

CalPERS 2021 Board Self-Evaluation: Findings and Opportunities

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Overview

- CalPERS' Board Policy requires regular self-evaluation
- Goal is to improve governance in order to enhance performance
- National Association of Corporate Directors (NACD) provides independent, expert facilitation
- CalPERS is a long-standing NACD member
- NACD facilitated the 2018 Board Self-Evaluation which resulted in significant governance reforms
- CalPERS' 2020 self-evaluation was postponed to 2021 to allow for implementation of Board Member working group recommendations

The Board Self-Evaluation Process

- NACD distributed evaluation surveys to the CalPERS Board in May 2021 to identify members' views on the importance and effectiveness of key competencies
- 100% survey completion by CalPERS' Board Members
- Scores and comments were independently interpreted by NACD faculty member, the Honorable Cari Dominguez
- Goal is to identify areas of strength and opportunities for improvement on leading practices

CalPERS Board Self-Evaluation Process

**Board
Evaluation**

**Committee
Evaluation**

**Attributes
Evaluation**

CalPERS Board Self-Evaluation Process

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Evaluation

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Board Self-Evaluation

NACD's framework for Board Self-Evaluation reflects five core competencies relevant to performance:

- Board Structure
- Operational Oversight
- Board Oversight of CEO Performance and Succession
- Strategy Oversight
- Risk Management and Oversight

NACD Findings: Leading Strengths

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NACD's review of responses to the Board, Committee, and Attributes surveys shows several leading strengths which include:

- CalPERS' exemplary response to the COVID-19 pandemic
- Industry leadership on Environmental, Social, and Governance (ESG) initiatives in its Sustainable Investment strategy
- CalPERS' Board composition is diverse in perspective, age, gender and gender identity, race, ethnicity, and professional experience
- CalPERS' new framework for Diversity, Equity, and Inclusion (DEI), with appointment of a Chief DEI Officer shows commitment to further progress

NACD Findings: Leading Strengths (continued)

- Board Members' commitment and dedication to CalPERS' mission and to the importance of its role in the marketplace and society
- Strong support for belief in transparency and accountability
- Recognition of stakeholder engagement as a considered strength
- Desire for continuous improvement, as a fiduciary board and as individual Members

NACD Findings: Board Evaluation

Board Self-Evaluation Framework

For each area of core competence, Board Members provided scores on a dual scale of effectiveness and importance:

- Effectiveness: 1 being poor and 5 being excellent, with zero being an unweighted score to indicate “does not know”
- Importance: 1 indicating the issue was ranked of least importance and 5 indicating very important

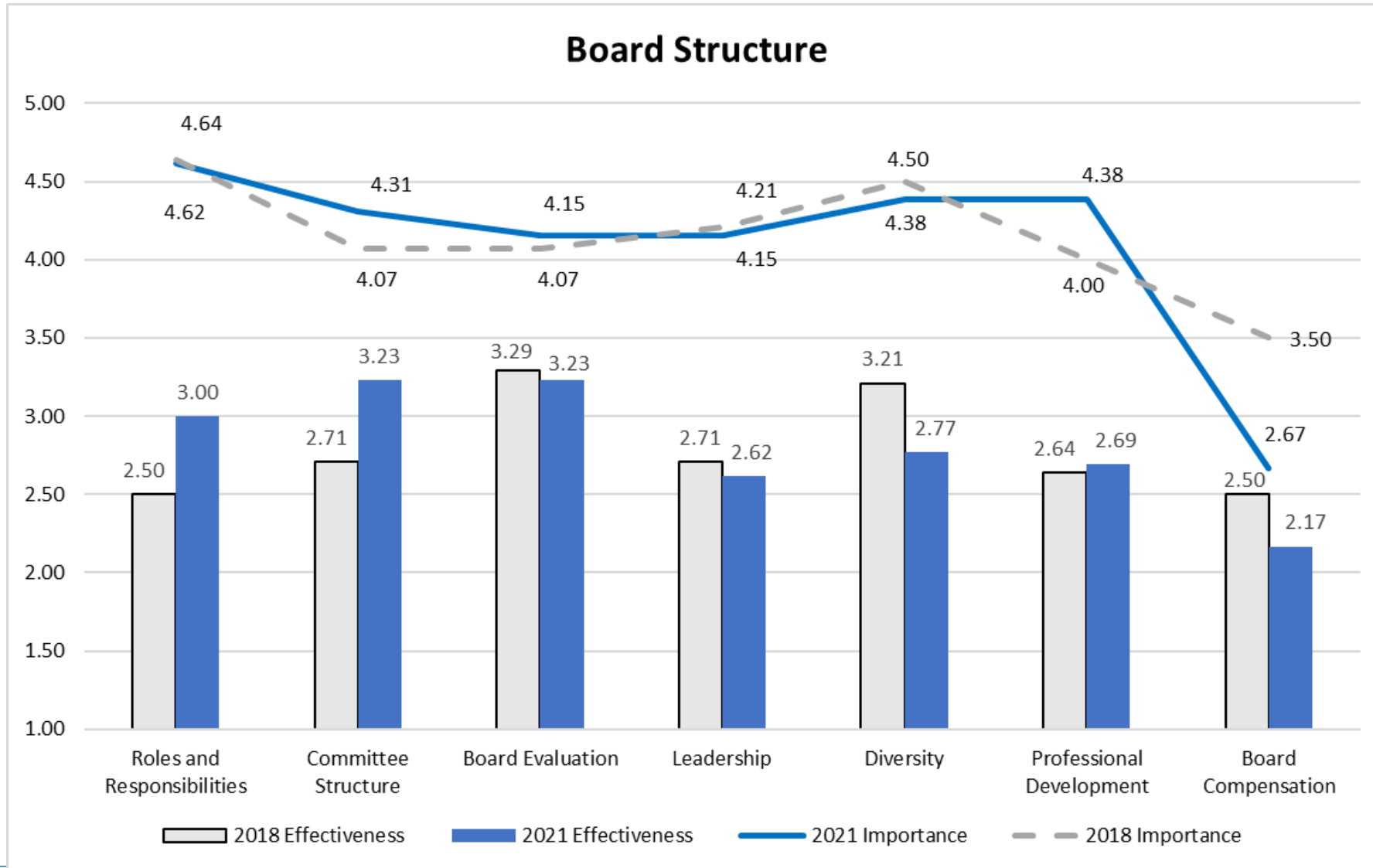
Quantitative Scores

NACD's findings are summarized by each area of the Board Self-Evaluation with the following components:

- Overall summary of quantitative findings from each of the three surveys, ranked on importance and effectiveness
- Comparison with 2018 findings to provide data on progress over time
- NACD's recommended leading practices for boardrooms
- Identification of opportunities to further strengthen board governance and continued performance improvement

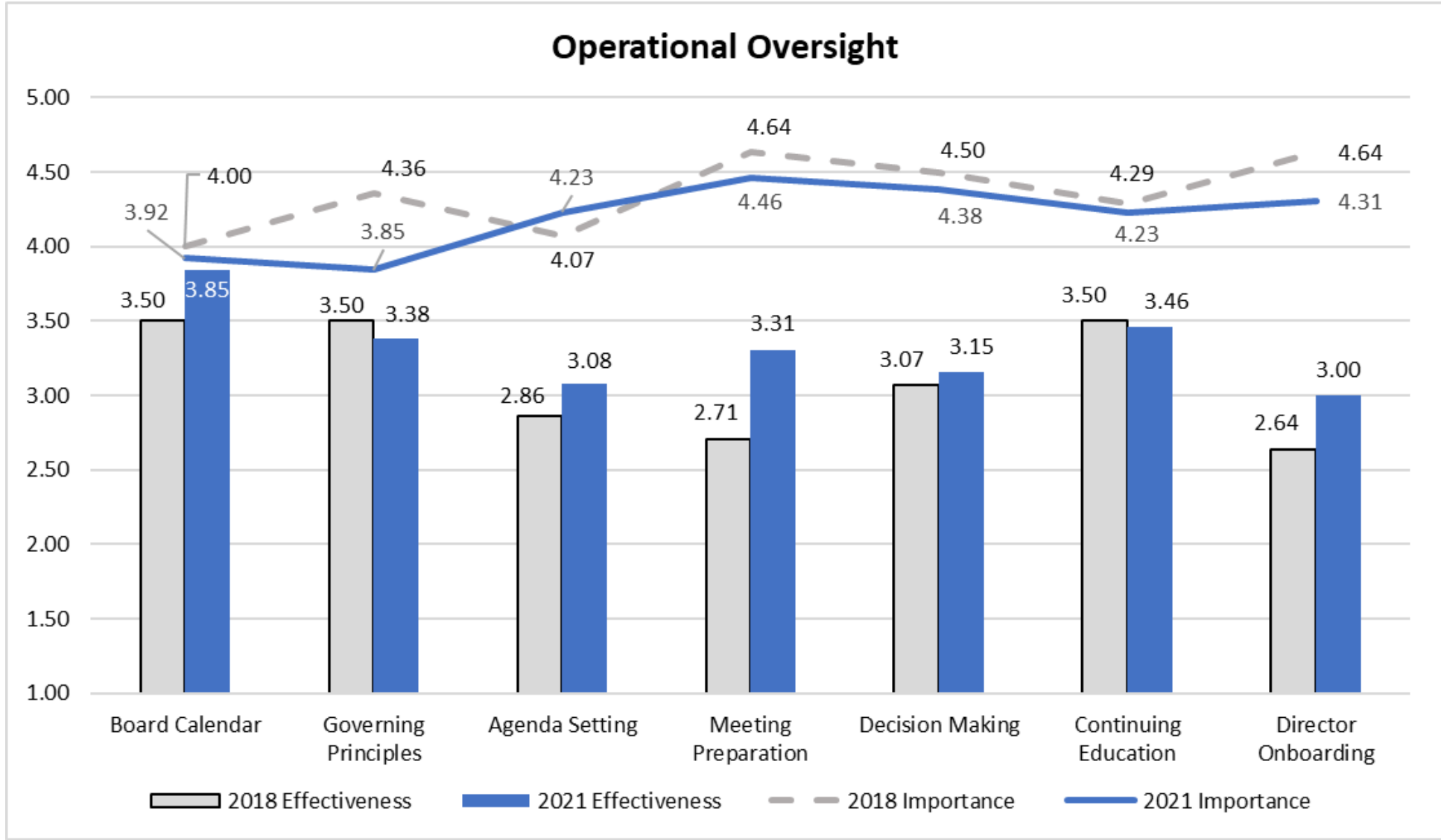
Board Structure Survey Questions

1. Roles and Responsibilities - Identifying and addressing gaps in Board Members' understanding of the Board roles and responsibilities
2. Committee Structure - Reviewing the Board's committees to determine the appropriate structure, delegations, and rotation
3. Board Evaluation - Assessing the Board's performance every two years around core oversight responsibilities to drive continuous improvement
4. Leaders - Identifying appropriate Board leaders who encourage continuous learning, engagement at meetings, and rigorous decision making
5. Diversity - Fostering a diversity of opinion in a collegial manner with common ownership of board decisions
6. Professional Development - Identifying and meeting the Board's needs in terms of current and future Board member skills, experience, and knowledge
7. Board Compensation - The Board is appropriately compensated for carrying out its responsibilities related to stakeholder engagement, continued professional development, education, meeting preparation, and participation



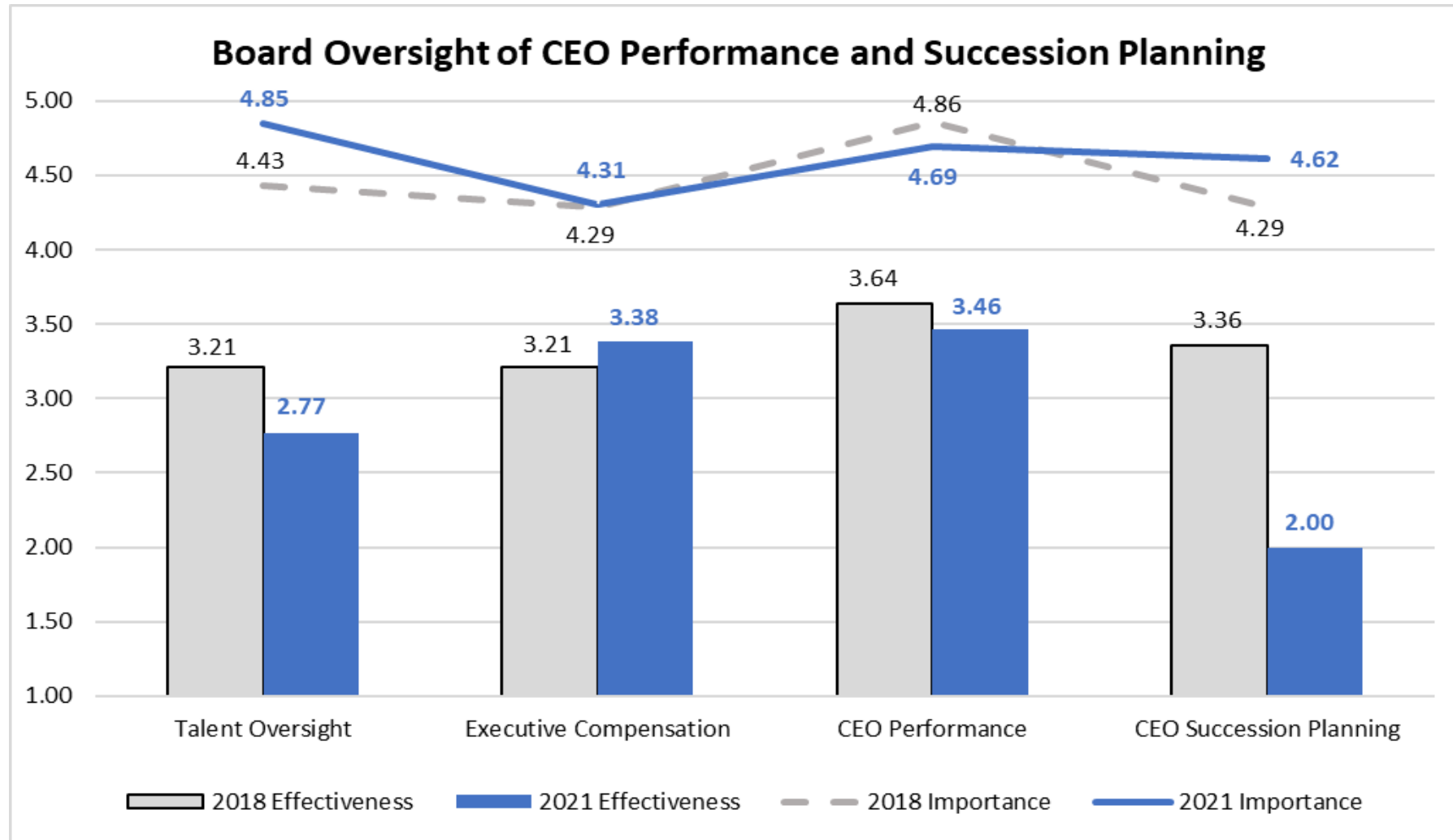
Operational Oversight Survey Questions

1. Board Calendar - Adhering to an annual calendar that outlines the dates and content of the Board's regularly scheduled meetings
2. Governing Principles - Regularly updating the organization's governance (vision, mission, beliefs, policies, delegations, and strategic plans)
3. Agenda Setting - Ensuring the board agenda focuses on strategic discussions
4. Meeting Preparation - Reviewing meeting materials to prepare for meaningful discussion at board and committee meetings
5. Decision Making - Engaging in thorough discussions that encourage alternate views and yield concrete decisions
6. Continuing Education - Providing opportunities for Board Members to develop their knowledge and expertise in areas relevant to CalPERS
7. Board Member Onboarding - Employing onboarding practices that set forth a Board Member's duties and responsibilities within the CalPERS' legal and policy framework



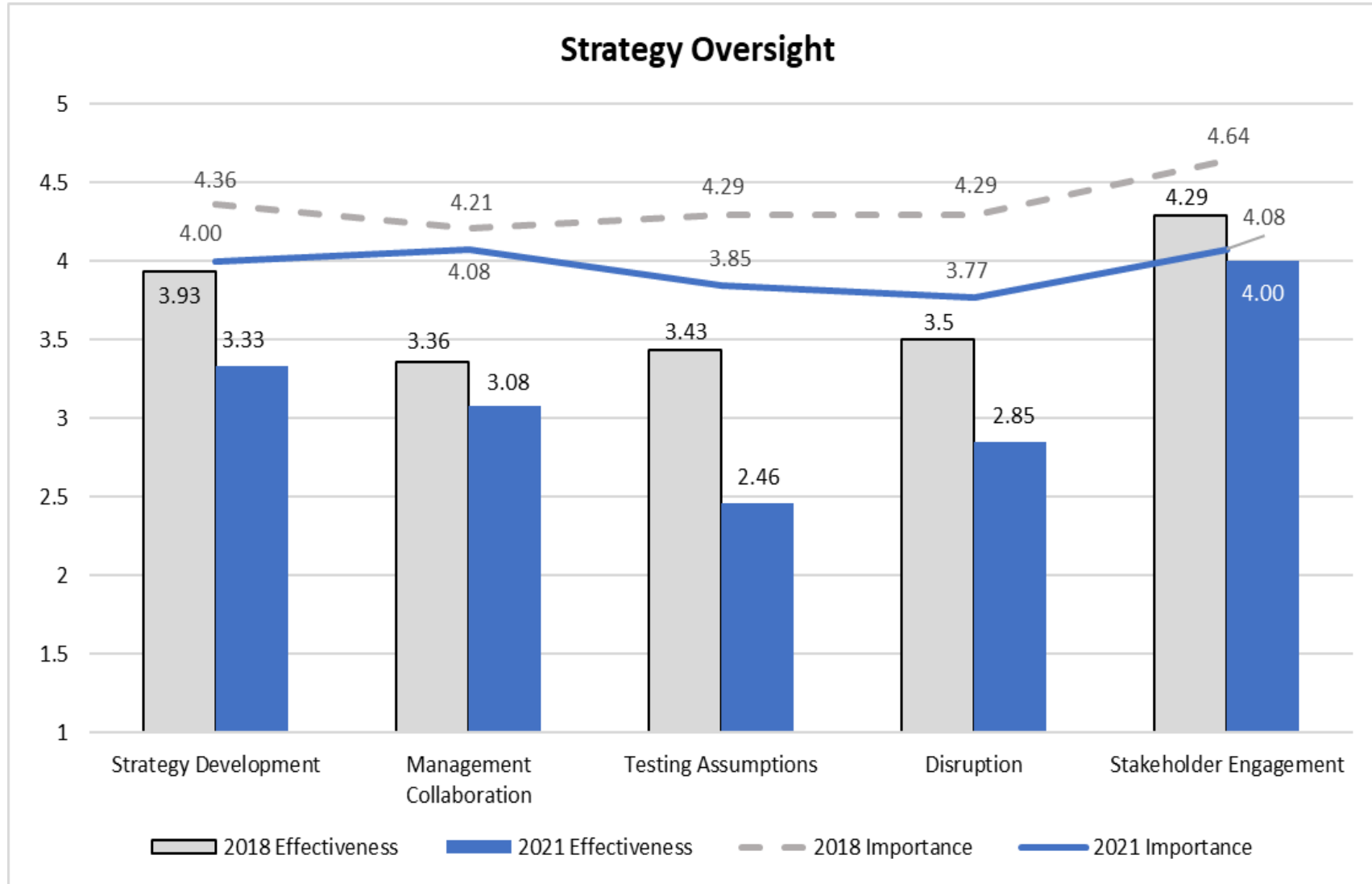
Board Oversight of CEO Performance and Succession Planning Survey Questions

1. Talent Oversight - Aligning CalPERS' hiring philosophy, employee retention and incentive programs, and corporate culture to support a diverse talent pipeline and long-term talent strategy
2. Executive Compensation - Ensuring compensation plans balance long-term incentives with short-term operational goals, clearly reflecting CalPERS' strategic plan and values
3. CEO Performance - Evaluating CEO performance against clearly communicated goals, expectations, and growth opportunities
4. CEO Succession Planning - Establishing a sustainable and rigorous process to identify potential CEO successors both within and outside CalPERS



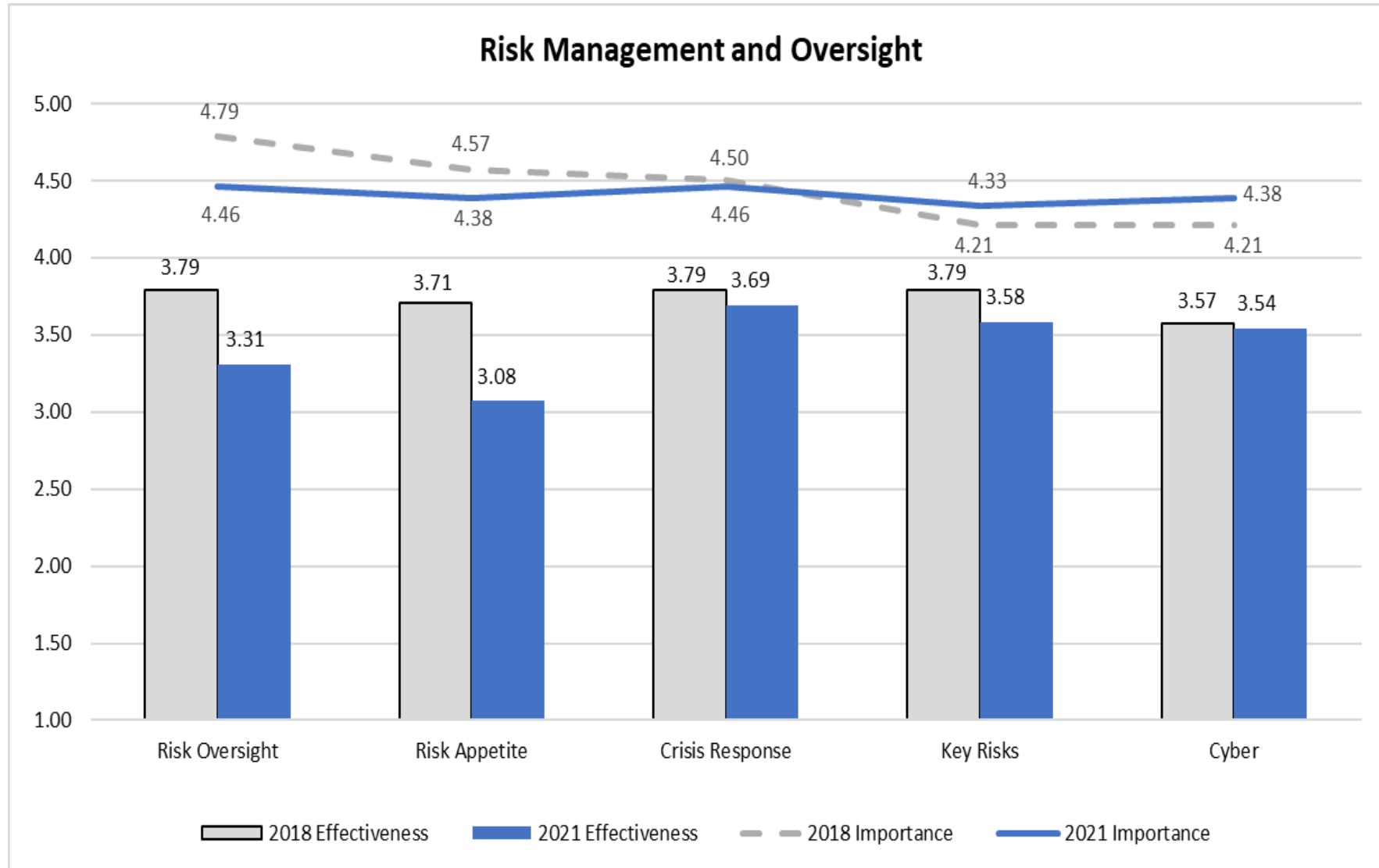
Strategy Oversight Survey Questions

1. Strategy Development - Collaborating with executive leaders to develop the Enterprise Strategic Plan in alignment with CalPERS' vision, mission, and beliefs
2. Management Collaboration - Engaging with executive leaders on strategy issues on an ongoing basis, including early involvement to improve strategy development
3. Testing Assumptions - Evaluating underlying assumptions and assessing alternatives that drive CalPERS' strategy and business model
4. Disruption - Anticipating change and understanding how potential disruptors may affect CalPERS' strategic course
5. Stakeholder Engagement - Maintaining an open dialogue with key stakeholders who have an interest in or may be impacted by CalPERS' strategy



Risk Management and Oversight Survey Questions

1. Risk Oversight - Oversee the assessment, prioritization, and mitigation of risks with significant implications for CalPERS
2. Risk Appetite - Referencing a clearly articulated level and nature of risk that CalPERS is willing to take
3. Crisis Response - Ensuring protocols are in place that allow CalPERS to respond quickly and effectively to crisis situations
4. Key Risks - Providing actionable guidance on executive assessments of key risks and their mitigation
5. Cyber - Providing actionable guidance on management's assessments of cybersecurity risk and opportunities



CalPERS Board Self-Evaluation Process

Board
Evaluation

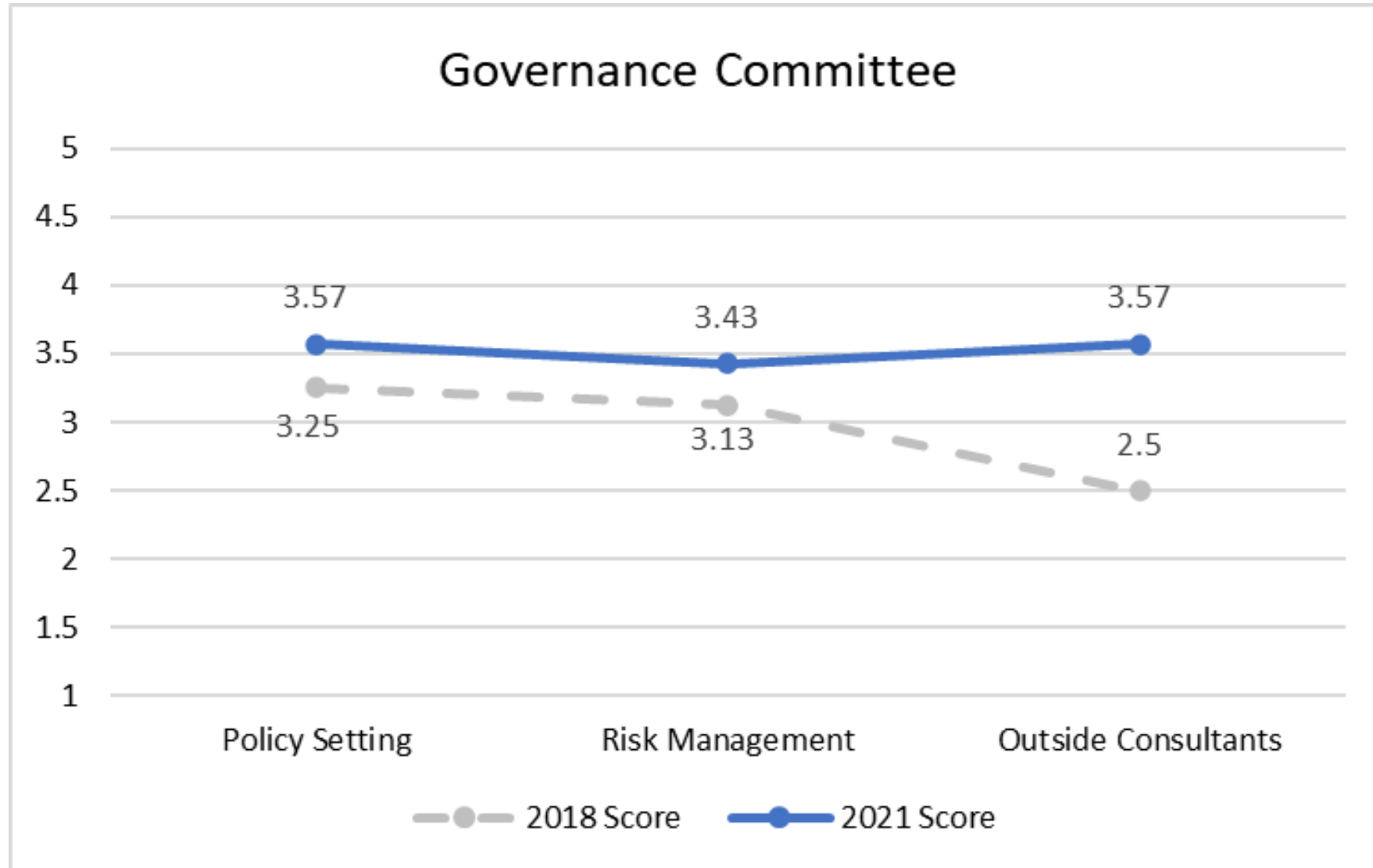
**Committee
Evaluation**

Attributes
Evaluation

NACD Findings: Board Committee Evaluation

Governance Committee Survey Questions

1. Policy Setting - Set and regularly review board governance policies for the Board to be in line with the committee's delegation
2. Risk Management - Ensure board policies reflect relevant governance risks
3. Outside Consultants - Obtain independent expertise to inform the committee's deliberations as needed

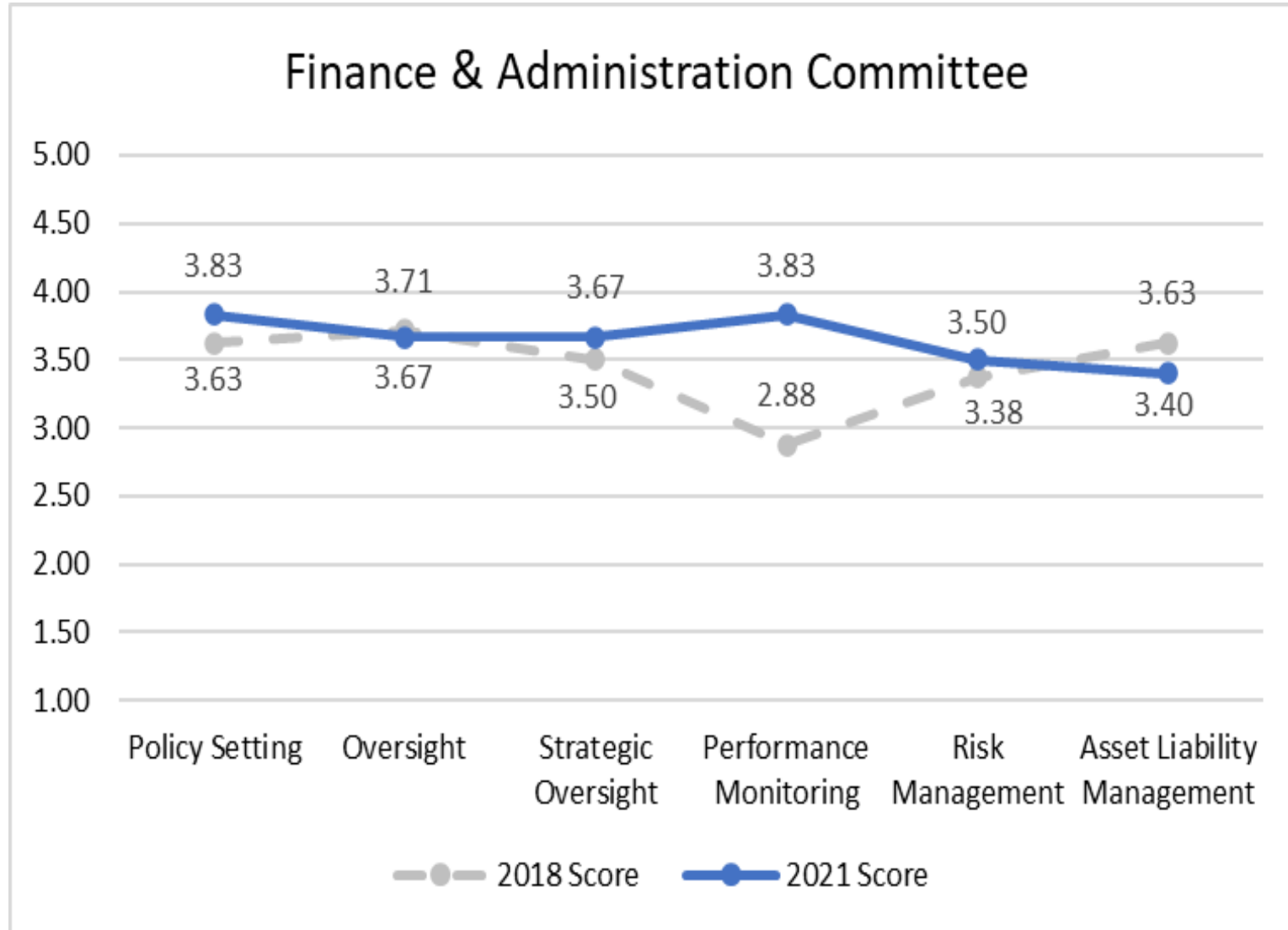


Finance & Administration Committee Survey Questions

1. Policy Setting - Set appropriate policies and direction consistent with the committee's delegation
2. Strategic Oversight - Oversee the administration and financial soundness of CalPERS, particularly regarding:
 - Employer Delinquencies and Terminations
 - Health Care and Contingency Reserve Funds
 - Long Term Care Funds
 - Budget Setting
 - Actuarial Valuations
 - Treasury Management
 - Enterprise Strategic Plan
 - Board Elections

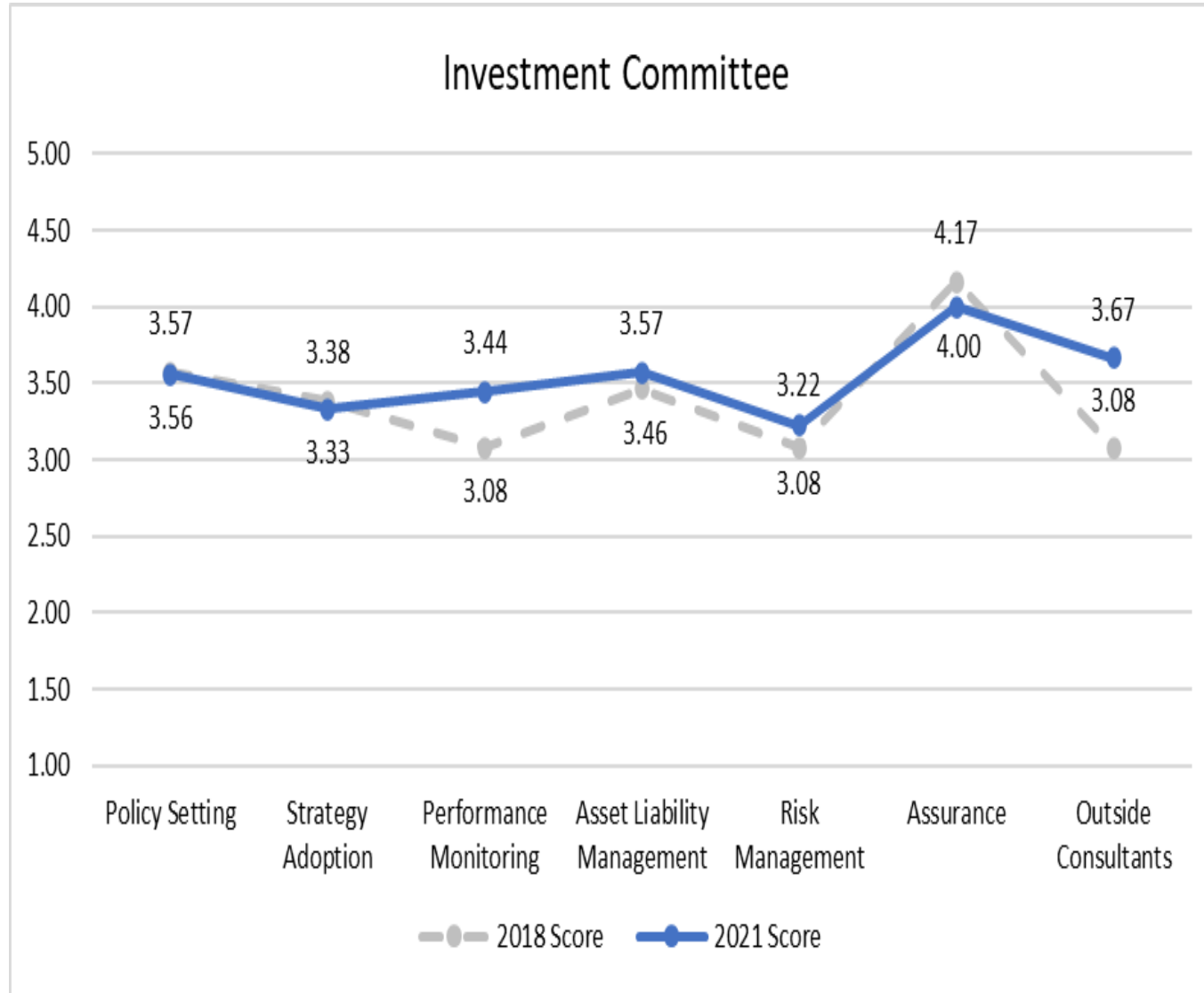
Finance & Administration Committee Survey Questions (continued)

3. Performance Monitoring - Conduct an annual review of the committee delegation and monitor performance to support CalPERS' long-term strategy and management of risks
4. Risk Management - Oversee management of the funding risk related to the duties delegated to the committee
5. Asset Liability Management - Properly consider inputs and expert advice to determine assumptions underpinning liability projections and asset allocation decisions



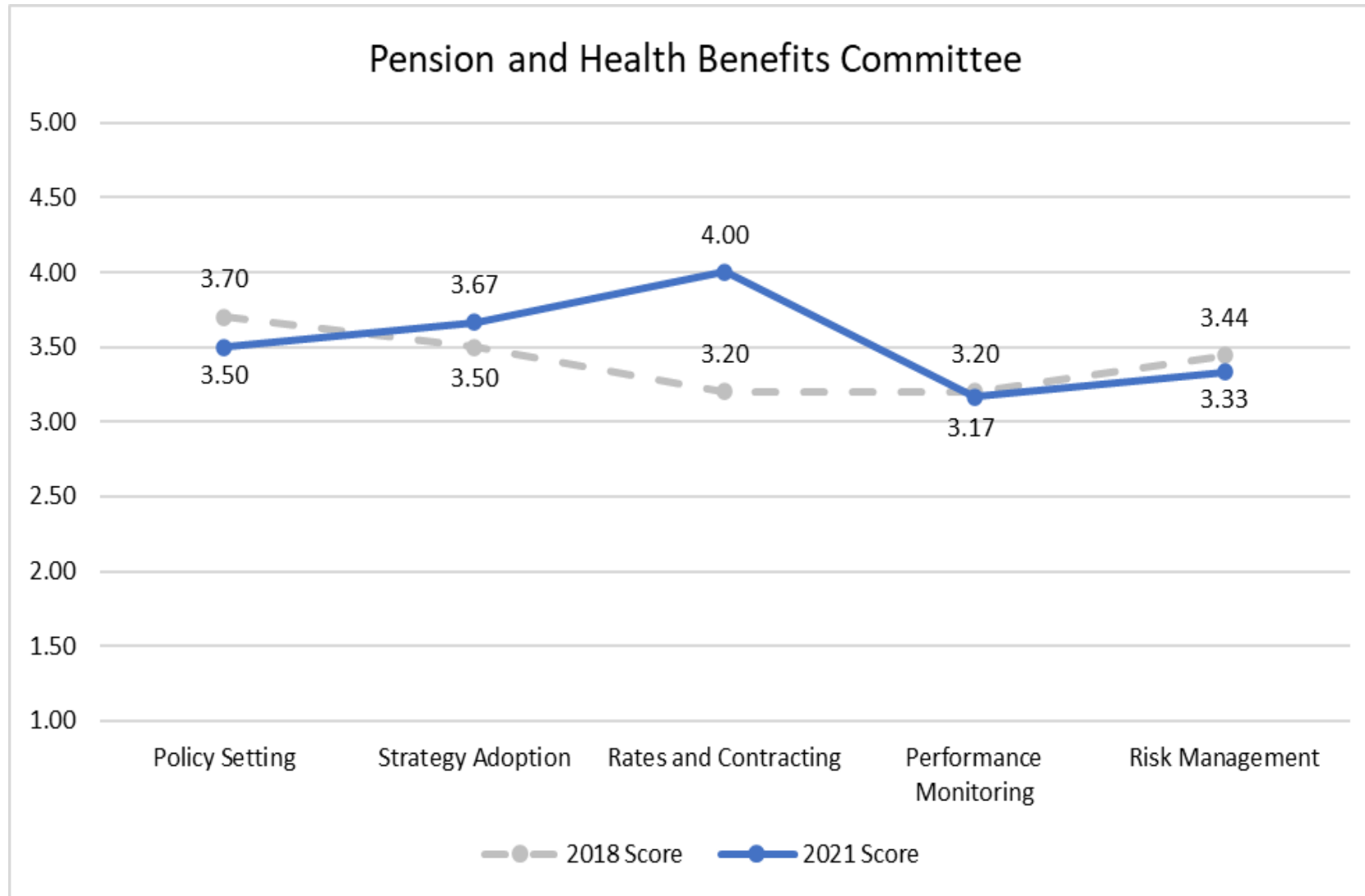
Investment Committee Survey Questions

1. Policy Setting - Set appropriate policy and direction for the activities delegated to the committee
2. Strategy Adoption - Adopt and approve insightful strategies aligned with CalPERS' vision, mission, and beliefs
3. Performance Monitoring - Conduct an annual review of the committee's delegation and monitor investment performance to support CalPERS' long-term strategy
4. Asset Liability Management - Properly consider inputs and expert advice, actively deliberate, and make strategic asset allocation decisions in the context of liability projections
5. Risk Management - Oversee management of the short- and long-term risks related to managing the investments of the total fund, affiliates, and other trusts
6. Assurance - Meet quarterly in closed session with the Chief Investment Officer to ensure independence and the absence of undue influence
7. Outside Consultants - Obtain independent expertise to inform the committee's deliberations and oversee the performance of investment partners, managers, and consultants



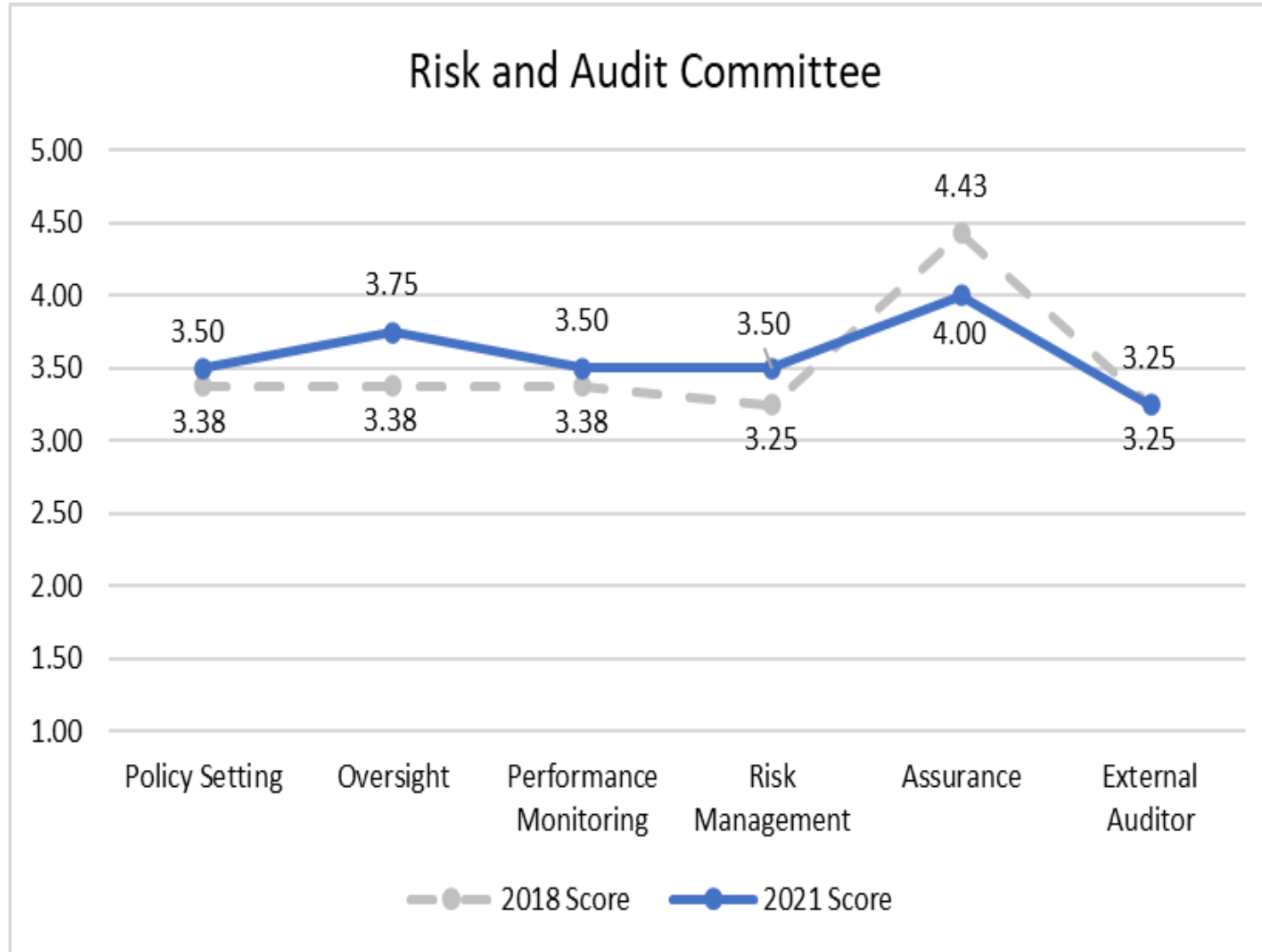
Pension and Health Benefits Committee Survey Questions

1. Policy Setting - Set appropriate policy and direction for the activities delegated to the committee
2. Strategy Adoption - Adopt and approve insightful strategies aligned with CalPERS' vision, mission, and beliefs
3. Rates and Contracting - Oversee long-term care and health benefit plan contracting and approve plans, providers, managers, administrators, and rates
4. Performance Monitoring - Conduct an annual review of the committee delegation, set benchmarks and metrics, monitor and report performance, including performance of plans, providers, managers, and administrators
5. Risk Management - Oversee management of risks related to the duties delegated to the committee



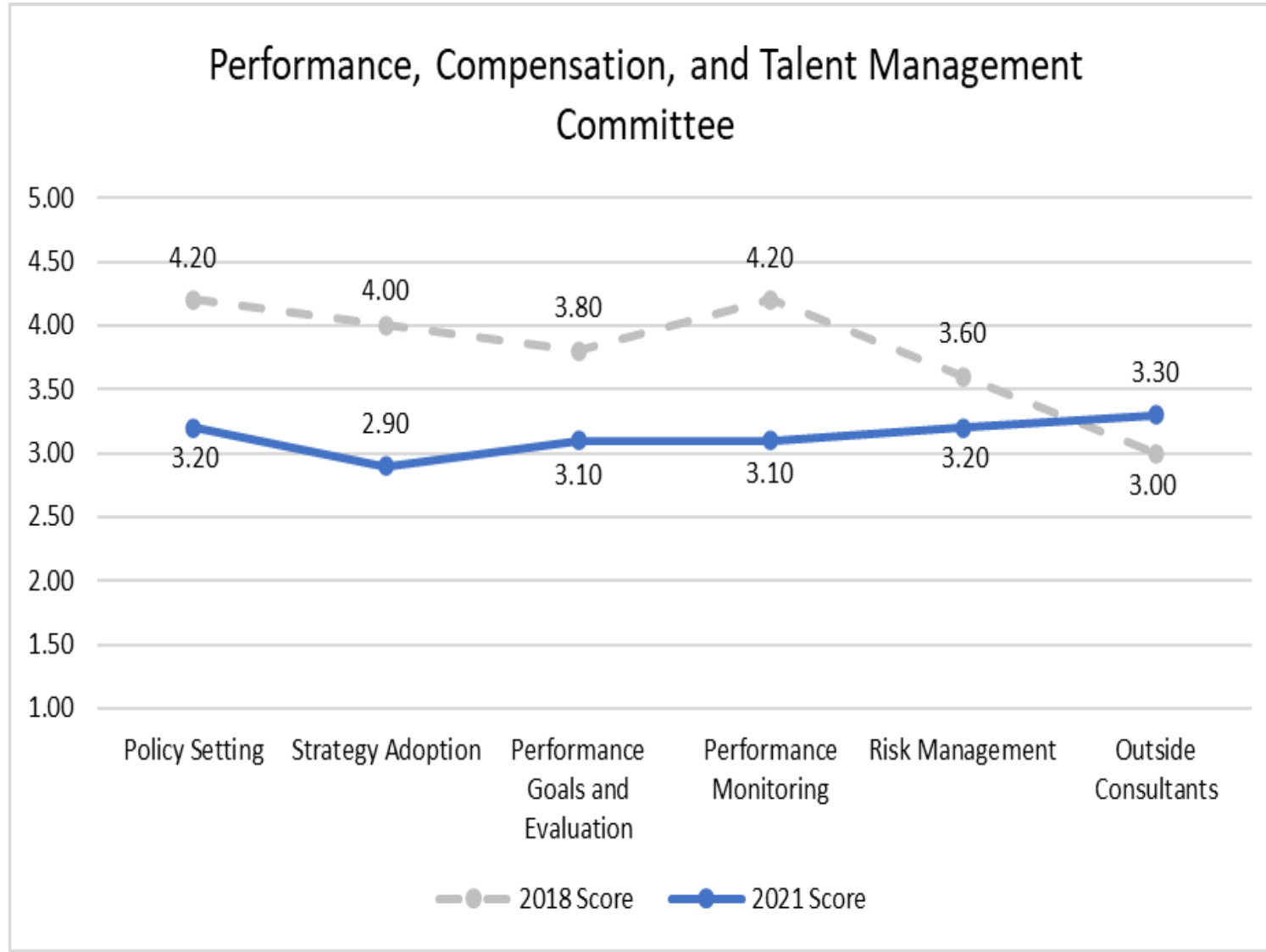
Risk and Audit Committee Survey Questions

1. Policy Setting - Set appropriate policy and direction for the activities delegated to the committee
2. Oversight - Oversee key risks, compliance, and ethics activities including:
 - Enterprise Compliance Plan
 - Enterprise Risk Appetite and Tolerances (excluding investments)
 - Ethics-related Complaints, Processes, and Findings
 - Internal Audit Plan
3. Performance Monitoring - Conduct an annual review of the committee delegation and monitor performance to support CalPERS' long-term strategy
4. Risk Management – Oversee management of risks related to the duties delegated to the committee
5. Assurance - Meet quarterly in closed session with the Chief Compliance Officer, Chief Auditor, and Chief of Investment Compliance and Operational Risk to ensure independence and the absence of undue influence



Performance, Compensation and Talent Management Committee Survey Questions

1. Policy Setting - Set appropriate policy and direction for the activities delegated to the committee, including compensation policies for covered personnel
2. Strategy Adoption - Adopt and approve insightful strategies with a focus on CalPERS' vision, mission, and beliefs
3. Performance Goals and Evaluation - Set performance goals and conduct the performance evaluation of the CEO
4. Performance Monitoring - Conduct an annual review of the committee delegation and monitor and report performance metrics to support CalPERS' long-term strategy
5. Risk Management - Oversee management of talent management risks related to the duties delegated to the committee
6. Outside Consultants - Obtain independent expertise to inform the committee's deliberations as needed, and oversee the performance of the Board's executive compensation consultant and executive search firms



CalPERS Board Self-Evaluation Process

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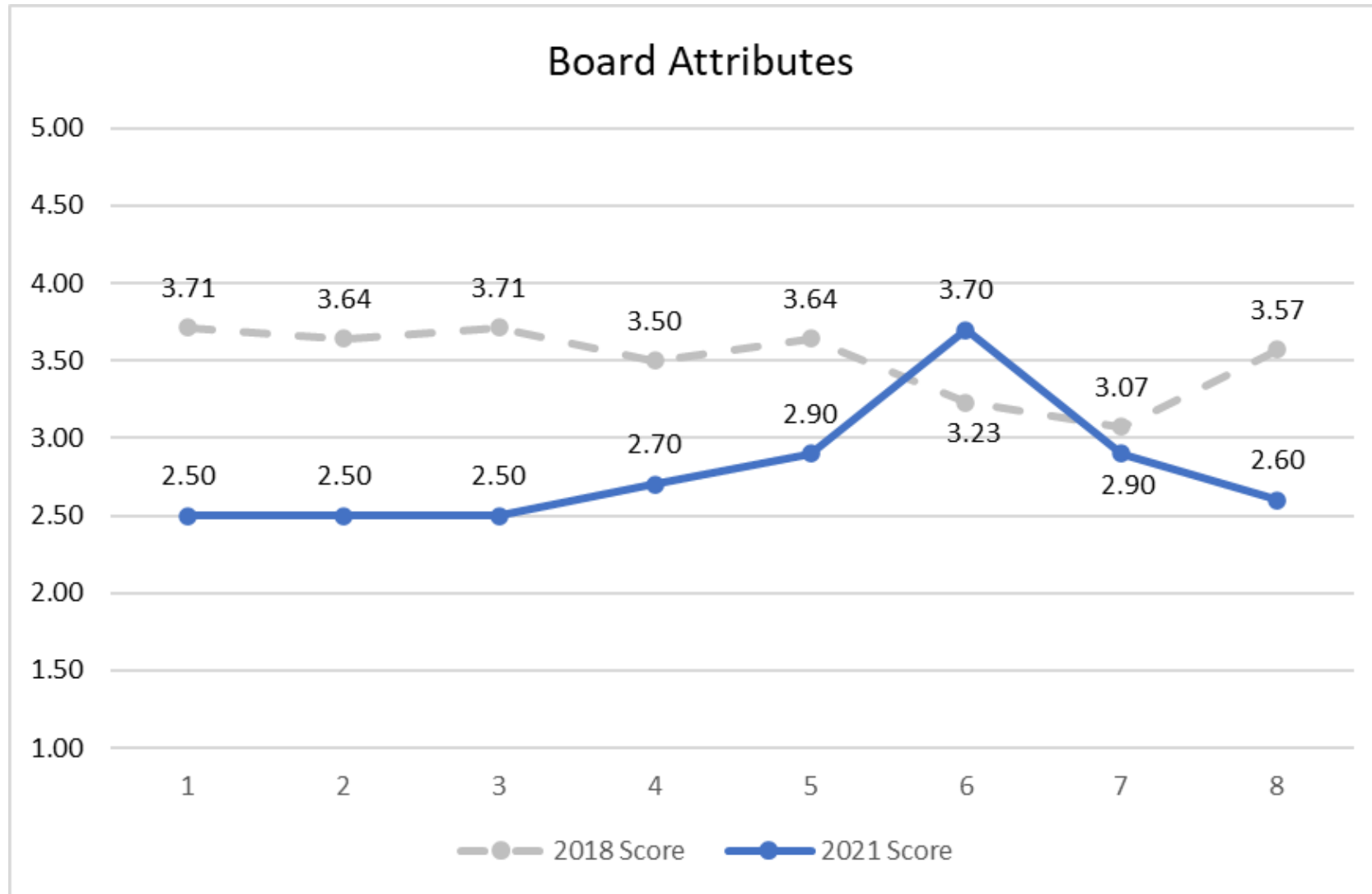
NACD Findings: Board Attributes Evaluation

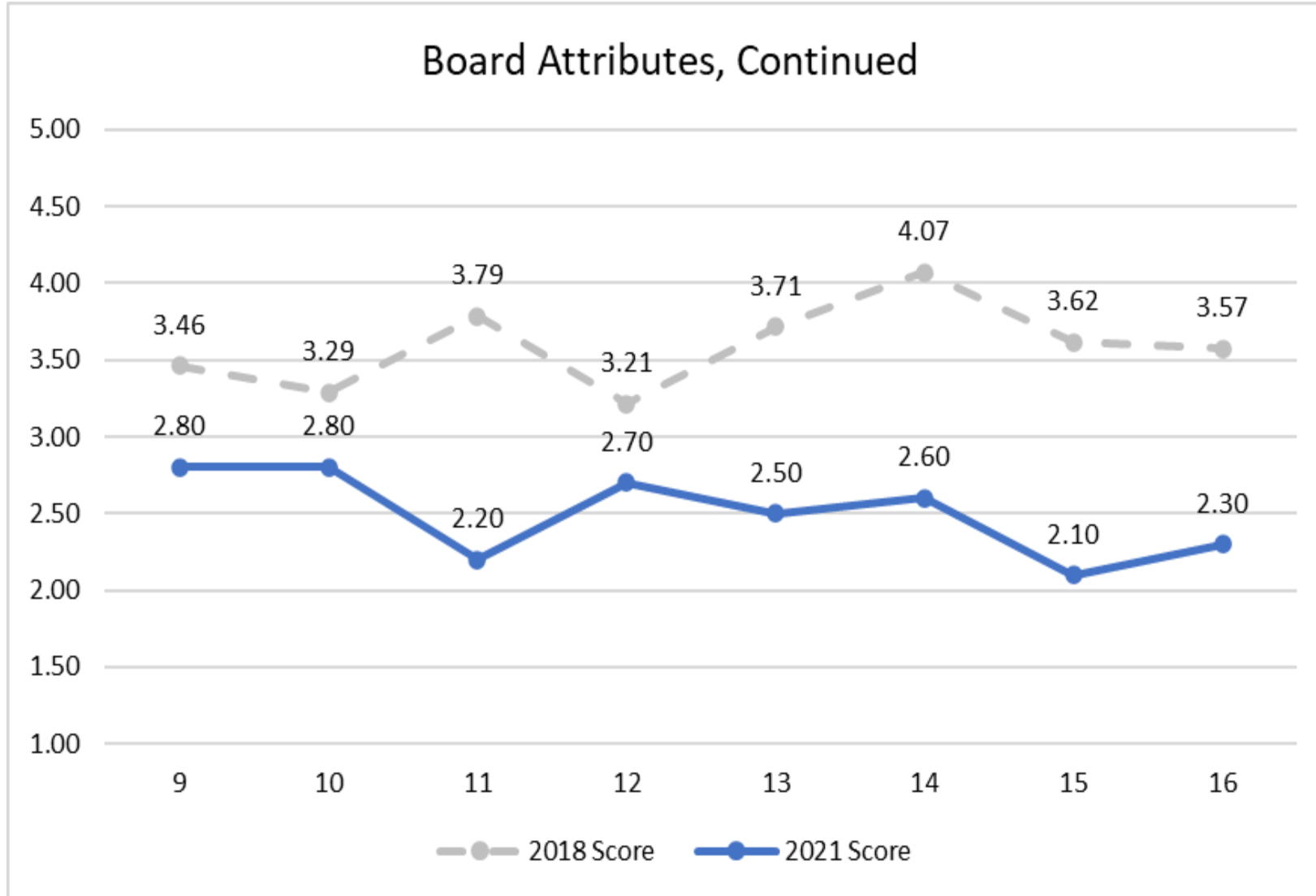
Board Attributes Survey Questions

1. Demonstrates high ethical standards and integrity in professional dealings
2. Provides wise, thoughtful input on a broad range of issues during board discussions.
3. Fulfills its fiduciary duty
4. Comes to board meetings well prepared, having thoroughly studied all meeting materials
5. Exercises independence of judgement when considering issues before the Board
6. Fully supports majority decisions regardless of individual opinions
7. Communicates with candor and tact
8. Is attentive during meetings, listening to and respecting the opinions of others

Board Attributes Survey Questions

9. Engages appropriately and constructively with fellow members of the Board
10. Engages appropriately and constructively with CalPERS executives and team members
11. Engages appropriately and constructively with stakeholders to help advance their understanding and address their concerns about CalPERS
12. Offers creative and innovative ideas or solutions to the challenges facing CalPERS
13. Provides insightful guidance and feedback with regard to CalPERS' strategy
14. Seeks opportunities to better understand the issues and challenges facing CalPERS
15. Actively participates in continuing professional education and training
16. Remains up-to-date with leading trends, opportunities, and risks relevant to CalPERS





NACD Findings and Opportunities

NACD Findings

Overall, the CalPERS Board is to be commended on the progress it has made during challenging times. Key areas of improvement in effectiveness from 2018 to 2021 included:

- Roles and Responsibilities - .50
- Committee Structure - .46
- Board Calendar - .33
- Meeting Preparation - .54
- Board Member Onboarding - .36
- Professional Development - 2.67

NACD Opportunities

Key opportunities for further strengthening board governance include:

- Further development of Board Member onboarding program
- Establish a board process for succession planning to identify internal and/or external CEO successors
- Focus on fostering a diverse talent pipeline and long-term talent strategy
- Consider options for remuneration which Board Members consider to be equitable

NACD Opportunities (continued)

- Evaluate underlying assumptions and assess alternatives to drive CalPERS' business model and strategy
- Clarify the nature and level of risk CalPERS is willing to take
- Continue to adhere to the code of conduct in order to:
 - Support the Board's fiduciary duty
 - Foster a board culture of trust and collegiality
 - Continue professional development

Questions and Discussion