fundamentals—what it means to be a board member
 - [Responsibilities of the board](#) (Report of the NACD Blue Ribbon Commission® on *Director Professionalism*)
- Governance models
 - [NACD 2019 Private Company Governance Survey](#)
 - [NACD 2019 Public Company Governance Survey](#)

NACD Deliverables – Thought Leadership Resources

- Board Roles:
 - Role of board president/chair and committee chairs – [Report of the Blue Ribbon Commission® on Board Leadership](#)
 - Fiduciary duties of a board member – [Director FAQ: Fiduciary Duties](#)
 - The role of the board versus management – [Director FAQ: The Role of the Board vs. the Role of Management](#)

NACD Deliverables – Thought Leadership Resources

- Pros and cons of a committee of the full board
 - [Report of the NACD Blue Ribbon Commission on the Audit Committee](#)
 - [Report of the NACD Blue Ribbon Commission on the Compensation Committee](#)
 - [Report of the NACD Blue Ribbon Commission on the Governance Committee](#)