



Board Governance Committee

Item Number 4 – Open Session

Subject: Continuation of Board and Committee Meeting Format Discussion

Presenter(s): Amy McDuffee and Catherine Jackson, Mosaic Governance Advisors, LLC

Item Type: Action

Date & Time: May 5, 2022 – 45 minutes

Attachment(s): 1. Draft Board and Committee Workplans FY 2022-23

2. Consensus Outcomes of Board 2022-25 Strategic Plan
Priorities Discussion

3. FY 2022-23 Board Meeting Calendar

PowerPoint(s): Continuation of Board and Committee Meeting Format Discussion

PURPOSE

To receive the Committee's input, direction, and approval on proposed adjustments to the board meeting calendar.

DISCUSSION/SUMMARY

At the January 2022 Committee meeting, the Committee developed draft governance operative principles based off a trustee survey administered by Mosaic Governance Advisors, LLC (Mosaic), the board's governance consultant. These operative principles set the foundation for how the CalSTRS Board and its committees conduct their work.

With these operative principles in mind, the Committee is leading an initiative to identify ways to continually improve transparency, effectiveness, and efficiency in board operations. In doing so, it is engaging in reflection and creative thinking given lessons learned from the pandemic and the rapidly changing business context.

One aspect of the initiative was to evaluate the board's plate¹ for alignment with the draft governance operative principles to see how or where greater efficiencies could be introduced or piloted during FY 2022-23 without compromising the board's high degree of effectiveness and transparency. As a reminder, the board's plate is reflected through annual board and committee workplans. Individual board and committee meeting agendas are then developed based on the workplans. Since the annual workplans are adopted by the board (typically each July), they also provide an opportunity for all trustees to contribute to the agenda setting process.

The approach to evaluate the board's plate as directed by the Committee in November 2021 included the following activities:

- Surveying the full board to better understand specific preferences on board meetings and materials.
- Researching peers and/or other related entities for insights.
- Discussing the survey results with the Committee to develop consensus operating principles to guide the development of options.
- Discussing suggested improvements to routine and required board items from executive staff that support committees and Mosaic (based on alignment with the operative principles).
- Facilitating the board and executive staff's discussion of the recently adopted 2022-25 Strategic Plan to identify consensus refreshed board priorities for FY 2022-23 that would require the time of either the full board or its committees.

It is important to acknowledge that the external landscape is still shifting. We understand from the board's General Counsel that at the time of this writing, the flexibility in applicable law that enabled virtual meetings during the pandemic is not set to continue; however, CalSTRS continues to carefully monitor the situation.

Further, we believe it would be helpful to get the Committee's feedback and input on the concept of the board plate first, and address specifics about "how" it could be addressed as a next step. Again, while limited consideration was given to incorporating the use of a virtual setting at this time, the concept is not off the table. The results of the board's sentiment survey were clear that an overwhelming majority of trustees are open to considering the integration of virtual capabilities in some capacity. We anticipate addressing this issue in more depth with the Committee at its next meeting.

Using the outputs from the above process while keeping in mind the Committee's desire to maintain a culture of adaptability, Mosaic and staff constructed draft FY 2022-23 board and committee workplans (Attachment 1). The intention was to ensure sufficient coverage of the board's plate in the most transparent, effective, and efficient manner whereby the board could address its strategic priorities as well as its routine and required items.

¹ The board's "plate" is the work that the board and its committees intend to undertake to fulfill its purpose and satisfy its key organizational oversight responsibilities of strategy, risk, performance, and people. It is comprised of the routine, required, strategic and significant risk related items that a board and its committees intend to address over the coming year through board meetings.

Specific adjustments we incorporated included the following:

- Added the strategic planning priorities from the April 2022 offsite (see Attachment 2 for consensus outcomes).
- Moved some routine items to consent, primarily within the regular board meeting workplan.
- Moved some education items to an offline, self-paced format or pre-recorded video, such as the annual fiduciary training. This aligned with the results of the trustee survey.
- Adjusted the frequency in the delivery of some legacy reports and information items. For example, we, along with staff and the board's investment consultants believe that several investment items presented at every investment committee meeting would be more useful as routine reports delivered semi-annually.
- Introduced the practice of holding two offsites every third year in conjunction with the adoption of the Strategic Plan, instead of annually, to assist the board in realigning and reestablishing strategic board priorities. This aligns with a peer practice uncovered through the research that we believe to be a model practice.
- Maintained the concurrent cycle of board meetings, whereby all board and committees meet during the same cycle, except for the Appeals Committee which meets off cycle.

While we did not set out in this review with the aim of reducing the number of board meetings, there was unanimous sentiment through the trustee survey to maintain a minimum of 6 weeks between meeting cycles, including offsites. That is not achievable through the current board meeting calendar (Attachment 3). However, we also noted through the survey a nearly unanimous sentiment that trustees do not necessarily prefer a reduction in the number of board meetings per year as long as effectiveness and efficiency are incorporated into how the board meetings are planned and operated.

In the process of creating the draft workplans, we uncovered two possibilities for the Committee to consider regarding board meeting frequency. These possible steps could better align board meetings with the draft operative principles and survey sentiment while maintaining the quality of the meetings. They are as follows:

- Step 1. Adopt the practice of holding two offsites every third year in conjunction with the board's adoption of the strategic plan. This would result in an amendment needed to the FY 22/23 board meeting calendar to eliminate the April 2023 Offsite. (7 meetings, including 6 regular meetings and 1 offsite)
- Step 2. Direct Mosaic and staff to support the Committee in exploring the concept of a board meeting calendar with 6 meetings total, consisting of 5 regular meetings and 1 offsite. This would not be for FY 2022-23 but rather a conceptual fiscal year. We would incorporate the practice of two offsites every third year in conjunction with the board's adoption of the strategic plan.

We will seek the Committee's input, direction, and action. Key questions to focus the discussion include the following:

- In your opinion, how well does the draft FY 2022-23 draft workplan align with the operative principles?
- What is needed to support a consensus to pilot Step 1 as described for FY 2022-23?
- Is there consensus to explore Step 2 as described at the next Committee meeting?

RECOMMENDATION

Mosaic and staff recommend that the Committee adopt the practice of holding two offsites every third year in conjunction with the Strategic Plan and amend the FY 2022-23 board meeting calendar to eliminate the April 2023 offsite.

Action in the affirmative taken by the Committee advances the amendment to the FY 2022-23 board calendar to the board for subsequent approval.