



Board Governance Committee

Item Number 4 – Open Session

Subject: Committee Structure Discussion

Presenter(s): Amy McDuffee, Mosaic Governance Advisors, LLC, and Melissa Norcia

Item Type: Information

Date & Time: January 28, 2021 – 15 minutes

Attachment(s): Attachment 1: FY 20/21 Compensation Committee Workplan

Attachment 2: Compensation Committee Agenda Item Overview

Attachment 3: Compensation Committee Charter

PowerPoint(s): None

PURPOSE

The purpose of this item is to consider (1) the appropriate structuring of the remaining items on the FY 20/21 Compensation Committee workplan in light of the Board's recently stated sentiment to discuss certain compensation items going forward as a full Board; and (2) receive direction from the Committee in addressing other Board stated priorities relative to its committees.

DISCUSSION/SUMMARY

Board committee meeting frequency was impacted in the early days of the pandemic to accommodate the Board's virtual format and streamlined agendas. These impacts prompted a desire by the Board to more broadly evaluate its committee structure and functioning to foster greater effectiveness and efficiency. The Board discussed its committees' structure and function at the October 2020 offsite. The offsite discussion resulted in the following consensus areas of interest and priorities.

- Collaborative model compensation discussions should be held at the full Board level to ensure broad visibility and position the initiative for success. This item was assigned an immediate priority.
- The value and purpose of reinstating the corporate governance subcommittee should be explored, perhaps under a different name, to aid the Board in addressing its sustainability related strategy and oversight matters. This item was assigned a mid-term priority.
- Once the Pension Solutions project is complete, consider the value and purpose of a technology committee. This item was assigned a longer-term priority.

The Board requested that the Board Governance Committee take up the priorities at the appropriate time.

At the November 2020 Board Governance Committee meeting, Committee members requested that the immediate priority of discussing collaborative model compensation items be agendaized for the January 2021 Committee meeting. It was also requested that a small subgroup consisting of the Committee Chair, Vice-Chair, staff, including the Director of Human Resources and General Counsel, and Board governance consultant, Mosaic, discuss available implementation options and the most appropriate path forward.

The small group met in December 2020. It resulted in consensus that the remaining FY 20/21 Compensation Committee workplan should be pulled back into the full Board's workplan, at least during the pandemic. The rationale included the following themes:

- The current committee structure was developed to work within the in-person meeting structure and within the 3-day meeting cycle.
- Although functioning in the pandemic creates some challenges, it also allows for deviations from the conventional Board meeting schedule and flexibility to hold shorter meetings over multiple days.
- Some topics that reflect Board priorities, such as the collaborative model, span across multiple committees. It may be more efficient to house them within the full Board agenda, as opposed to various Board committees. This will reduce the need for Trustees, particularly who do not serve on all of the pertinent committees, to piece together information from multiple committees' reports and recommendations, further streamline the work, and allow for the Board to make a more informed decision.

The subgroup directed staff and Mosaic to evaluate and recommend the best path to implement such a change to the Compensation Committee workplan. In subsequent discussions between staff and Mosaic, several options were considered. They included 1) transitioning the collaborative model items to the full Board agenda and thereby leaving the rest of the non-related items on the Compensation Committee workplan, 2) expanding the composition of the Compensation Committee to the full Board, and 3) subsuming the Compensation Committee into the full Board.

An analysis of the FY 20/21 workplan determined that all remaining items link in some interconnected way to collaborative model discussions, including the item on the Compensation

Committee’s workplan to conduct interviews with and select a primary compensation strategist. Staff and Mosaic suggest that a small ad hoc group of Board members (i.e., two or more members) could be appointed by the Board Chair and Vice-Chair to participate in the compensation strategist interview process, with that subgroup having the final approval authority to select a primary compensation strategist. This approach is similar to that used by the Board in the selection of other Board consultants, such as fiduciary counsel and governance consultant.

Therefore, the approach suggested by staff and Mosaic is to subsume the Compensation Committee into the full Board for the remaining fiscal year and seek direction from the Board Governance Committee at its May 2021 meeting, and based upon the draft FY 21/22 Compensation Committee workplan, if that action should be continued for FY 21/22.

During the January 2021 Committee meeting, the Committee will be asked to discuss and take action to implement this recommendation to align the Compensation Committee with Board sentiment. For reference, the FY 20/21 Compensation Committee Workplan has been provided, along with previous Compensation Committee agenda items from the 2019 and 2020 calendar years and the Compensation Committee Charter.

Finally, the Board Governance Committee will be asked to provide guidance and direction, but not take action, as to whether the concept expressed at the offsite regarding the potential for a renewed corporate governance or similarly named subcommittee should be taken up at the May 2021 Committee meeting or instead explored as part of the FY 2021/2022 Board Governance Committee workplan. For example, such an activity could include an educational session presented by an outside speaker on how other public pension fund peer boards address sustainability topics.

RECOMMENDATION

Mosaic recommends that the Committee:

- a) take action to recommend to the Board that the Compensation Committee be subsumed into the full Board for the remainder of the 20/21 fiscal year.
- b) take action to recommend to the Board that the Board Chair and Vice-Chair appoint at least two Board members to serve on the ad hoc group to select the primary compensation strategist, and to authorize that ad hoc group to make the final selection decision.
- c) determine at its May 2021 meeting if the Compensation Committee should continue to be subsumed for the 21/22 fiscal year and make an appropriate recommendation to the Board at that time.
- d) provide direction as to whether to undertake an exploration of the need for a corporate governance or sustainability subcommittee at its May 2021 meeting or as part of the Committee’s FY 21/22 workplan.