

TEACHERS' RETIREMENT BOARD  
BOARD GOVERNANCE COMMITTEE

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SUBJECT: Approval of Minutes of April 5, 2006

ITEM NUMBER: 2

CONSENT:   

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 8, 2006

INFORMATION:       

PRESENTER(S): Chairperson

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Please see the minutes of the April 5, 2006, Board Governance Committee meeting.

Proposed Minutes Open Session	<b>Board Governance Committee</b> Teachers' Retirement Board	April 5, 2006 Wednesday
LOCATION: Board Room, 7667 Folsom Blvd., Sacramento, CA		

**COMMITTEE MEMBERS PRESENT**

Dana Dillon, Chairperson  
Kathy Brugger  
Gary Lynes  
Carolyn Widener  
Dennis Trujillo, representing the State Treasurer, Philip Angelides  
Nick Smith, representing the State Controller, Steve Westly  
Karen Green Ross, representing the State Controller, Steve Westly

**OTHER BOARD MEMBERS PRESENT**

Roger Kozberg  
Jerilyn Harris  
Beth Rogers  
Amy Cameron, representing the Superintendent of Public Instruction, Jack O'Connell

**COMMITTEE MEMBERS ABSENT**

David Crane

**STAFF PRESENT**

Jack Ehnes, Chief Executive Officer  
Robert Van Der Volgen, Assistant General Counsel  
Christopher J. Ailman, Chief Investment Officer  
Christine Ford, Chief Financial Officer  
Ed Derman, DCEO, Plan Design and Communication  
Janice Hanson, Chief Technology Officer  
Peggy Plett, DCEO, Benefits and Services  
Mary Miles, Administrative Assistant  
Susan Butler, Investments  
Shannon Chambers, Staff Counsel

**OTHERS PRESENT**

Ian Lanoff, Fiduciary Counsel  
Richard H. Koppes  
JoAnne Speers  
Mark Battey  
Al Reyes, UTLA  
Pat Geyer, CRTA

A quorum being present, Chairperson Dillon called the Open Session to order at 1:30 p.m.

**I. APPROVAL OF COMMITTEE AGENDA**

**MOTION** duly made by Mr. Trujillo and seconded by Ms. Brugger, and carried to approve the Committee Agenda.

**II. APPROVAL OF MINUTES OF FEBRUARY 2, 2006**

Chairperson Dillon requested clarification regarding the language contained on Page 3, Paragraph 6 of the minutes. The Committee discussed the language and determined that no further clarification or language was needed.

**MOTION** duly made by Mr. Smith and seconded by Mr. Trujillo and carried to approve the minutes of February 2, 2006.

Mr. Ehnes introduced Amy Cameron, representing the Superintendent of Public Instruction, Jack O'Connell to the Committee.

Ms. Dillon noted that Mr. Waddell was not able to attend the meeting due to a family emergency.

**III. PANEL DISCUSSION ON ETHICAL, FIDUCIARY AND GOVERNANCE ISSUES**

Mr. Van Der Volgen provided the Committee with background information on the purpose of the panel and the panel speakers and introduced Ian Lanoff, Fiduciary Counsel, Richard Koppes, former Deputy Executive Officer and General Counsel of CalPERS, and JoAnne Speers, Executive Director, Institute for Local Government to the Committee as the panel speakers.

Mr. Koppes publicly complimented CalSTRS and the CalSTRS Executive Staff on getting involved and taking the lead in corporate governance issues. Mr. Koppes described the difficulty in defining what exactly "pay to play" means and what exact types of activities would be considered pay to play. Mr. Koppes described National Association of Public Pension Attorneys' (NAPPA) interest in the pay to play issue and noted that the Securities and Exchange Commission (SEC) chose not to take any action in regards to pay to play issues because of the difficulty in restricting and defining pay to play activities.

A general discussion was held about the issue of pay to play and what could constitute pay to play activities and the spectrum of actions that could be taken to address pay to play issues including disclosure, recusal, and an outright ban on the activity. Mr. Lanoff noted pay to play issues and legislation in Ohio and explained the difficulty in drafting and passing legislation similar to the state of New Jersey that banned pay to play outright.

Mr. Lanoff discussed the issues of disclosure and recusal with the Committee and put forth the position that recusal from a decision is the appropriate action if a Board member feels that they cannot make an impartial decision as a fiduciary due to the receipt of a donation or something of value from a person or company with potential financial interests before the Board. A discussion was held about the delegation of decisions to CalSTRS staff and the potential for disclosure and/or recusal issues in light

of the current policies and procedures already in place which set forth the requirements for doing business with CalSTRS.

Mr. Lynes commented on the timing of disclosure and a discussion was held about what would be an appropriate look back period in terms of whether a political donation, gift, or gratuity would need to be disclosed, or if recusal would be necessary.

Mr. Trujillo pointed out the apparent inconsistency in the approaches being proposed and stated that the impact of these approaches on the system must be considered. Mr. Lanoff explained that fiduciary law provides discretion to the Board in how to deal with these issues and emphasized the importance of transparency.

Ms. Speers discussed the Ethical Issues associated with this topic. Ms. Speers noted that ethics is not about rules, it is about values and what people believe or perceive should be done. Ms. Speers explained that although an action or activity may be legal, it may be perceived as unethical or inappropriate depending upon the public perception of that activity. Ms. Speers noted that from the fiduciary and trustee perspective it is important for the public to perceive the action or activity as being in the interest of the members or public you are serving.

A general discussion was held about the ethical issues that often arise and are encountered by individuals serving as trustees and fiduciaries in a public service capacity. Mr. Koppes noted that the ethical tone of a company or organization begins at the top with the Board or Board of Directors and that despite Sarbanes- Oxley, the core of corporate governance revolves around the ethical standards of the company.

Ms. Rogers sought clarification on whether the Committee was here today to put forth some type of ban similar to that proposed by Committee member Crane during the February 2006 meeting, which would prohibit CalSTRS from engaging in business transactions with vendors who have made political contributions and gifts to Board members.

The Committee clarified that no recusal policy or outright ban was being put forth at this time but that further evaluation and discussion may be necessary to determine whether such a policy or ban was needed because it did not appear that CalSTRS had ongoing problems with pay to play or disclosure issues.

Mr. Lanoff expressed his concern over Board members contacting and influencing staff who have the delegated authority to make decisions on behalf of the Board. Mr. Lanoff noted the situation in Texas and explained that the Board could adopt a ban or a policy that Board members cannot contact CalSTRS staff regarding certain transactions or can only have limited contact with staff in regards to certain transactions.

Mr. Ailman noted that the problem regarding disclosure did not appear to exist with the current policies and procedures but instead appeared to exist with the implementation and consistency of application of these policies and procedures. Mr. Ailman commented that additional clarification of who is covered, what is required to be disclosed, and how far back the time period extends may be needed.

The issue of Placement Agents and disclosure of Placement Agents was discussed and it was decided that staff would research this issue further and bring this information and any potential recommendations back to the Committee at the June 2006 meeting or a later meeting.

Ms. Dillon adjourned the meeting at 3:05 p.m. for a brief recess.

A quorum of the committee members still being present, Ms. Dillon reconvened the meeting at 3:17 p.m. Ms. Karen Green Ross took Mr. Smith's seat on the Committee.

**IV. COMMITTEE DISCUSSION / DIRECTION TO STAFF REGARDING POTENTIAL REVISIONS TO SECTION 600**

Mr. Van Der Volgen presented this item and noted that the purpose of this item was to obtain the Committee's input and guidance for potential revisions to portions of Section 600.

Mr. Lynes noted the authority delegated to the investment staff and put forth the position that Board member contact of staff in regards to particular investment transactions should be disclosed and revealed to other Board members. A discussion was held about current disclosure issues and policies and the potential disclosure policies that could be implemented regarding delegated transactions.

Mr. Lanoff noted that in certain circumstances even if a Board member recuses himself/herself from voting on a particular transaction, the recusal may be so material that it has fiduciary implications.

Mr. Lanoff commented on the delegated authority regarding investment transactions and referenced the disclosure requirements that had been implemented in Texas as a resource material on this topic.

Ms. Green Ross asked Mr. Ailman if he was required or obligated to explain why a transaction was rejected and Mr. Ailman responded that he normally they does not report on why a transaction was rejected but will answer questions about particular deals.

The Committee agreed that potential revisions to Section 600 G would be brought back in June 2006 after the Committee had an opportunity to review the disclosure requirements implemented in Texas and any additional information provided by staff.

The Committee discussed potential revisions to Section 600 H and the disclosure of contributions and gifts. Mr. Lanoff referenced previous advice and opinions given to the Committee on this issue and a discussion was held about Form 700 and the current legal requirements governing disclosure of contributions and gifts.

Mr. Ehnes commented on the internal tracking of gratuities to determine what types of gratuities are being accepted and by which staff. A general discussion was held about conferences and what types of gifts or meals are allowable.

The Committee did not direct staff to take any additional action or provide additional information on Section 600 H.

The disclosure of Placement Agents and Placement Agent fees was discussed by the Committee. Mr. Van Der Volgen commented on the Public Record Act (PRA) implications of tracking Placement Agents and Fees.

Mr. Ailman described the general purpose and role of Placement Agents and fees. Ms. Rogers requested clarification as to why the Placement Agent fee would be isolated and disclosed as opposed to other fees including Legal Fees and Marketing Fees. Mr. Ailman provided further explanation and the Committee engaged in further discussion on this issue.

Mr. Lynes commented on the transparency of transactions and the perceived purpose of the Placement Agent and Placement Agent fees. Mr. Lanoff noted recent legal developments regarding Placement Agents and the potential value to be gained in disclosing Placement Agents and fees.

Mr. Kozberg and Ms. Rogers stated that the disclosure of Placement Agents and fees should be left to the staff. Mr. Trujillo commented on CalSTRS role as champions of Corporate Governance when considering the potential disclosure of Placement Agents and fees.

The Committee requested that staff provide further information and research on this issue for the June 2006 meeting. Ms. Widener requested staff to look into how other large funds and public pension funds are dealing with this issue.

**V. POTENTIAL ISSUES FOR LEGISLATIVE OR REGULATORY ACTION**

No information was presented on this item.

**VI. DRAFT AGENDA FOR NEXT COMMITTEE MEETING**

No additions were made to the Draft Agenda.

**VII. ADJOURNMENT**

Chairperson Dillon adjourned the Committee meeting at 4:13 p.m.

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Jack Ehnes, Chief Executive Officer  
and Secretary to the Teachers' Retirement Board

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Dana Dillon, Chairperson  
Board Governance Committee

Prepared by Shannon Chambers, Staff Counsel